

CHINA'S ACTIVITIES IN SOUTHEAST ASIA AND THE IMPLICATIONS FOR U.S. INTERESTS

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

ONE HUNDRED ELEVENTH CONGRESS
SECOND SESSION

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WASHINGTON: March 2010

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March 25, 2010

The Honorable ROBERT C. BYRD
President Pro Tempore of the Senate, Washington, D.C. 20510
The Honorable NANCY PELOSI
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR BYRD AND SPEAKER PELOSI:

We are pleased to transmit the record of our February 4th, 2010 public hearing on “*China’s Activities in Southeast Asia and the Implications for U.S. Interests.*” The Floyd D. Spence National Defense Authorization Act (amended by Pub. L. No. 109-108, section 635(a)) provides the basis for this hearing.

The Commission received opening testimony from Congresswoman **Madeleine Z. Bordallo (D-Guam)**, Congressman **Eni F. H. Faleomavaega (D-A. Samoa)**, Congressman **J. Randy Forbes (R-VA)**, and Congressman **Dana Rohrabacher (R-CA)**. Each Member of Congress provided important perspectives on how the United States should react to China’s growing involvement in the region and across Asia.

Representatives from the Executive Branch provided the Commission with the Obama Administration’s perspective. Deputy Assistant Secretary of Defense for South and Southeast Asia **Robert Scher** testified that Beijing is pursuing a network of multilateral and bilateral relations with Southeast Asian nations in order to increase China’s influence in the region. Beijing hopes that its efforts will ensure the stability of its borders, develop a market for exporting Chinese goods, and allow China to obtain access to essential raw materials. Deputy Assistant Secretary of State for East Asian and Pacific Affairs **David B. Shear** noted that maintaining a strong U.S. presence in the region “will guarantee freedom of action for our allies and friends, deter potentially aggressive behaviors, and safeguard our strategic interests in the Western Pacific and Indian Oceans.”

Expert witnesses described to the Commission the political and economic aspects of China’s rise in the region. **Ernest Z. Bower**, Senior Advisor at the Center for Strategic and International Studies, testified that China wishes to become Southeast Asia’s dominant economic partner, possibly accomplishing this goal “within the next few years.” According to **Walter Lohman**, Director of the Asian Studies Center at the Heritage Foundation, the United States will be left behind unless it develops a coherent trade policy to counter China’s enhanced political and economic engagement with the region. **Catharin E. Dalpino**, Associate Professor at Georgetown University, stated that China’s economic and political clout is especially salient in the countries that comprise mainland Southeast Asia¹, which is “China’s historic backyard.” She asserted that increased U.S. engagement with these nations might counter China’s growing influence.

¹ Mainland Southeast Asia consists of Burma (Myanmar), Cambodia, Laos, Thailand, and Vietnam.

While Southeast Asian countries increasingly engage China on the political and economic fronts, they have been more reluctant to cooperate on traditional and nontraditional security issues. **Bronson Percival**, Senior Advisor at CNA, argued that China's security relationships with the region are minimal and mostly limited to the countries in mainland Southeast Asia. Historical distrust of Beijing, maritime territorial disputes with China, and long-standing military partnerships with the United States prevent Southeast Asian nations from more actively engaging in genuine security relationships with China. **Andrew Scobell**, Associate Professor at Texas A&M University, noted that China's increasingly aggressive actions to uphold its disputed maritime claims in the South China Sea are of particular concern to some South East Asian nations, and are even beginning to impact the United States—as demonstrated by the Chinese harassment of the U.S. naval vessel, *USNS Impeccable*, in March 2009. According to **Richard P. Cronin**, Senior Associate at the Henry L. Stimson Center, the Mekong River could also be a source for potential conflict between South East Asian nations and China. China is constructing massive dams along the river, regardless of the “almost incalculable impact” that damming this river would have on those nations downstream that depend on the river for their economy and food security.

Witnesses disagreed on the effect of China's involvement in regional forums, such as the Association of Southeast Asian Nations (ASEAN) and the East Asia Summit group. **Ellen L. Frost**, Visiting Fellow at the Peterson Institute for International Economics, noted that China's involvement in these regional organizations will not replace U.S. influence in Southeast Asia. Instead, it may drive Southeast Asian nations to further value U.S. economic and military presence in the region in order to balance China. However, **Donald E. Weatherbee**, Professor Emeritus at the University of South Carolina, argued that China's use of regional forums as a stage for increasing economic and political engagement with Southeast Asia may provide China with more influence in the region.

Thank you for your consideration of this summary of the Commission's hearing. The transcript, witness statements, and supporting documents for this hearing can be found on the Commission's website at www.uscc.gov.

Members of the Commission are available to provide more detailed briefings. We hope these materials will be helpful to the Congress as it continues its assessment of U.S.-China relations and their impact on U.S. security. The Commission will examine in greater depth these issues, and the other issues enumerated in its statutory mandate, in its 2010 Annual Report to Congress that will be submitted in November 2010. Your staff may contact Jonathan Weston, the Commission's Congressional Liaison, at (202) 624-1487, to set up briefings or answer any questions.

Sincerely yours,



Daniel M. Slane
Chairman



Carolyn Bartholomew
Vice Chairman

cc: Members of Congress and Congressional Staff

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CHINA'S ACTIVITIES IN SOUTHEAST ASIA AND THE IMPLICATIONS FOR U.S. INTERESTS

THURSDAY, FEBRUARY 4, 2010

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

The Commission met in Room 562 of the Dirksen Senate Office Building, Washington, DC at 8:45 a.m., Chairman Daniel M. Slane, Vice Chairman Carolyn Bartholomew and Commissioner Larry M. Wortzel (Hearing Cochairs), presiding.

OPENING REMARKS OF CHAIRMAN DANIEL M. SLANE

CHAIRMAN SLANE: Good morning, everyone. Welcome to today's hearing on "China's Activities in Southeast Asia and the Implications for U.S. Interests."

My name is Dan Slane, and I'm the Chairman of the U.S.-China Economic and Security Review Commission. Congress has given our Commission the responsibility to monitor and investigate the national security implications of bilateral trade and economic relations between the United States and China.

We fulfill our mandate by conducting hearings on relevant topics such as today's hearing. We also conduct in-house research and sponsor independent research on related topics. Many of you may be familiar with our commissioned report detailing Chinese cyberactivities against the United States which has recently received a lot of press coverage. We also receive briefings from other U.S. government agencies and departments and annually travel to Asia. We then use information drawn from these various sources to produce an annual report and provide recommendations to Congress for legislative and policy change.

This is the first hearing for 2010 reporting year and covers a timely topic given the administration's recently stated desire to improve

U.S. ties with Southeast Asia.

Later this month, we will hold hearings on the implications and repercussions of U.S. debt to China. Furthermore, we are planning future hearings on recent changes in the relationship between Taiwan and China and China's WTO compliance.

I'd like to acknowledge Dan Hartnett and Lee Levkowitz of our staff for their great effort in putting this hearing together today. At this point, I'd like to introduce the hearing's co-chair, Vice Chairman Carolyn Bartholomew, and Commissioner Larry Wortzel, who will provide you with more information regarding today's hearing.

Carolyn.

**OPENING REMARKS OF VICE CHAIRMAN CAROLYN
BARTHOLOMEW, HEARING COCHAIR**

VICE CHAIR BARTHOLOMEW: Thank you very much, Mr. Chairman.

Good morning, everyone. I'd like to echo the chairman's statement and welcome you all to our first hearing of the year. I'd also like to invite you to visit our Web site, uscc.gov, where you will find information on our past hearings, commissioned research, and our 2009 Annual Report to Congress, which was published last November after being adopted unanimously by all 12 Commissioners.

In December, the Commission traveled to Taiwan and to Vietnam for meetings to discuss China's growing presence in the region. I would like to thank the governments of Taiwan and Vietnam for their hospitality and assistance in ensuring that our visit was productive and useful. For some of us, it was our first trip to Vietnam, and we learned an enormous amount.

The purpose of this hearing is to continue gathering information about China's interests and activities in Southeast Asia and how these activities may impact U.S. regional economic and security interests. As Chairman Slane mentioned, since coming to office last year, the Obama Administration has repeatedly indicated to Southeast Asia that it would like to reinvigorate U.S.-Southeast Asian relations. During President Obama's November trip to Singapore, the President stated that the United States is a Pacific nation, and we enjoy deep historical ties to Southeast Asia. Just three days ago, the White House announced that the President will be traveling to Indonesia and Australia in March. Trade between the United States and the ten nations which make up the Association of Southeast Asian Nations reached \$181 billion in 2008.

The United States also has security interests in the region, to include assisting regional states to combat terrorism and maintain the

freedom of navigation in maritime Southeast Asia, both of which are extremely important given that much of the world's seaborne trade traverses this region.

Finally, the United States has an interest in promoting and strengthening democracy in the region.

The U.S., however, is not interacting with Southeast Asia in vacuum. Since the late 1990s, China has steadily increased its presence in the region. China is currently Southeast Asia's third-largest trading partner with total trade reaching \$192 billion in 2008, up from \$45.5 billion in 2001. In addition, in 2008, China ranked fourth in foreign direct investment into the region. China also interacts with the region in numerous multinational fora, some of which the United States is not a member.

Welcome Congressman Rohrabacher. We'll go right to your testimony. We know that your time is precious.

PANEL I: CONGRESSIONAL PERSPECTIVES

HEARING CO-CHAIR WORTZEL: Thank you for being here, Congressman.

Currently serving his 11th term in Congress, Congressman Rohrabacher represents California's 46th District. He serves as Ranking Member of the House Foreign Affairs Subcommittee on International Organizations, Human Rights and Oversight, and is a senior member on the House Committee on Science and Technology.

Prior to his first election to Congress in 1988, Congressman Rohrabacher served as Special Assistant to President Reagan and was one of President Reagan's senior speechwriters for seven years.

Congressman, thank you.

STATEMENT OF DANA ROHRABACHER, A U.S. CONGRESSMAN FROM THE STATE OF CALIFORNIA

MR. ROHRABACHER: I'll push this button to make sure that what I say can be heard. It's interesting, I'm, of course, on that side of the discussion most of the time, and we have to think about how important energy is to our country, and just think, we're just adding energy input, to the fact that we can even communicate here this morning, and it's kind of a fascinating thing to think about it. Wonder where that energy came from?

All right. Again, thank you very much. This is a very important area of discussion as to what our relations will be with China and what

China's relations and what kind of relations they want to have with us.

The People's Republic of China is today a totalitarian country, seeking to become a totalitarian empire. Since Mao, the People's Republic of China has subjugated their ethnic and religious minorities and repressed anyone in their country who sought political or cultural ends not deemed proper by the Communist Party leadership.

China remains--no matter all its economic progress, which has been heralded, which we all understand--still remains the world's worst human rights abuser.

Today, the People's Republic of China is spreading its influence and its domination throughout the Asia-Pacific region, and it's making itself felt around the globe.

The economic and technical gains China has made in the last decade are now making possible a major expansion of its military power, which will have, and is having, severe implications. Again, what we have heard over these last 20 years is the assurance that if we simply assist China in becoming a prosperous country, that it will not rebuild its military, it will not remain a totalitarian power, but instead will evolve into something benevolent or at least an entity that everyone can get along with.

The People's Liberation Army Navy, for example, is in the process of expanding its area of operations. It's not becoming more benevolent; it's not becoming less of a threat because it is prosperous. In fact, China is building a navy that is now expanding their bases of operations, threatening vital shipping routes in the process.

Japan, in particular, is becoming vulnerable to Chinese military capabilities that did not exist 25 years ago and will continue to expand in the years ahead.

At times, the military build-up on the part of the People's Republic of China has erupted into very aggressive acts against the United States Navy. There have been a number of alarming incidents when U.S. vessels were forced to take evasive action in order to avoid collision. These were scenarios that were set up specifically and intentionally by the Chinese Navy.

When challenged, the People's Liberation Navy simply told Americans on those ships to leave or to, quote, "suffer the consequences." Well, there can be no mistaking what these moves mean.

In taking aggressive action, the People's Republic of China is claiming the right to dominate and control the South China Sea, and if the Chinese military is threatening the navy of a powerful country like the United States, one can only imagine what threat it poses to more vulnerable countries and what threats it will pose in the future to those

countries and to our country.

All this make Chinese disputes with its neighboring countries even more dangerous. Over the strong objections of both the Philippines and Taiwan, which are both considerably closer to the islands in question, the Chinese continue to claim the Spratly Islands, which are over 1,000 nautical miles from China's coast.

The People's Republic of China Foreign Ministry spokeswoman Jiang Yu asserted in 2009 that, and I quote, "China possesses indisputable sovereignty" over those islands.

This arrogant and hostile approach comes from a regime that also claims its goal is to promote harmonious relations with its neighbors. China has huge territorial claims in that part of the world.

How threatening is this power positioning that we're talking about? In May of 2009, the People's Republic of China closed a large portion of the South China Sea to fishing for three months at the height of the fishing season. It boarded Vietnamese ships and detained some crews.

Now, this is the high seas. Yet, they are claiming that they belong to China and that it is legitimately their area of domain. This, of course, led to a major diplomatic row with Vietnam, and Vietnam is rightfully very weary of its northern neighbor, and Vietnam has now turned to Russia to beef up its own military capabilities. It's almost like a mini-arms race is going on in that part of the world. We need to pay attention to that. It has serious implications.

But it was brought on by the actions and the attitudes of a newly powerful China and a China that continues to grow more powerful each year.

Of course, China doesn't threaten everybody. China has befriended some. Yes, China has befriended the very worst ones of all, not only in the region, but in the world. Of all the countries in Asia, for example, perhaps the most friendly relationship the People's Republic of China has is with the gangster regime that now controls Burma. China has armed the Burmese junta to the teeth, and in exchange China has ripped off the Burmese people's great natural resources.

Yes, a great profit to China. Yes, the Burmese military gets the weapons it needs in order to repress the Burmese people. Who loses? Ordinary people in Burma and, of course, the rest of the world that is seeing these resources, these great forestation and natural resources that Burma possesses, ripped off in exchange for a corrupt deal with a gangster regime.

Contrary to repeated misinterpretations of history, China is an aggressive nation which has fought many wars for territorial gain. Some people like to forget the war that took place with India. China still has

huge territorial claims against India. It has huge territorial claims that put it in conflict situations with many other nations.

Today China is willing and increasingly able to flex its muscle. Even if China does not intend to fight the United States directly--we know that China and most of the leadership in China, especially their military, consider the United States their biggest potential adversary, military adversary--if they don't fight us directly, they want to have the capacity to deny us the ability to come to the aid and defense of our regional allies, leaving them at China's mercy.

I would remind the Commission that there is a reason that the CCP's leadership has taken to calling the 21st century the "Chinese century." This isn't just some mistake. This is something that we ought to ponder. What do they mean by "the Chinese century"?

They are acting aggressively, arrogantly, laying claim to almost 80 percent of the South China Sea. No one can doubt their territorial ambitions. No one can deny the brutal and totalitarian nature of the regime. Just ask the Falun Gong or other religious believers or anyone else who would try to exercise things that we believe are fundamental rights in the United States: the right of religion, right of speech, right of association, right of political opposition.

No one can deny the massive build-up, the military build-up, and the espionage that China is sponsoring. All of this, and not all of it, but much of it, is aimed at the United States and the countries of Southeast Asia.

We ignore all of this at our own peril. No standing army today threatens China. There is no standing army, yet they are building up their military forces dramatically with the wealth that they have created by economic policies that have been the policies of the United States government. We have had the policies to build the economy of China and we were told that it would lead to liberalization of China. It hasn't worked. I call that the "hug a Nazi, make a liberal theory," and it hasn't worked.

The PRC's build-up from ships to missiles to high-tech weapons can only be viewed as offensive posturing. Taken today, the People's Republic of China's words and deeds should be cause for great concern in the United States. What we see is not dissimilar to the pre-World War II Japanese mindset, that they had a right to dominate the Asia-Pacific region. That mindset led to World War II. That led them to attack the United States.

The only difference today is that the PRC's goals may be much more ambitious than just dominating the Asia-Pacific region. It may be much more ambitious than that. We need to ponder what that means.

Thank you all very much for letting me testify today.

[The statement follows:]

**Prepared Statement of Dana Rohrabacher, a U.S. Congressman from
the State of California**

The PRC today is a totalitarian country, seeking to become a totalitarian empire. Since Mao, the PRC has subjugated their ethnic and religious minorities and repressed anyone who sought political or cultural ends not deemed proper by the Communist leadership. China remains the world's worst human rights abuser. Today, the PRC is spreading its influence and domination throughout the region, particularly in Southeast Asia. The economic and technological gains China has made in the last decades is now making possible a major expansion of its military power.

The PLA Navy, for example, is in the process of fortifying Hainan Island, constructing a large naval base at Sanya. This base will allow the Chinese surface vessels and attack submarines to project power and threaten its neighbors. Likewise, China has extended an airfield on Woody Island in the Paracel islands, built up its facilities at Fiery Cross Reef in the Spratly archipelago, and has maintained a naval presence at Mischief Reef off the west coast of the Philippines. These threatening positions give the PRC considerable leverage over its neighbors and threaten vital shipping routes. It also allows the PRC, for example, to contest control of the vital Strait of Malacca; which is the lifeline of shipping transiting between the Indian Ocean and the Pacific. Japan is also becoming vulnerable to Chinese military capabilities that did not exist 25 years ago.

At times the military buildup on the part of the PRC has erupted into very aggressive acts against US Navy ships. In 2007 a Chinese diesel-electric attack submarine surfaced in the middle of a Pacific exercise close to the USS Kitty Hawk, a very dramatic move near an American aircraft carrier. In March of 2009 the USNS Impeccable was intercepted by several Chinese vessels, and over flown by PRC military aircraft. Some of the ships crossed the Impeccable's path at dangerously close distances and attempted to interfere with the ships towed sonar array. The Impeccable was forced to take evasive action to avoid hitting one of these ships. When radio contact was established, the PLAN ship told the US Navy ship to leave or "suffer the consequences." In June of 2009 the destroyer USS John S. McCain was sailing in the South China Sea when a Chinese submarine collided with an underwater sonar array that the USS John McCain was towing. There can be no mistaking what these moves mean. The PRC is aggressively signaling through their actions, claiming dominance and control over the South China Sea. And if the Chinese military is threatening the navy of a powerful country like that of the United States, one can only image the threat to more vulnerable countries.

The PRC continues to have a variety of disputes with its neighboring countries. The Chinese continue to claim the Spratly Islands, which are over 1,000 nautical miles from its coast, over the strong objections of the both the Philippines and Taiwan which are both considerably closer to the Spratlys. PRC Foreign Ministry spokeswoman Jiang Yu asserted in 2009 that "China possesses indisputable sovereignty" over those islands. Ironically the PRC speaks out of both sides of its mouth because it also claims to want to promote "harmonious" relations with its neighbors.

In May of 2009 the PRC closed a large portion of the South China Sea to fishing for three months, at the height of the fishing season, which caused great difficulty for fisherman in Vietnam. To enforce the fishing ban the PRC boarded Vietnamese ships in the area and detained some crews. This led to a major diplomatic row. Vietnam is rightly very wary of its northern neighbor and has turned to the Russians to beef up their military hardware. Vietnam has become Russians biggest arms buyer, recently purchasing 6 Kilo class submarines and 13 Su-30 advanced jets.

Of all the countries in Asia, perhaps the most "friendly" relationship the PRC has is with the gangster regime that now controls Burma. China has armed the Burmese junta to the teeth and in exchange it has ripped off the Burmese people, taking their great natural resources.

China is an aggressive nation which has fought many wars for territorial gain. Today China is

willing and increasingly able to flex its muscle in support of its desires in Southeast Asia and elsewhere. Right now the PLA Navy is deploying attack submarines and surface ships, but they are also developing anti-satellite missiles and anti-ship ballistic missiles. Even if China does not intend to fight the US directly, they want to have the capacity to deny us the ability to come to the aid and defense of our regional allies, leaving them to China's mercy.

I remind the Commission that there is a reason the CCP's leadership has taken to calling the 21st century the "Chinese century." They are acting aggressively, arrogantly laying claim to almost 80% of the South China Sea. No one can doubt their territorial ambitions; no one can deny the brutal and totalitarian nature of their regime. No one can deny their massive military buildup, aimed at the US and the countries of Southeast Asia. We ignore it at our own peril. No standing army today threatens China. The PRC's build up can only be taken as offensive posturing on their part. Their actions are only confined by the limits of their brute force and power.

Taken together, the PRC's words and deeds should be cause for great concern in the US. The situation is not dissimilar to the pre-World War One Japanese mindset that they had a right to dominate this region of the world. The only difference is that the PRC's goals are much more ambitious than dominating just the region.

VICE CHAIR BARTHOLOMEW: Thank you, Congressman Rohrabacher, for your work on these issues over the course of a number of years and for appearing before us today.

MR. ROHRABACHER: I feel like Paul Revere elongated by a hundred years' ride.

VICE CHAIR BARTHOLOMEW: I always say the worst thing is when the things that we predicted turn out to be true. I would much rather that many of these things had been wrong than right, but I don't see things turning out that way.

We have Congressman Forbes here, too, so we'd like to introduce him.

MR. ROHRABACHER: Let me just note, I hope things turn out well, too, but I've always found that hoping for the best is a good thing as long as you're preparing for the worst.

VICE CHAIR BARTHOLOMEW: Absolutely.

MR. ROHRABACHER: And that's the only way we succeed, so thank you very much.

VICE CHAIR BARTHOLOMEW: Thanks so much.

I'd like introduce Congressman Randy Forbes who represents 4th Congressional District of Virginia.

He was elected in a special election in 2001 and is now serving his fourth term in the U.S. House of Representatives. He focuses his efforts in Congress on protecting the security and sovereignty of our nation, preserving the moral and historical roots of our country, strengthening our military and supporting veterans, growing educational opportunities for our children, and promoting economic development through fiscal responsibility. He's also been a leader in the Congress on issues relating to U.S.-China policy.

We welcome you back, Congressman Forbes, and look forward to

your testimony.

**STATEMENT OF J. RANDY FORBES, A U.S. CONGRESSMAN
FROM THE STATE OF VIRGINIA**

MR. FORBES: Thank you, Madam Vice Chairman and Mr. Chairman, and I just want to take a moment and thank all of you who have served on this Commission. You have provided an invaluable resource to the United States. The question is not whether you have done your job. It's whether as policymakers we will do our jobs and listen to what you have said, but I just want to thank you for the effort that you continually put into this issue and enlightenment that you have given us over the years.

It's an honor for me to be with you once again. As many of you know, since 2005, I've served as the founder and co-chairman of the Congressional China Caucus, and I want to applaud you again for holding this hearing and look forward to working with you in the future as we've done in the past regarding the multifaceted relationship with China.

I'll take just a little bit different tact than Congressman Rohrabacher, though some of the things that he mentioned are important for us to talk about.

Towards the end of the 1990s, we saw a dramatic shift in the way China engaged other nations in Southeast Asia. Previous Chinese policy emphasized hard military power including support of Communist insurgencies in the region and forceful claims to disputed islands in the South China Sea.

Today, however, we witness a sophisticated Chinese foreign policy combining principles of public noninterference with subversive and aggressive strategies to reach its aims not only in this region but in the Western Hemisphere as well.

Since the Asian financial crisis began in the late 1990s, China has sought to project a benign national image by doing really three things: first, increasing and improving its public diplomacy; secondly, providing foreign aid; and thirdly, increasing trade with Southeast Asian countries and Taiwan particularly through the Association of Southeast Asian Nations (ASEAN).

When these efforts are overlaid with China's inflated territorial claims in the region and its accelerating military build-up, it does become clear that China's foreign policies have grown in complexity.

It's my view that only when these actions are viewed comprehensively do they paint an accurate reflection of China's long-term strategic goal to assume the role of the unquestioned leader in the

region.

China's public diplomatic approach in Southeast Asia has been well-received, in part because their diplomacy is viewed to be less intrusive and more respectful of national sovereignty. Specifically, Chinese willingness to work with nearly any kind of government allows the PRC to connect with nations that would never acquiesce to the strings that come with the U.S. outreach, such as the promotion of democratic values or a commitment to fight government corruption and efforts to reduce intellectual property theft.

This same perception holds true regarding foreign aid. China is appreciated for its easy assistance that does not burden countries with requirements to reform their governments, meet environmental regulations or enact more stringent labor laws.

Let me provide just one instance--Burma, as we heard Congressman Rohrabacher mention, is a troubled country which has had strained ties to the United States, but China is believed to be the largest source of economic assistance including \$1.4 billion to \$2 billion weaponry to the ruling junta since 1988, with nearly \$5 billion in pledges for loans, infrastructure and investments in energy and agriculture projects.

Perhaps the most effective use of soft power by China has been its increased trade with the ten countries that comprise ASEAN over the past decade. As you know, trade between these countries and China has expanded in terms of volume percentage increase and size relative to U.S. levels, and the share of exports from China to these countries quadrupled in ten years from 1995 to 2006, while the share of exports to the U.S. fell 25 percent.

Similarly, the share of imports from them to China rose more than five-fold while the U.S. share of imports to those countries fell by more than 30 percent.

As Southeast Asia economies grow more dependent upon China, decisions made by these nations will invariably be influenced by the prospect of economic reward or retaliation from the Chinese. This is strikingly similar to the pressure our own nation faces, pressures resulting not only from our trade account with China, but also as a consequence of China being a top foreign owner of U.S. debt.

This leverage is one reason why the benign nation image represents an incomplete picture of China's overall objectives in Southeast Asia. The accelerated pace of Chinese shipbuilding, the expansion of China's Navy to more than 290 ships, which for the first time outnumbers the size of the U.S. fleet, and aggressive territorial claims in the South China Sea reflect a deliberate effort by China to be perceived as a protectorate of the Pacific Rim.

These claims were prominently on display during the harassment of the USNS Impeccable in international waters last March. The Chinese resolve is equally confrontational, if not as equally visible, in the worlds of espionage and cyberwarfare.

As such, China is uncomfortable with some components of the U.S. presence in Southeast Asia. Perhaps nowhere are the facets of this complex relationship reflected more plainly than in Taiwan, which remains a thorn in U.S.-China relations. Following the election of President Ma in Taipei, we have seen China and Taiwan expand economic ties and open commercial flights.

They remain on course to reach a trade agreement. Yet, even while China expands trade and interconnectedness with Taiwan, China has once again suspended military-to-military ties following the administration's decision to supply Taiwan with defense weapons like the Patriot missile, a missile which has no offensive capability.

Both the policies of the United States and China aim to maintain, and in the case of China, to increase, influence in this critical region. It's an open question whether both countries can meet their objectives simultaneously without conflict. In my own view, the outcome will rest on Beijing's willingness to accommodate the long-standing United States' influence in the region even as Beijing's capacity to deny such influence and access continues to grow.

From a policy perspective, it's critical that the United States not create a false impression to China that our national interests in the region will gradually dissipate and cease to exist as China's own capacity to develop into an unmatched regional power increases.

This could lead to a miscalculation on the part of the Chinese to overestimate their reach and ultimately lead to an unavoidable conflict. The Chinese people respect strength more than they do weakness.

For this reason, I'm encouraged by this administration's strong support of Google and the freedom of international Internet networks. In addition, the President rightfully is maintaining his visit with the world-recognized leader, the Dalai Lama, despite protests from Beijing. Coupled with our defensive arms sales to Taiwan, responding assertively to each boundary test ensures that China does not underestimate our nation's resolve to be a friend to our allies and our peaceful democratic presence in the region.

Once again, let me thank you so much for what you do. Thank you for the privilege of appearing before you, and I'm certainly, as always, anxious to answer any questions that you might have for us. Thank you.

VICE CHAIR BARTHOLOMEW: Wonderful. Thank you.

We have Congresswoman Bordallo here, too. Congressman

Forbes, we'll go right to Congresswoman Bordallo's testimony, and thank you very much for your testimony.

HEARING CO-CHAIR WORTZEL: Congresswoman Madeleine Bordallo from Guam is a lifetime public servant. In 2003, Congresswoman Madeleine Bordallo became the first woman to represent Guam in the U.S. House of Representatives. Ms. Bordallo brings to Congress over 40 years of public service experience in the executive and legislative branches of the government of Guam and numerous non-governmental organizations. The 111th Congress is Ms. Bordallo's fourth term.

Thank you, Congresswoman, for being here.

MADELEINE Z. BORDALLO, A U.S. CONGRESSWOMAN FROM THE TERRITORY OF GUAM

MS. BORDALLO: Thank you very much. Commissioner Wortzel and Vice Chairman Bartholomew, members of the Commission. I want to thank you very much for this opportunity to testify before you today on the implications of China's activities in Southeast Asia.

Let me begin with a larger perspective. The 21st century will be defined in large part by the rise of China as an economic military and political power. We know from history that the rapid ascent of a new power to challenge an established international order creates a uniquely dangerous and unstable situation.

China's emergence will inevitably cause some friction and difficulties. Ensuring that these conflicts are resolved peacefully will be a central challenge for both the United States and China over the next few decades.

But while there will be many issues where the U.S. and China will be at odds, there will also be many opportunities for cooperation. Collaboration on shared interests will build trusts and relationships, making it easier to reach accords on more difficult issues.

China's activities in Southeast Asia present us with one such opportunity. As others will testify today, China is steadily improving its ability to project force and influence in Southeast Asia. While our interests in Southeast Asia are not perfectly aligned, we both have much at stake in establishing and maintaining security in the region.

Specifically, the threats of radical religious ideology and piracy are two areas of mutual concern where cooperation is warranted.

Thailand, the Philippines and Indonesia all face persistent insurgencies from extremist groups, many of which are aligned with al-Qaeda. While these organizations do not pose an imminent threat to the governments of the respective countries, they do contribute to violence

and instability in the region. They serve as a breeding ground for terrorists and hinder political and economic development.

The United States has a clear interest in combating extremists, but China also has an interest in security and stability in Southeast Asia.

Piracy is the second area where the United States and China have both cause and ability to cooperate in Southeast Asia. While piracy in the Indian Ocean, particularly off the Somali coast, has received the most attention, piracy remains a major threat in Southeast Asia, particularly in the Strait of Malacca.

Indeed, given that upwards of 40 percent of the world's trade passes through the strait and Southeast Asian waters, the consequences of rampant piracy in Southeast Asia could be far greater than what we see off the Horn of Africa.

China's internal stability and international influence is predicated on continued economic growth, growth that requires an unimpeded flow of raw materials into the country and manufactured goods outwards.

So as we are currently discovering in the Indian Ocean, it is extraordinarily difficult to police the waterways, and both China and the United States have common interests combating piracy in this area.

As I said at the beginning of my testimony, there will almost inevitably be areas where the U.S. and China have divergent interests, and our two nations will often find ourselves competing rather than cooperating. But an established base of trust, mutual respect and personal and organizational relationships can facilitate the resolution of our differences.

Cooperation on issues of mutual interest in Southeast Asia provides an ideal opportunity to develop this kind of trust. I believe that the United States should seek to engage China, and I would encourage the Commission to examine the best ways to develop these kinds of partnerships. Again I thank you for this opportunity to appear before you.

VICE CHAIR BARTHOLOMEW: Thank you, Congresswoman Bordallo. We really appreciate your leadership on these issues. You bring a regional perspective that I think is often missing in the discussion. So thank you very much for appearing before us today.

MS. BORDALLO: You're welcome.

VICE CHAIR BARTHOLOMEW: I think out of deference of time, I'm just going to submit the rest of my statement for the record and will defer to the Co-Chairman for this hearing, former Vice Chairman of the Commission, Larry Wortzel.

OPENING REMARKS OF COMMISSIONER LARRY M. WORTZEL HEARING COCHAIR

HEARING CO-CHAIR WORTZEL: Thank you, Vice Chairman, and I thank all our panelists and the audience for being here to help us understand China's activities in Southeast Asia.

Later today, Congressman Faleomavaega will also be here, and we'll interrupt whatever is going on to let him give his statement.

The United States has deep interests in and ties to Southeast Asia. We have a strong trade relationship with many of the nations in the region, and we also have security relationships with Thailand and the Philippines and a strong partnership with Singapore.

For over a decade, China's influence has been growing in Southeast Asia. Two-way trade between China and Southeast Asia has grown rapidly. From 2006 to 2008 bilateral trade between China and nine of the ten ASEAN member states increased dramatically.

The abundance of natural resources in the region has led to numerous Chinese-funded resource extraction projects. Beijing has also provided low interest loans to fund infrastructure projects, especially in Burma, Laos, and Cambodia.

China has expanded its security interactions in Southeast Asia. Over the past few years, the Chinese military has conducted several counterterrorism exercises with the militaries of Singapore and Thailand. Beijing has expanded its arms sales to the region beyond its historical customer of Burma, and high level military visits between China and Southeast Asia have been on the rise, as have port calls from Chinese naval vessels.

China's increased footprint in the region, however, has also raised concerns among both Southeast Asian nations and the United States. During the Commission's December trip to Vietnam, we heard several times that there is a growing anxiety in Hanoi about China's assertiveness in the South China Sea over China and Vietnam's overlapping territorial claims. China's growing naval capabilities are not just a potential threat to Vietnam. Brunei, Indonesia, Malaysia, the Philippines and Taiwan all have maritime territorial disputes with China in the South China Sea. Already some nations are beginning to react, as demonstrated with Vietnam's recently announced plans to purchase from Russia six advanced submarines and 12 fighter aircraft.

Southeast Asians also are increasingly watchful of China on the economic front. Many Chinese-funded projects rely on Chinese labor, increasing tensions between indigenous Southeast Asians and migrant Chinese workers. Chinese investments focus on extracting the resources

that it needs and not necessarily on improving its partner states' technological capabilities. In its effort to develop its economy, China at times disregards the economic and non-traditional security impacts on its neighbors. For example, China has financed the construction of several hydroelectric dams along the Mekong and Red Rivers that are negatively impacting the economic and environmental situation of downstream nations.

Finally, many of the regional forums that China promotes exclude the United States, which may inhibit Washington's ability to interact with Southeast Asia in the future.

VICE CHAIR BARTHOLOMEW: We'll take a five-minute break.
[Whereupon, a short recess was taken.]

PANEL II: ADMINISTRATION PERSPECTIVES

VICE CHAIR BARTHOLOMEW: In our second panel today, we are very pleased to welcome Mr. David Shear, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, and Mr. Robert Scher, Deputy Assistant Secretary of Defense for South and Southeast Asia. We're going to have to work on keeping the names straight here.

Deputy Assistant Secretary Shear joined the Foreign Service in 1982 and has served in Sapporo, Beijing, Tokyo, and Kuala Lumpur. In Washington, he has served in the Office of Japanese, Chinese and Korean Affairs, and as the Special Assistant to the Under Secretary for Political Affairs. He was Director of the Office of Chinese and Mongolian Affairs in 2008-2009, and was appointed Deputy Assistant Secretary in September of 2009.

Deputy Assistant Secretary Scher serves as the principal advisor to senior leadership within the Department of Defense for all policy matters pertaining to strategies and plans. Previously, he worked at Booz Allan Hamilton where he led efforts to provide assistance to Asian nations improving their defense and national security decision-making processes. He has also led efforts supporting the Office of the Secretary of Defense on strategy development and Asia-related issues. Earlier, he worked for 15 years in the Departments of Defense and State.

Gentlemen, we are honored that you could take time out of your busy schedule today to join us. Please be aware that at some point this morning, Congressman Faleomavaega from American Samoa may be stopping by in order to provide some remarks. When he does, we'll take a short pause in the panel to hear from him and then continue on with

your panel.

We thank the administration for its participation and thank our witnesses for coming today, and we'll begin with Mr. Shear.

**STATEMENT OF MR. DAVID B. SHEAR, DEPUTY ASSISTANT
SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS,
DEPARTMENT OF STATE, WASHINGTON, D.C.**

MR. SHEAR: Chairman Slane, Vice Chairman Bartholomew, Commissioner Wortzel and members of the Commission, thanks for inviting me to appear before you today.

East Asia-Pacific is an important region that we have approached with renewed commitment in the past year. My colleague from the Department of Defense will focus on defense-related activities in Southeast Asia so my remarks will be on the broader diplomatic and economic aspects of China and the region.

Let's start by looking at Chinese interests and activities in Southeast Asia. With regard to economic interests, China has long-standing economic interests in Southeast Asia given the region's proximity to the mainland, its expanding markets for Chinese goods and its abundant natural resources. China's two-way trade with all ten ASEAN countries was \$193 billion in 2008, up from \$9 billion in 1993. This is an annual growth rate of 23 percent. It's clear that both the Chinese and ASEAN countries see large mutual benefits from expanded trade, and China's economic ties to the region will likely grow further under the China-ASEAN Free Trade Agreement that became effective on the first of this year.

Let's look at Chinese strategic interests in Southeast Asia. China believes that it has vital strategic interests in the region, particularly concerning its immediate neighbors, Burma, Laos and Vietnam. Once characterized by chronic instability, China's shared border with these countries has never been more secure from the Chinese perspective.

Beijing's strategic interests in maritime Southeast Asia have grown considerably with China's rising reliance on maritime trade and imported energy supplies. The sea lanes that run through Southeast Asia are some of the world's busiest and most strategically important. Last year, 80 percent of foreign oil imported by China went through the Malacca Strait, and over half of the world's merchant fleet sails through the South China Sea alone each year.

Beijing has deployed a range of diplomatic and military tools in an effort to advance its interests and build its influence in Southeast Asia.

Chinese leaders maintain a brisk pace of official travel to the region. For example, last year, Chinese senior leaders, including

President Hu Jintao and Premier Wen Jiabao, visited six countries in Southeast Asia, including four out of the five mainland countries. Educational and cultural programs are being promoted as well.

China also participates in a number of regional institutions which enhances its image and improves its relationship with its neighbors. Participation ranges from institutions like the ASEAN+3 and the Shanghai Cooperation Organization in the broader central Asian region, and fora like APEC and the ASEAN Regional Forum.

Let's look at the U.S. approach to the region. Our broad goals in the region include: maintaining security and stability both through vigorous diplomacy and forward-deployed military presence; counterterrorism; maintaining openness to U.S. trade and investment; and the promotion of democracy and human rights throughout the region.

In this context, President Obama has stated that the United States welcomes the emergence of China, and "in an interconnected world, power does not need to be a zero-sum game."

Our aim is to achieve a balance between the diverse elements in our relationship with China as we seek a stable equilibrium throughout the region. As Chinese influence in the region rises, a continued strong U.S. presence in Southeast Asia will guarantee freedom of action for our allies and friends, deter potentially aggressive behaviors, and promote our economic and strategic interests. China's increasing presence in the region is not a threat to U.S. interests as long as Beijing supports regional stability, as long as the U.S. economy remains strong, as long as our alliances and partnerships remain robust, and friendly states in the region see a need for the U.S. presence.

It's been said that to pursue successful diplomacy in Southeast Asia, you need to show up. The United States fell short of this standard for many years prior to this administration.

The Obama administration's message has been simple: we're back. The President had a successful visit to Singapore last November in connection with the APEC Summit and will travel to the region again in March. Secretary Clinton visited the region three times last year and will continue to make the region a priority.

But just showing up is a necessary but not a sufficient basis for successful engagement. This administration is also pursuing vigorous and creative diplomacy throughout Southeast Asia.

In July 2009, Secretary Clinton signed the Treaty of Amity and Cooperation, something that ASEAN had been seeking for two decades.

Last February, she was the first Secretary of State to visit the ASEAN Regional Headquarters in Jakarta, and in July, she participated in the first ever Lower Mekong Initiative meeting with the countries of the

Lower Mekong while she was in the region. President Obama held the first ever presidential meeting with the heads of state and government of the ASEAN-10 during his visit to Singapore in November, and he attended the APEC Leaders' Meeting as well. The United States also intends to name a Jakarta-based ambassador to ASEAN and will engage more fully with the East Asia Summit.

With regard to maritime issues, the United States has long had a vital interest in maintaining stability, freedom of navigation and the right to lawful commercial activity in East Asia's waterways.

China, Vietnam, Taiwan, the Philippines, Malaysia, Indonesia and Brunei each claim sovereignty over parts of the South China Sea, including its maritime zones and land features. U.S. policy continues to be that we do not take sides on the competing legal claims over territorial sovereignty in the South China Sea. We would, nevertheless, view with great concern any effort to change the status quo by force. We're also concerned about territorial waters or any maritime zone that does not derive from a land territory. Such maritime claims are not consistent with customary international law as reflected in the Law of the Sea Convention.

We remain concerned about tension between China and Vietnam, as both countries seek to tap potential oil and gas deposits that lie beneath the South China Sea.

We object to any efforts to intimidate U.S. companies that may be exploring in the waters off the coast of Vietnam that go against the spirit of free markets. We have raised our concerns with China directly. Sovereignty disputes between nations should not be addressed by attempting to pressure companies that are not party to the dispute.

China's outreach to Southeast Asia is natural given its geographic proximity, its historical economic and cultural ties, and China's dynamic growth. We want China to get along with its neighbors as a peaceful and stable region supports U.S. interests. Increased dialogue between China and key regional stakeholders and greater transparency on all sides can ensure that stability remains and economic development continues on a positive path in Asia.

Active U.S. engagement will play a critical role in bringing this about and in securing U.S. strategic interests in this important region. We are pursuing a proactive foreign policy in Southeast Asia, not a reactive foreign policy, and we're going to continue that and strengthen our efforts in Southeast Asia as we move forward.

[The statement follows:]

Prepared Statement of Mr. David B. Shear, Deputy Assistant Secretary for East Asian and Pacific Affairs, Department of State, Washington, D.C.

Chairman Slane, Vice Chairman Bartholomew, Commissioner Wortzel, and members of the Commission, thank you for inviting me to appear before you today. The Asia-Pacific is an important region that we have approached with renewed commitment in the past year. My colleague from the Department of Defense will focus on defense related activities in Southeast Asia, so my remarks will be on the broader diplomatic and economic aspects of the region.

Economic Interests

China has longstanding strategic and economic interests in Southeast Asia given the region's proximity to the mainland, its expanding markets for Chinese goods, and its abundant natural resources. Economic ties have grown significantly as Southeast Asian nations take advantage of the opportunities presented by China's rapid growth. China's two-way trade with all ten ASEAN countries was \$193 billion in 2008 up from \$9 billion in 1993 – an average annual growth rate of 23 percent. Just to give you some examples of China's bilateral trade relations in the region, Vietnam's two-way trade with China was an estimated \$20 billion in 2009, a four-fold increase since 2005. Malaysia's trade with China reached \$53 billion in 2008, a 77 percent increase since 2005. In 2009 China imported 4 million tons of palm oil from Malaysia, which represented 23 percent of Malaysia's total production of palm oil. It is clear that both the PRC and the ASEAN countries see mutual benefits to be had from expanded trade. China's economic ties to the region will likely grow further under the China-ASEAN Free Trade Agreement that became effective the first of this year.

However, increased trade and investment with China has not been an unqualified good for many Southeast Asian economies. Some observers have stated that China has produced local economic dislocation and tensions for some Southeast Asian economies. Fearing that competition from low-cost goods from China could adversely affect their domestic industries, Indonesia has called for a revision of the agreement, and other countries in the region have also raised concerns.

In assessing the growth in China's trade with ASEAN states, it is useful to compare it to ASEAN's economic relationships with other major global economies. In 2008 U.S. trade with the ASEAN countries stood at \$181 billion, while Japan's trade with ASEAN was \$212 billion. The United States and Japan have also made huge direct investments in the region. Between 2006 and 2008, U.S. investors put \$12.8 billion in ASEAN countries, while the Japanese invested \$25.8 billion. China's direct investment in the region remained sparse over that period, totaling \$3.7 billion. This is to say that while Southeast Asians recognize big opportunities in China, they continue to see economic ties with the United States and others as vital.

China's trade in Southeast Asia has also been followed by Chinese development aid. Last October, the 12th China-ASEAN Summit yielded a pledge from China of up to \$25 billion in investment and commercial credits over the next three-to-five years. In December, China's Vice President Xi Jinping visited Cambodia, signing bilateral agreements worth over \$1 billion, and Burma, where he signed a number of agreements, including on economic projects. Despite many of the positive aspects of Beijing's outreach to Asia, the United States is concerned about certain aspects of China's development assistance to the region. While U.S.-supported social welfare and rule of law programs appeal mainly to civil society, China's aid programs include highly visible projects, such as Laos's new National Stadium and Cambodia's Council of Ministers building, that appeal directly to regional leaders. Moreover, China does not tie its aid to progress on governance, raising questions about the enduring value of such aid. Development assistance is most effective when designed to build up the political, social, and economic fabric of a society rather than projects that target elites and make limited impact across the developing country.

Strategic Interests

China believes that it has vital strategic interests in the region as well, particularly concerning China's immediate neighbors, Burma, Laos, and Vietnam. For several centuries, colonial encroachment, chronic instability and war, American military presence in the '60s and '70s, and Soviet military presence in the '70s and '80s all were viewed by Beijing as serious threats to its security. Now, two decades after the Soviet pullout and the withdrawal of Vietnamese forces from Cambodia, continental Southeast Asia has never been more stable from China's perspective. China concluded an agreement demarcating its long disputed borders with Vietnam in December 2008 and deploys few ground forces along its mainland Southeast Asia frontier.

Beijing's strategic interests in maritime Southeast Asia have grown considerably with China's rising reliance on maritime trade and imported energy supplies. The sea lanes that run through Southeast Asia are some of the world's busiest and most strategically important. They serve as the prime arteries of trade that have fueled the tremendous economic growth in China and the region. Last year 80 percent of foreign oil imported by China went through the Malacca Strait. Over half of the world's merchant fleet, including a large percentage of PRC-flagged merchant tonnage, sails through the South China Sea each year.

Visit Diplomacy and Soft Power

Beijing has deployed a range of diplomatic and military tools in an effort to advance its material interests and to build "soft power" in Southeast Asia.

Chinese leaders maintain a brisk pace of official travel to the region, while hosting high-level visits in Beijing – as a sign of priority and respect for their Asian neighbors. For example, last year Chinese senior leaders, including President Hu Jintao and Premier Wen Jiabao, visited six countries in Southeast Asia, including four out of the five mainland countries. China also uses educational and cultural programs to try to enhance its soft power. China opened its first Confucius Institute in Asia in 2004; today there are 70 across Asia and 282 globally. There are 12 Institutes in Thailand alone, and China recently opened the first Institute in Cambodia. More Thai students – some 10,000 – now study in China than in the United States. And in December 2008, China launched China-Cambodia Friendship Radio. The actual effects of China's efforts on local views of and sensitivities to Chinese interests remain an area of U.S. interest.

China has also expanded military cooperation and aid to advance its interests in the region. PRC interactions include the provision of equipment, vehicles and weapons, military exercises and demonstrations, and the training of foreign officers in China.

Regional Forums

China also participates in a number of regional institutions, which enhances its image in the Asian region and improves its relationship with its neighbors. Participation ranges from institutions like ASEAN+3, the Shanghai Cooperation Organization to broader Asia-Pacific fora like APEC and the ASEAN Regional Forum. We encourage China's engagement with these organizations as a means to integrate China into the regional system and cooperate in areas of mutual interests.

The U.S. Approach to the Region

President Obama has stated that the United States welcomes the emergence of China and "in an interconnected world, power does not need to be a zero-sum game." Our relationship with China in Southeast Asia is composed of both cooperative and competitive elements. Economic integration has woven the American, Chinese, and Southeast Asian economies into a complex web. We also cooperate

with China through APEC and the ASEAN Regional Forum, and a variety of other multilateral institutions like the IMF, the World Bank, the Asian Development Bank, and the World Health Organization. At the same time, China competes with the United States, Japan, India, and others for influence in Southeast Asia.

As the Secretary said in her January 2010 speech on Regional Architecture in Asia, “We start from a simple premise: America’s future is linked to the future of the Asia-Pacific region, and the future of this region depends on America. The United States has a strong interest in continuing its tradition of economic and strategic leadership, and Asia has a strong interest in the United States remaining a dynamic economic partner and stabilizing military influence.” Southeast Asia is central to our efforts in the wider Asia-Pacific.

Our aim is to achieve a stable balance between the diverse elements in our relationship with China as we seek a stable equilibrium throughout the region. As China’s influence in the region rises, a continued strong U.S. presence in the region will guarantee freedom of action for our allies and friends, deter potentially aggressive behaviors, and safeguard our strategic interests in the Western Pacific and Indian Oceans. China’s increasing presence in the region is a not threat to U.S. interests as long as it supports regional stability, the U.S. economy continues to be strong, our alliances and partnerships remain robust, freedom of navigation and access is preserved as a common good, and friendly states in the region see a need for U.S. presence.

It has been said that in order to pursue successful diplomacy in Southeast Asia, all you have to do is “show up.” This is too low a standard and this administration will do more. The United States at times fell short of this standard prior to this administration -- Presidents missed APEC Summits; Secretaries of State missed ASEAN Regional Forum meetings; senior U.S. officials did not spend enough time tending to regional bilateral relationships. The Obama Administration’s message to resolve this problem has been simple: we’re back and ready to be actively involved. The President had a successful visit to Singapore last November in connection with the APEC Summit and will travel to the region again in the first half of this year. Secretary Clinton visited the region three times last year and will make the region a priority in this and future years.

Just showing up is a necessary but not a sufficient basis for successful engagement. This Administration is also pursuing vigorous and creative diplomacy. We have conveyed to our friends in Southeast Asia that we are prepared to broaden and deepen our relations, moving our rhetoric beyond cooperation in limited areas, including counterterrorism.

Demonstrating our commitment to the region, in July 2009 Secretary Clinton signed the Treaty of Amity and Cooperation, something ASEAN had been seeking from the United States for two decades. She also attended the ASEAN Regional Forum meeting in Phuket in July. In February 2009, she was the first Secretary of State to visit the ASEAN regional headquarters in Jakarta. President Obama held the first ever presidential meeting with the heads of state and government of the ASEAN-10 during his visit to Singapore in November and he attended the APEC Leaders’ Meeting. The United States also intends to name a Jakarta-based ambassador to ASEAN and, in support of the President’s intention to engage more fully with new regional organizations, will begin consultations with Asian partners on how the United States can play a role in the East Asia Summit.

We are building a Comprehensive Partnership with Indonesia that is elevating the bilateral relationship and intensifying our cooperation and consultations with each other on regional and global issues. We are building a warmer relationship with Malaysia. We have reaffirmed our commitment to our allies in Thailand and the Philippines and deepened our partnerships with countries like Singapore and Vietnam. And we announced in July the Lower Mekong Initiative, which has the goal of improving the education, environment, health, and infrastructure in the Lower Mekong Basin, which includes Cambodia, Laos, Thailand, and Vietnam. Our renewed commitment to Southeast Asia has been broadly

welcomed and opportunities for further engagement are increasing in a region seeking diversity in its foreign relations and trade.

With regard to Burma, for decades the Burmese regime has isolated itself by ignoring the results of the 1990 elections, imprisoning thousands for political reasons, spurning dialogue with the opposition that won the last contested election, and ruling by military fiat. The United States and much of the international community have responded with sanctions and kept the Burmese regime at arms' length. China has forged stronger ties with Burma and stands out as an exception to the stance taken by much of the international community.

Secretary Clinton directed us to evaluate our Burma policy because neither the sanctions-based approach advocated by the United States nor the engagement championed by others has produced positive results. So we are now pursuing direct, senior-level dialogue with Burmese authorities. In that dialogue we are laying out our expectations for a Burma that is democratic and protects the rights of its people. We are making it clear that sanctions will be lifted only in response to concrete actions by Burmese authorities.

U.S. allies are also engaged in Southeast Asia; for example, in November, Japan hosted the first-ever Japan-Mekong Summit where it pledged over \$5 billion in development assistance. South Korea continues its economic outreach to Southeast Asia, and that trend has been expanded under President Lee's "New Asia Initiative."

Maritime Issues

The United States has long had a vital interest in maintaining stability, freedom of navigation, and the right to lawful commercial activity in East Asia's waterways. For decades, active U.S. engagement in East Asia, including the forward-deployed presence of U.S. forces, has been a central factor in keeping the peace and preserving those interests.

We have aimed to support respect for customary international law, as reflected in the UN Convention on the Law of the Sea (UNCLOS). Although the United States has yet to ratify the Convention, this Administration and its predecessors support doing so, and in practice, the United States complies with its provisions governing traditional uses of the oceans.

China, Vietnam, Taiwan, the Philippines, Malaysia, Indonesia, and Brunei each claim sovereignty over parts of the South China Sea, including its maritime zones and land features. The size of each party's claim varies widely, as does the intensity with which they assert it. The claims center on sovereignty over the 200 small islands, rocks and reefs that make up the Paracel and Spratly Islands chains.

In 2002, the ASEAN countries and China signed the "Declaration on the Conduct of Parties in the South China Sea." While non-binding, it set out useful principles, such as that all claimants should "resolve disputes...by peaceful means" and "exercise self-restraint," and that they "reaffirm their respect for and commitment to the freedom of navigation in and overflight above the South China Sea, as provided for by the universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea."

The 2002 document signaled a willingness among claimants to approach the dispute multilaterally. We welcomed this agreement, which lowered tensions among claimants and strengthened ASEAN as an institution, and we support efforts to strengthen the Declaration to by producing a binding Code of Conduct based on its principles.

U.S. policy continues to be that we do not take sides on the competing legal claims over territorial sovereignty in the South China Sea. We would nonetheless view with great concern any effort to change the status quo by force. We are also concerned about "territorial waters" or any maritime zone that does not derive from a land territory. Such maritime claims are not consistent with customary international law, as reflected in the Law of the Sea Convention.

In the case of the conflicting claims in the South China Sea, we have encouraged all parties to pursue solutions in accordance with the UNCLOS, and other agreements already made between ASEAN and China. We have also urged that all claimants exercise restraint and avoid aggressive actions to resolve competing claims. We have stated clearly that we oppose the threat or use of force to resolve the disputes, as well as any action that hinders freedom of navigation. We would like to see a resolution in accordance with international law, including the UNCLOS.

We remain concerned about tension between China and Vietnam, as both countries seek to tap potential oil and gas deposits that lie beneath the South China Sea. Starting in the summer of 2007, China told a number of American and foreign oil and gas firms to stop exploration work with Vietnamese partners in the South China Sea or face unspecified consequences in their business dealings with China.

We object to any efforts to intimidate U.S. companies and that go against the spirit of free markets. During a visit to Vietnam in September 2008, then-Deputy Secretary of State John Negroponte asserted the rights of U.S. companies operating in the South China Sea and stated that we believe that disputed claims should be dealt with peacefully and without resort to any type of coercion. We have raised our concerns with China directly. Sovereignty disputes between nations should not be addressed by attempting to pressure companies that are not party to the dispute.

Conclusion

China's outreach to Southeast Asia is natural given its geographic proximity, its historical economic and cultural ties, and China's dynamic growth. We want China to get along with its neighbors, because a peaceful and stable region supports U.S. interests. We welcome China's involvement in the region and look forward to working more closely with China as well as our partners in the region. Increased dialogue between China and key regional stakeholders and greater transparency on all sides can ensure that stability remains and economic development continues on a positive path in Asia, and active U.S. engagement will play a critical role in bringing this about, and in securing U.S. strategic interests in this important region.

Thank you for the opportunity to testify before you today on this important topic. I welcome your questions.

VICE CHAIR BARTHOLOMEW: Wonderful. Thank you.
Mr. Scher.

STATEMENT OF MR. ROBERT SCHER, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR SOUTH AND SOUTHEAST ASIA, DEPARTMENT OF DEFENSE, WASHINGTON, D.C.

MR. SCHER: Thank you, Vice Chairman Bartholomew and members of the Commission. Thanks for inviting me to appear before you today to provide testimony on China's defense-related activities in Southeast Asia and the implications for U.S. interests.

As the Obama Administration has made clear, as have previous administrations, the United States is a Pacific nation in every regard--geopolitically, militarily, diplomatically and economically. Asia and the Pacific are indispensable to addressing the challenges and seizing the opportunities of the 21st century. Our alliances with Japan, South

Korea, Australia, Thailand and the Philippines remain the bedrock of our presence and engagement in the Asia-Pacific region.

Our partnerships with key states such as Singapore, Indonesia, and Vietnam and with ASEAN, in general, are also critical to pursuing and protecting our interests. The security and stability provided through these relationships have been critical to the region's success and development. The Obama administration is committed to strengthening these alliances and partnerships and to addressing both continuing and emerging challenges.

Southeast Asia will play a critical role in defining the future of the Asia-Pacific region writ large, and continued U.S. engagement allows the United States to shape that future. Southeast Asia is central to the continued peace and stability of the entire region as well as the continued economic prosperity of the United States.

The United States has significant interests in Southeast Asia. For example, regional stability, countering terrorism, business and trade, and the continued access to the global commons for the freedom of movement for people, goods and military assets.

While the United States continues to pursue a robust engagement strategy with the countries of the region, we recognize that we are not the only power that values the strategic dividends that result from strong security ties with these nations. Of the handful of other powers that have active engagement in Southeast Asia, China in recent years has stepped up its diplomatic, economic and military activities to advance and protect its regional interests and influence.

China as a strategic actor in Southeast Asia, however, is not new. Beijing has long placed priority on its relations with Southeast Asian nations, considering the region essential to the stability of its southwestern borders, as a market for export goods, and as a source for critical raw materials.

To build its influence and ensure access, China is pursuing a network of strengthened bilateral relationships complemented by broader engagement with ASEAN and its component states. China is developing these relationships by using all elements of its national power: diplomatic, economic, cultural, military and informational.

Within the Department of Defense, we pay particular attention to China's military activities in the region to include its presence, security assistance, and military-to-military engagements. Recent trends in this regard include: increasing the number and frequency of reciprocal visits by Chinese and Southeast Asian defense ministers and military chiefs; the signing of a number of broad bilateral defense framework agreements, namely with Thailand, the Philippines, Malaysia and Vietnam; observing regional military exercises including those where we

have invited them, such as Cobra Gold, which is ongoing right now; participating in bilateral exercises with Thailand and Singapore, as well as conducting sea patrols with Vietnam; offering Southeast Asian military representatives more opportunities to attend Chinese military education programs; and finally, selling military equipment to select nations in the region.

Most Southeast Asian states have been receptive to China's defense engagement, particularly in areas that are congruent with their individual security interests, and view defense ties as a natural complement to China's increasing economic and diplomatic engagement. Still defense ties with most states remain relatively modest in comparison to ours, and China is long from becoming the security partner of choice to the region as a whole.

We closely monitor Chinese activities and note that its "no-strings" aid policies, to include weapons and military equipment, can often serve ends that are inconsistent with our own as we seek to promote stability, good governance, rule of law and respect for human rights.

However, we do not view China's engagement in the region as a zero-sum game. To the extent that we can, we are encouraging China to increase its cooperation with the international community in the delivery of international public goods. Greater engagement by China in the region does not preclude the United States from doing more, and I assure you that we are doing more.

In fact, as China becomes more present, regional awareness of the importance of a vibrant U.S. stabilizing presence remains strong and has in some areas increased. These trends actually favor closer ties to the United States as Southeast Asian nations desire an active and engaged U.S. presence in the region to serve as a potential balance to China's engagement.

Southeast Asian nations highly value U.S. engagement because we are not directly on any of their borders, have no overlapping territorial claims or border disputes, and have a long history of having and supporting mutual interests.

One area which China has taken a more assertive posture is in its handling of the persistent territorial and maritime disputes in Southeast Asia and freedom of navigation issues in the South China Sea. In recent years, we have observed an increase in friction and tension over these disputes, frictions that stand in contrast to the relatively peaceful and cooperative focus on diplomatic solutions that characterized the issue following the landmark 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea. We have consistently reiterated our basic policy towards the competing claims in the South China Sea, that

the U.S. does not take sides in the territorial disputes. However, we clearly do have a stated interest in ensuring that there is a peaceful solution to these issues. We also have a longstanding interest in freedom of navigation in international waters consistent with customary international law.

In support of our strategic goals, the U.S. government has sought greater engagement throughout Southeast Asia and the broader Asia-Pacific region through a whole-of-government approach. The Department of Defense has embarked on a multi-pronged strategy that includes:

- Clearly demonstrating through word and deed that the U.S. forces will remain present and postured as the preeminent military force in the region;

- Deliberate and calibrated assertions of our freedom of navigation rights by U.S. Navy vessels;

- Building stronger security relationships with partners in the region, at both the policy level through strategic dialogues and at the operational level through military exchanges, exercises and training; and

- Active participation in multinational forums that address security issues, for example, the ASEAN Regional Forum.

To this end, we have coupled our military presence in Northeast Asia and the Central and Western Pacific with a focus on expanding and deepening our defense diplomacy and capability building programs in Southeast Asia as important efforts to enhance our resident power status in the region and more effectively address the region's diffuse security challenges.

Our approach to China's increased engagement in Southeast Asia region is part and parcel not only of our engagement with Southeast Asia but also of our overall approach to U.S.-China bilateral relations.

From our perspective, we believe that the complexity of the security environment, both in the Southeast Asia region and globally, calls for a continuous dialogue between the armed forces of the United States and China, at all levels, to expand practical cooperation where our national interests converge, and to discuss candidly those areas where we have disagreements.

At the moment, Washington and Beijing's strategic interests are not fundamentally at odds in Southeast Asia. We both seek regional stability and want to encourage growth, stem the rise of religious-based extremism, and engage economically to promote regional prosperity. However, questions remain about China's future intent in Southeast Asia and its willingness to be transparent and open and pursue actions that support and strengthen the international political, economic and security systems. With increased security engagement in Southeast Asia from

both the United States and China, it is even more important to promote greater openness and transparency. As we welcome China's increased role in Southeast Asia, we wish to ensure that it does so in ways that do not conflict with international norms, the interests of the nations of the region or our own.

In conclusion, China has been and will continue to play a role in Southeast Asia, in large part, due to its proximity and growing economic power. However, the United States also has a long history in the region and strong political, economic and security ties, and we will continue to remain engaged here as well.

Southeast Asia will play a critical role in defining the future of the Asia-Pacific region writ large, and continued U.S. engagement with the region allows the United States to help continue to shape that future. We will use our military engagement, presence, and partnerships, along with other government tools, with our Southeast Asian allies and friends, to demonstrate U.S. commitment to the Asia-Pacific region, to further common goals and objectives, to encourage China to play a constructive role in the region, and to clearly communicate U.S. resolve to maintain peace and stability.

The United States has made a consistent choice over multiple decades that our interests lie in a strong network of alliances and partnerships in the region combined with constructive engagement with China. I am confident that through this approach we will continue to serve our interests and those of our allies and friends throughout the region.

Thank you.

[The statement follows:]

**Prepared Statement of Mr. Robert Scher, Deputy Assistant
Secretary of Defense for South and Southeast Asia, Department of
Defense, Washington, D.C.**

**Testimony of
Deputy Assistant Secretary of Defense Robert Scher
Asian and Pacific Security Affairs
Office of the Secretary of Defense
Before the
U.S. - China Economic and Security Review
Commission
February 4, 2010
China's Activities in Southeast Asia and
the Implications for U.S. Interests
Introduction:**

Vice Chairman Bartholomew, Commissioner Wortzel and members of the Commission, thank you for inviting me to appear before the Commission today to provide testimony on China's defense related activities in Southeast Asia and the implications for U.S. interests. This is an issue to which the Department of Defense pays close attention and I commend the Commission's continuing interest in this important topic.

From this Administration, you will hear the consistent theme that the United States is a Pacific nation in every regard - geopolitically, militarily, diplomatically, and economically. Asia and the Pacific are indispensable to addressing the challenges and seizing the opportunities of the 21st century. Our Alliances with Japan, South Korea, Australia, Thailand, and the Philippines remain the bedrock of our presence and engagement in Asia-Pacific. The security and stability provided through these relationships have been critical to the region's success and development. Our shared values and strategic interests enabled generations to grow up and prosper in a region largely at peace, and they remain key to maintaining stability and security. The Obama Administration is committed to strengthening these alliances to address both continuing and emerging challenges. In addition, we are committed to strengthening relationships with other key players. We are pursuing a strategic dialogue with India as well as a comprehensive partnership with Indonesia. We are also working on strengthening our partnerships with newer partners like Vietnam and longstanding partners like Singapore.

Southeast Asia's Geostrategic Importance

Southeast Asia is a critical part of the Asia-Pacific region. This region is home to over 550 million people, the world's largest Muslim-majority nation, a regional economy of over \$1 trillion, and the world's most strategic waterways, where 50 percent of global trade and one-third of world oil supplies transit.

Southeast Asia will play a critical role in

defining the future of the region writ large, and continued U.S. engagement with the region allows the United States to shape that future. It is a region that is central to the continued peace and stability of all Asia-Pacific as well as the continued economic prosperity of the United States. U.S.-Southeast Asian trade amounts to over \$200 billion annually with U.S. investment in the region over \$100 billion.

Given the importance of Southeast Asia to overall regional stability and our economy, the United States has significant interests in the region, for example regional stability, counter-terrorism, business, and the continued access to the global commons for the freedom of movement for people, goods, and military assets.

This week, the Quadrennial Defense Review was released and it highlights the importance of the need for the United States' continued access to the global commons. The QDR states that in the 21st Century, "...the global commons will take on added importance. The global commons are domains or areas that no one state controls but on which all rely. They constitute the connective tissue of the international system. Global security and prosperity are contingent on the free flow of goods shipped by air or sea, as well as information transmitted under the ocean..." We believe that Southeast Asia, as a critical part of the global commons, will be an area where this access may be tested due to the critical nature of the sea lines of communication that run through this region and affect so many nations.

China's Activities in Southeast Asia:

While the United States continues to pursue a robust engagement strategy with the countries of the region to ensure the protection of our interests, we recognize that we are not the only power that values the strategic dividends that result from strong security ties with the nations of Southeast Asia, given the region sits astride a rising China and an emerging India. Of the handful of other powers that have active engagement in Southeast Asia - China, India, Japan, Korea, Australia, and even Russia - China in recent years has stepped up its diplomatic, economic, and military activities in the region - consistent with its "go out strategy" to advance and protect its regional interests and influence.

China as a strategic actor in Southeast Asia is not new - Beijing has long placed priority on its relations with Southeast Asian nations, considering the region essential to the stability of its southwestern borders, as a market for export goods, and as a source for critical raw materials. During the course of the 19th and 20th centuries, China withdrew from its historical regional preeminence, but appears poised in the 21st century to seek to recapture it. To build its influence and ensure access, China is pursuing a network of strengthened bilateral relationships complemented by broader engagement with ASEAN and its component states. From China's perspective, multi-level engagement prevents the alignment of states against its interests, establishes the means for preferential access on a bilateral basis, and promotes the image it wishes to project consistent with its theme of seeking a "harmonious world." The importance of Southeast Asia to China's continued economic development has grown larger as its economy has grown because the resources that China needs to maintain its growth, security, and stability flow through the region.

China is developing these relationships by using all elements of its national power - diplomatic, economic, cultural, military, and informational -

and its employment of these instruments appears largely consistent with its stated long-term interests, which include establishing and maintaining regional influence, defending its territorial claims, and leveraging regional access for markets, resources, and secure transit routes whether they are on land or sea. Within the Department of Defense, we pay particular attention to China's military activities in the region, to include presence, security assistance, and military-to-military engagements. Recent trends in this regard include:

- Increasing the number and frequency of reciprocal visits by Chinese and Southeast Asian defense ministers and military chiefs;

- The signing of a number of broad, bilateral defense framework agreements namely with Thailand, the Philippines, Malaysia, and Vietnam;

- Observing regional military exercises, including those where we have invited them, such as Cobra Gold.

- Participating in bilateral exercises with Thailand and Singapore as well as conducting joint sea patrols with Vietnam.

- Offering Southeast Asian military representatives more opportunities to attend Chinese military education programs; and

- Selling military equipment to select nations in the region.

Most Southeast Asian states have been receptive to China's defense engagement - particularly in areas that are congruent with their individual security interests, particularly as it relates to security assistance and educational exchanges - and view defense ties as a natural complement to China's increasing economic and diplomatic engagement. Still, defense ties remain relatively modest in comparison and China is long from becoming the security partner of choice to the region as a whole.

We closely monitor China's activities and note that its "no strings" aid policies - to include weapons

and military equipment - can often serve ends that are inconsistent with our own as we seek to promote stability, good governance, rule of law, and respect for human rights. However, we do not view China's engagement in the region as a zero-sum game. To the extent that we can, we are encouraging China to increase its cooperation with the international community in the delivery of international public goods. Here we see great potential for China to bring its growing capacities to bear in support of finding common solutions to common problems, particularly in the areas of non-traditional and transnational threats such as counter-piracy, non-proliferation, counter-narcotics, humanitarian assistance and disaster relief. Further, greater engagement by China in the region, does not preclude the United States from doing more—and we are.

In fact, as China becomes more present, regional awareness of the importance of a vibrant U.S. stabilizing presence remains strong, and has in some areas increased. These trends actually favor closer ties to the United States as Southeast Asian nations desire an active and engaged U.S. presence in the region to serve as a counterbalance to China. Southeast Asian nations highly value United States engagement because it comes from a country that is not directly on any of their borders, has no territorial claims, and has a long history of having and supporting mutual interest.

The South China Sea:

One area in which China has taken a more assertive position is in its handling of the persistent territorial and maritime disputes in Southeast Asia and the South China Sea. In recent years, we have observed an increase in friction and tension over these disputes, frictions that stand in contrast to the relatively peaceful and cooperative focus on diplomatic solutions that characterized the issue following the landmark 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea. The sources of the rising friction are varied:

Increased demand for oil and natural gas naturally increases the perceived stakes among claimants in securing resource rights;

Deadlines for the filing of extended continental shelf claims under the UN Convention on the Law of Sea;

Rising nationalism, which increases the sensitivity among governments and peoples to perceived slights and infringements related to territory and sovereignty; and

China's growing military capabilities, which have become a factor affecting the tone and tenor of dialogue on regional maritime disputes.

The Department of Defense views Chinese behavior in its Exclusive Economic Zone (EEZ) and more broadly in the South China Sea region - a large section of which China claims sovereignty over - as having two basic premises.

Firstly, there is the strategic issue of China's assertion of sovereignty over the bulk of the South China Sea. This plays out mainly on the political and economic fronts, and China actively opposes any activity by other claimants to assert their own sovereignty claims. Vietnam, Taiwan, the Philippines, Malaysia, Indonesia and Brunei each claim sovereignty over land features within the South China Sea (SCS); many of these claims are conflicting - notably in areas around the Spratly and Paracel islands.

Secondly, to support the growing strategic and political emphasis in this region, China has increased and will continue to increase, its force posture in the South China Sea. As the PLA has upgraded its facilities on Hainan Island, for example, we see a direct correlation with China's assertiveness in its reaction to U.S. surface and air activity.

Understanding the strategic premise does not imply that the Department accepts the manner in which China has asserted itself in this region. We strongly object to behavior that puts at risk the safety of our vessels and is a clear violation of

international norms of behavior in ocean waters outside territorial seas. The Department will continue to leverage all available channels to communicate this position to our PLA counterparts. The two sides convened a Special Meeting under the provisions of the U.S.-China Military Maritime Consultative Agreement (MMCA) (1998) in August 2009 to review ways to invigorate the MMCA process, improve communications, and reduce the chances of an incident or accident between our two forces as they operate near each other.

Further, we reject any nation's attempt to place limits on the exercise of high seas freedoms within an EEZ. It has been the position of the United States since 1982 when the Convention was established, that the navigational rights and freedoms applicable within the EEZ are qualitatively and quantitatively the same as those rights and freedoms applicable on the high seas. We note that almost 40% of the world's oceans lie within the 200 nautical mile EEZs, and it is essential to the global economy and international peace and security that navigational rights and freedoms within the EEZ be vigorously asserted and preserved.

Our military activity in this region is routine and in accordance with customary international law as reflected in the 1982 Law of the Sea Convention. We have consistently reiterated our basic policy towards the competing claims in the South China Sea that the U.S. does not take sides in the territorial disputes and supports a peaceful solution that protects freedom of navigation.

U.S. Engagement in Southeast Asia

In support of our strategic goals, the U.S. government has sought greater engagement throughout Southeast Asia and the broader Asia-Pacific region through a whole-of-government approach. The Department of Defense has embarked on a multi-pronged strategy that includes:

- 1) Clearly demonstrating, through word and deed, that U.S. forces will remain present and postured as the preeminent military force in the region;

- 2) Deliberate and calibrated assertions of our freedom of navigation rights by U.S. Navy vessels;
- 3) Building stronger security relationships with partners in the region, at both the policy level through strategic dialogues and at the operational level through military exchanges, exercises and training; and
- 4) Active participation in multinational forums that address security issues such as the ASEAN Regional Forum.

To this end, we have coupled our military presence in northeast Asia and the central and western Pacific with a focus on expanding and deepening our defense diplomacy and capacity building programs in Southeast Asia as important efforts to enhance our "resident power" status in the region and more effectively address the region's diffuse security challenges. We recognize that the challenges this region faces cannot simply be overcome by one, or even two countries, no matter how wealthy or powerful.

Our continued engagement with Thailand and the Philippines, our two treaty allies in Southeast Asia, and partners in the region has strengthened and deepened our security relationships. In 2008, we celebrated the 175th anniversary of U.S.-Thailand relations, and we look forward to continuing to build upon this alliance with expanded cooperation in the coming years. Our alliance with the Philippines has deepened as we tackle challenges ranging from terrorism to disaster relief to defense reform. Secretary Gates' trip to Manila last year further solidified this relationship. And, as we work with our partners in the region, the Department looks forward to enhancing our defense relationship with Indonesia as we build a new comprehensive partnership. Our partnership with Singapore remains strong and is a key part of how we maintain our presence in the region.

We have recently established high-level defense policy dialogues with Vietnam, Cambodia, and Malaysia that complement our already strong consultative mechanisms with the Philippines,

Singapore, Thailand, and Indonesia. Through a variety of security cooperation activities that range from seminars and multilateral exercises, we are also helping the countries of the region overcome longstanding historical and cultural barriers that inhibit multi-lateral security cooperation.

One of the areas in which we are most engaged is maritime-security - and efforts to combat piracy and proliferation. The United States Pacific Command works closely with a number of allies and nations - Indonesia, Malaysia, and the Philippines - to provide training and equipment, from radars to patrol craft, enabling them to assert control over waterways that have been used by drug smugglers, weapons smugglers, and terrorists. The United States has also provided assistance to help nations work together: for example Indonesia, Malaysia, Singapore, the Philippines, and others are securing and improving transit routes in the region.

U.S.-China Engagement as it Impacts on Southeast Asia

Our approach to China's increased engagement in the Southeast Asia region is part and parcel not only of our engagement with Southeast Asia, but also to our overall approach to U.S.-China bilateral relations. From our perspective, we believe that the complexity of the security environment, both in the Southeast Asia region and globally, calls for a continuous dialogue between the armed forces of the United States and China, at all levels, to expand practical cooperation where our national interests converge and to discuss candidly those areas where we have disagreement. By pursuing this approach, the U.S. and PRC militaries will be in a better position to seize opportunities for cooperation, improve our mechanisms for communication, and reduce the risk of incidents or accidents between our military forces when they operate near each other.

At the moment, Washington and Beijing's strategic interests are not fundamentally at odds in Southeast Asia. We both seek regional stability

and want to encourage growth, stem the rise of extremism, and engage economically to promote regional prosperity. However, questions remain about China's future intent in Southeast Asia and its willingness to be transparent and open, and pursue actions that support and strengthen the international political, economic, and security systems.

As President Obama has stated, "We can't predict with certainty what the future will bring, but we can be certain about the issues that will define our times." China's growing presence and influence on economic and security questions of regional and global consequence has become one of these defining issues. Indeed, China has made substantial progress over the past thirty years in raising national incomes and in achieving higher living standards for the Chinese people. We respect and applaud this achievement of historical importance. The United States has done much to encourage and facilitate China's development and prosperity through its engagement with the international community. The United States welcomes a strong, prosperous, and successful China that plays a greater and more responsible role in world affairs. Yet, at the same time, we have been watching carefully as China has also embarked on a comprehensive effort to translate its economic capacity into military power and influence in Southeast Asia and elsewhere. With increased security engagement in Southeast Asia from both the United States and China, it is even more important to promote greater openness and transparency. The Department of Defense and other parts of the U.S. Government are investing in an expanded suite of mechanisms for dialogue and consultation with China, such as the State and Treasury-led Strategic and Economic Dialogue, an enhanced program for military-to-military exchange, DoD's Defense Consultative Talks, and the previously mentioned, invigorated Military Maritime Consultative Agreement Process to manage maritime safety issues between our two armed forces. China is a rising power that is seeking a larger

place in the world and a stronger military as part of that larger role. As China's international role expands, and its defense engagement in Southeast Asia increases, our two militaries will increasingly find themselves operating in the same space. We need to have sustainable and reliable communication channels to ensure that China understands our interests and does not seek to challenge them militarily. As we welcome China's increased role in Southeast Asia in pursuit of its own national objectives, we wish to ensure that it does so in ways that do not conflict with international norms or the interests of those nations of Southeast Asia.

Conclusion:

Southeast Asia is likely to play the critical role in defining the future of Asia-Pacific writ large, and continued U.S. engagement with the region allows the United States to shape that future. We will continue to use military engagement with our Southeast Asian allies and friends and China to demonstrate U.S. commitment to the Asia-Pacific region, to further common goals and objectives, and to encourage China to play a constructive role in the region. But, we will also maintain our presence and our Alliances in Asia, develop our capabilities, and clearly communicate U.S. resolve to maintain peace and stability. The United States has made a consistent choice over multiple decades that our interests lie in constructive engagement with China, combined with a strong network of alliance and partnerships in the region. I am confident that through this approach, we will continue to serve our interests and those of our allies and friends throughout the region.

Panel II: Discussion, Questions and Answers

VICE CHAIR BARTHOLOMEW: Gentlemen, can we move on to some questions? We'll start with Commissioner Wortzel.

HEARING CO-CHAIR WORTZEL: Thank you both for being here and for some great statements. I have to say the big take-away lesson that I took from our exchanges of views in Vietnam is that we get a lot of benefits from active high level diplomacy in the region including military diplomacy, and I have to say I'm pleased to see the reemphasis down there.

Perhaps the strongest links in terms of military cooperation and developing and establishing lines of communication by China has been with Burma and Laos, which presents particular difficulties for the United States. I wonder if you'd be willing to characterize the ways that we might be able to strengthen our diplomacy, particularly with Burma?

MR. SHEAR: I think this administration has been very active in strengthening our diplomacy vis-à-vis Burma. Of course, Burma borders on China. Very, very active cross-border trade. Very, very strong Chinese presence and influence in Burma. The Chinese have in some ways shielded the Burmese, and their activity with regard to Burma is not consistent with the rest of the international community in terms of their support for the Burmese regime.

And, in part, recognizing that, this administration has decided to go beyond our sanctions regime vis-à-vis Burma to engage the Burmese regime in the hope that we can encourage them to create a more democratic Burma that respects the rights of its citizens and is not a threat to neighboring countries, as well as encouraging them to conduct a fair and open election this coming May.

In that regard, Assistant Secretary Campbell recently visited Burma and conducted exchanges not only with the regime but met with Aung San Suu Kyi, prominent leader of the opposition as well.

We do conduct exchanges with the Chinese on the subject of Burma as well. So we're actively pursuing, I think, a more creative, more flexible approach to Burma in this administration, and the Burmese understand that we will not take steps to raise the sanctions as long as they take steps to improve the situation there. So this is a reciprocal two-way street here, and we hope it will produce results as we move forward.

VICE CHAIR BARTHOLOMEW: Commissioner Fiedler.

COMMISSIONER FIEDLER: Thank you.

I have a couple of questions. One, although it's not the subject of this hearing--I want to make a linkage--the recent threats by the Chinese government against U.S. companies as a result of our sale of defensive weapons to Taiwan raised the question of threats against U.S. companies, in the Spratlys and other places that are contested. Do you expect increased Chinese aggressiveness of, shall we say, diplomatic

bluntness outside of the context of Taiwan within Southeast Asia?

MR. SHEAR: The Chinese are a very proud and ambitious people, and given the rise of China, I would expect to see increased Chinese confidence in their dealings with us as well as the rest of the world, and I think we have seen that, and we've heard from the Southeast Asians that they're seeing that, and to a degree that's to be expected.

With regard to arms sales to Taiwan, I think the Chinese reaction has been within expected parameters. Their statement that they intend to impose sanctions on U.S. firms is new. We have not seen them take concrete action on that yet. We are waiting to see what they may do. We would certainly regret any Chinese effort to restrict American business practices.

With regard to American oil firms' exploration off the Vietnamese coast, we've raised this with the Chinese at senior levels. We haven't seen any harassment in the most recent past, and my understanding is that U.S. firms continue to operate off the Vietnamese coast.

COMMISSIONER FIEDLER: Let me just follow that up a little bit. You said that their behavior was within expected parameters except for the new threat, and that they're rising and they're growing. I don't want to read into anything that you said, but let me just try and make sure, correct me if I'm wrong, that with their rise, we expect greater threats, I mean we expect them to express and act in a more threatening way, as they clearly have in the case of Taiwan?

First, you can correct me I'm wrong. Two, do we discern among, in our quiet backroom diplomacy with other Southeast Asian nations, increased operational threats, if you will? In other words, if we don't do this, the Chinese are going to do that? Are we seeing a new era of threatening diplomacy evolve from its shores outward into the rest of the country where it has closer and more serious interests closer to its home base?

MR. SHEAR: I wouldn't call it a more threatening diplomacy. As the Chinese have gained in confidence, they have begun to assert their interests more broadly and more forcibly throughout the region, and vis-à-vis us and vis-à-vis the Southeast Asians and the East Asians, in general, and that's to be expected from a rising power.

We have met those assertions of Chinese interests with an equally strong assertion of our own interests, and that's part of this administration's effort to engage the Chinese more broadly.

The Southeast Asians in general terms have very complicated views with regard to China. On the one hand, they see China's rise, particularly its economic rise, as a tremendous economic opportunity, and I spent three years in Malaysia from 2005 to 2008, and it was clear that the Malaysians, while concerned about possible increased Chinese

assertiveness, also welcomed Chinese economic participation in the region and welcomed the effort to trade in China.

So the Southeast Asians' approach, including Vietnam's, I think, is very complicated and very nuanced, and we're there to ensure that they can continue to maintain their flexibility and their freedom of action vis-à-vis China and vis-à-vis the other great powers that have interests in the region.

COMMISSIONER FIEDLER: Thank you very much.

VICE CHAIR BARTHOLOMEW: Chairman Slane.

CHAIRMAN SLANE: Thank you, Mr. Shear. Thanks for your testimony.

Given China's naval build-up and Vietnam's naval build-up, do you foresee a potential naval arms race between China and the U.S.?

VICE CHAIR BARTHOLOMEW: Can I interrupt to say that Congressman Faleomavaega is here so, Mr. Shear, you get a few minutes to ponder your response to that question. We'll go ahead and recognize Congressman Faleomavaega, who has been presenting the Territory of American Samoa in the United States Congress since 1989. Reelected in November 2008 to an 11th term by the people of American Samoa, Congressman Faleomavaega is the longest-serving and only Samoan in the U.S. Congress. He is a member of the House Committee on Foreign Affairs and the House Committee on Natural Resources, is the chairman of the Subcommittee on Asia at the House Foreign Affairs Committee, and I would just make a personal note, while he has been serving since 1989, Congressman Faleomavaega's connections to the U.S. Congress go back further than that including his service with the legendary Phil Burton.

Welcome, Congressman, and Mr. Chairman, and we look forward to your testimony.

PANEL I CONTINUED: CONGRESSIONAL PERSPECTIVES

STATEMENT OF ENI F. H. FALEOMAVAEGA, A U.S. CONGRESSMAN FROM THE TERRITORY OF SAMOA

MR. FALEOMAVAEGA: Madam Chair, my apologies, and I hope I have not interrupted the dialogue you've had with our distinguished witnesses here this morning. Yes, it was a tremendous honor and a privilege for me to have worked under the tutelage of the late Congressman Phil Burton from San Francisco. You can say all kinds of things you want about Congressman Burton, but

I remember distinctly, I think there were 125 members under then Speaker Tip O'Neill, all went to San Francisco to pay homage to

Congressman Phil Burton at his funeral, and an interesting thing about it was at that time Speaker Willie Brown made a very interesting observation. He said I know that some of you are here to truly pay your respects and express condolences to Sala Burton and members of the family. But then others of you are here to make absolutely certain that Phil Burton is dead.

[Laughter.]

MR. FALEOMAVAEGA: I never forgot that compliment from former Speaker Willie Brown.

Madam Chair, thank you so much for allowing me the opportunity to share with you some observations concerning this very important issue.

China's swift rise since Chairman Deng Xiaoping's historic announcement in 1978 to turn China's whole economic structure into a free market system is a decision that I consider perhaps the most important geopolitical development of the post-Cold War period. Nowhere is the impact of Beijing's growing economic might and strategic influence felt more than in Southeast Asia, a vast region covering ten countries and well over 600 million people.

These ten countries came together to form the Association of Southeast Asian Nations and have worked on forging close political and economic ties through the ASEAN Free Trade Agreement. ASEAN has also reached out to China, India, Australia, New Zealand and South Korea by completing free trade agreements with each, as well as to Japan with which it has concluded a Comprehensive Economic Partnership.

The member nations of ASEAN span an enormous breadth of cultures with differing levels of economic development, types of governmental systems, and regional and external relationships--from widespread poverty and economic stagnation in Myanmar to wealth and dynamism in Singapore; from U.S. alliance partnerships with Thailand and the Philippines, to former U.S. adversaries, now friends, Vietnam and Laos.

As a member of the House Foreign Affairs Committee, now for well over 20 years, currently in my capacity as chairman of the Subcommittee on Asia, the Pacific and the Global Environment, I have long been a close observer of developments in China and of Beijing's impact both regionally and globally.

As you may know, my Subcommittee has jurisdiction over U.S. relations with China and the rest of northeast Asia, Southeast Asia, along with central Asia and the countries of the Pacific and a whole host of issues affecting the environment globally.

Based on my many visits to the region over the years, Madam

Chair, hearings I have conducted and discussions I have held with key leaders, prominent experts and average citizens; I strongly believe that China's rise is a positive development, one that has lifted hundreds of millions out of abject poverty, the largest number in the shortest period of time in world history.

China's emergence on the global economic stage has also created benefits for the entire world, including Southeast Asia and the United States, but let me be clear. I believe that China's gain is not our loss. Indeed, its progress offers the United States, Southeast Asia and the rest of the world enormous opportunities.

Yet, China's rise also poses challenges. As history has shown, accommodating sweeping change in the global order can at times be problematic. The rise of Japan and of Germany in the last century ultimately led to devastating war and destruction, and certainly China's rise has led to some discomfort even in our own country. There are a number of prominent Americans who view China as an inevitable adversary, just as there are some Chinese who view the United States in precisely the same way.

China's recent targeted attacks on Google to gain access to the e-mail accounts of Chinese human rights activists, Beijing's obstructive behavior in Copenhagen, its artificially weak currency, and its surging nationalism are all cause for concern.

But I do not believe China has imperialistic ambitions. Beijing does want to retain and regain the territories over which it considers itself historically sovereign. And while it does have territorial disputes with Taiwan, as well as with Japan and India, and with Vietnam, Malaysia, the Philippines and Brunei over the Spratly Islands, these disputes can and should be settled amicably through good-faith diplomacy.

Beijing's response to territorial disputes has been tempered by the country's economic interests in peace and security, as it attempts to maintain internal social stability by meeting the economic and increasingly social and political demands of some 1.3 billion people living in China.

In Southeast Asia, China is now the largest trading partner of Vietnam; the second-largest trading partner of Singapore, Thailand and Myanmar; the third-largest trading partner of Indonesia, the Philippines, and Laos; and the fourth-largest trading partner of Malaysia.

That said, Japan and the European Union outpaced China as ASEAN's first and second-largest trading partners as a whole in 2008, while the U.S. trade with the region that year amounted to a little over \$181 billion, only slightly less than China's \$193 billion.

Moreover, Madam Chair, the United States is still a major source

for foreign direct investment in the region, ranking number three in terms of cumulative FDI in ASEAN during 2006 to 2008, while China came in eighth place, according to the ASEAN Secretariat.

Historically-based suspicions of China remain in Vietnam and Myanmar. Chinese minorities in Indonesia and Malaysia face difficulties, and throughout ASEAN, member states view China's growing economic and political influence with varying degrees of trepidation.

In response, Madam Chair, China has been hard at work developing its soft power diplomacy in the region, forging personal ties, sending its highest-ranking officials on extended visits and forging cooperative agreements.

Just last year, Premier Wen visited Thailand in October. President Hu visited Malaysia and Singapore in November. Vice President Xi Jinping, the heir apparent to Hu Jintao, toured through the region in December, reaffirming China's support for the regime in Myanmar, signing \$1.2 billion worth of deals with Cambodia and initiating a number of bilateral cooperative pacts.

China is also providing development assistance to a number of ASEAN countries, and unlike the United States, Beijing does so without seeking to change the practices, as deplorable as they may be in certain cases, of existing governments.

Meanwhile, for eight years of the previous administration, Southeast Asia was largely treated as an afterthought except when it came to terrorism. Our former President, George W. Bush, visited Southeast only three times in his eight years in office. Our friends in ASEAN, quite naturally, noticed the neglect, especially when compared to China's trade, aid and attention.

Fortunately, President Obama and Secretary Clinton are reinvigorating U.S. relations with Southeast Asia. Last November, President Obama became the first U.S. President to meet the leaders of ASEAN, an event made possible in part by the initiation of a long-needed policy change permitting U.S. engagement with Myanmar. Before the President's summit in 2009, Secretary Clinton signed the ASEAN Treaty of Amity and Cooperation on behalf of the United States.

I can go on, but I know, Madam Chair, there's a lot said in my statement. I just want to highlight a couple of other things, if I may.

I believe the Obama administration has demonstrated its commitment to Southeast Asia and has already begun to quell the lingering anxieties over possible U.S. disengagement from the region. According to an Open Source Center report of last month, it said that two commentaries from Thailand and Singapore expressed confidence

that the President has done much to improve the U.S. image in Muslim countries.

Media commentaries from Myanmar and Vietnam, likewise, have praised the President's diplomatic initiatives, noting his efforts to engage in dialogue with other countries.

Even as China extends its economic influence in Southeast Asia, Madam Chair, I believe ASEAN will continue to seek robust economic and political security and engagement with the United States since we remain a trusted friend, ally, and partner. In no small measure, continued robust engagement requires us to get our own economic house in order so that we can maintain our place in the world.

In this respect, Madam Chair, we should be cognizant of the fact that the United States currently--and my staff better have these data accurate--we currently have 737 bases in 152 countries and territories outside the United States, and 262,793 active duty military personnel stationed in them, and that doesn't even include the 243,000 military personnel deployed in various areas of conflicts, providing stability in many places around the world.

But our bases overseas came at a price. Unfortunately, according to the Congressional Research Service, and you may want to note this, Madam Chair, the last year the Department of Defense calculated the cost of stationing troops overseas was ten years ago, and at that time, it was estimated that our total costs of putting these bases all over the world cost us well over \$18 billion. This is since 2001. You might want to look into that.

Though there have been hints that China may seek a military base in Pakistan, and though the People's Liberation Army has stationed a handful of troops on some of the disputed Spratly Islands, as well as established garrisons in Hong Kong and Macau after their reversion to Chinese sovereignty, thus far, it's my understanding, China has no military based outside China.

The country's defense budget, estimated at somewhat between \$105 billion and \$150 billion in 2008, still pales in comparison to that of the United States. President Obama's newly proposed budget, Madam Chair, as probably everyone knows, comes to \$768.2 billion for fiscal year 2011.

Over the short term, Washington and Beijing will need to tend to our bilateral relationship in the aftermath of the spat over the arms sales to Taiwan, the fallout from the Google case, the Dalai Lama's upcoming visit/meeting with President Obama, and the attention the United States and other countries are placing on rebalancing the misaligned Chinese currency, the RMB.

Both sides should, therefore, in my humble opinion, Madam Chair,

remain focused on our common interest in meeting such shared challenges as climate change, nonproliferation, ongoing global economic instability, terrorism and pandemic disease.

I believe we must also continue to focus on the principles that President Obama and President Hu defined in the bilateral agreement in April of last year, which states that the United States and China--and I quote--"should work together to build a positive, cooperative and comprehensive U.S.-China relationship for the 21st century."

With that, Madam Chair, I thank you and the members, distinguished members of the panel, and I do want to say, again, my apologies to my dear friends here who know more about this subject matter certainly than I do. But I will say that having visited recently some of the countries of Southeast Asia, there are problems that we created with a country like Laos, where we dropped bombs, cluster bombs, and unexploded ordnance remains that we still have not addressed, not even come close to helping this poor country after what we did during the Vietnam War. With Cambodia, they have a measly \$300 million debt that we're obligating this poor country to pay back. Yet we've forgiven other countries hundreds of billions of dollars of debt. In Vietnam, we still have not resolved the Agent Orange situation. I visited the hospitals and I've seen the places where these people have physical ailments as a result of what we did. And the unfortunate thing is that most of this Agent Orange, it went into South Vietnam. The purpose was supposedly to kill more North Vietnamese, when, in fact, we did more harm to innocent civilians and those people in South Vietnam than even our own soldiers. I'm glad that the Veterans Administration, through congressional enactments is helping many of our veterans who served in Vietnam, who never knew what Agent Orange was or the dioxin that affected the lives of even our own military personnel. We need to look into that.

But I do want to say that I think we should not treat China as an adversary. Call it a strategic partner. Oh, there's a push and pull. I think they underestimate our President because he is young. But I think after the first year of his administration, he's beginning to understand a little more of the realities of the world, and certainly that our country should not be taking second seat to anybody or any country. That's not to say that we're better than others, but to say that we should maintain our security interests and also have a viable and energetic economy that will be helpful not only to our own country but to other countries as well.

Thank you, Madam Chair. I appreciate it.

VICE CHAIR BARTHOLOMEW: Thank you. Thank you so much for appearing before us, Mr. Chairman. Thank you.

MR. FALEOMAVAEGA: I'm going to go ahead and let the experts tell you all about it.

PANEL II : Discussion, Questions and Answers (continued)

VICE CHAIR BARTHOLOMEW: Mr. Shear, back to Chairman Slane's question.

MR. SHEAR: Chairman, if I recall correctly, you asked me if I thought we were going, about to engage in a naval arms race in South China Sea area, and I think the answer to that is we'd be prepared to do that if we thought it was necessary, but right now we don't think it's necessary. We stand ready to deploy anything we think we need to deter aggression in the region, but right now the, I think the task is primarily a diplomatic one.

If I may, just very briefly, the parties to the territorial conflict in South China Sea have devised a vehicle to resolve their differences. In 2002, the ASEAN countries and China signed the Declaration of Parties to Claims in South China Sea. This is a multilateral diplomatic vehicle by which the parties claim to resolve their differences peacefully.

And we want the parties, including China, to stick to that agreement, and we have said so repeatedly in public, as well as to the Chinese, and we support the maritime ASEAN claimants' efforts to ensure that this agreement is carried out.

MR. SCHER: If I may, certainly, China is building up its naval forces both its surface and submarine fleets. Arguably, the PLA Navy had been one of the main beneficiaries of China's military modernization, but of course we need--and we are in the Department of Defense very clearly worried about transparency of its overall military build-up, but in terms of an arms race, I think what we're seeing is nations of the region looking to modernize their forces, but not in a way that's inconsistent with the need to modernize military forces in general.

So, as of yet, we really haven't seen that there is anything that we would call an arms race, but clearly there are more capable naval armaments that are being acquired by the states of the region, and that's something we need to watch if, in fact, the diplomacy piece that Deputy Assistant Secretary Shear is talking about, does seem to fail.

CHAIRMAN SLANE: Thank you.

VICE CHAIR BARTHOLOMEW: Commissioner Cleveland.

COMMISSIONER CLEVELAND: A comment, first, and then some questions. I think I would be remiss if I didn't say that you can characterize me as a shade less optimistic than you might be about the junta in Burma allowing the legitimate winner of the elections her freedom and the opportunity for her party to participate in the elections

in May. I think in part that is due to the fact that they enjoy the patronage from Beijing, and so they feel somewhat less inclined to open up a democratic path.

But that said, I do share your view that relations with China are not a zero-sum game and welcome the renewed interest and activism in Southeast Asia, and in particular, I'm interested in the Mekong Initiative that Secretary Clinton discussed at the July ASEAN Ministerial. Since Vietnam produces about 60 percent of the region's rice, and change in production of that would have huge implications in terms of food security, China's intent to proceed with a whole series of dams may very well impact management of water in the region. So I was hoping that you could share a little bit about what the thinking was behind the initiative, what the content is, and how you see that being a constructive element of our regional diplomacy?

MR. SHEAR: Well, we're certainly acutely aware of China's plans to construct dams on the upper Mekong and other rivers that water Southeast Asia. Southeast Asian countries certainly take a strong interest in Chinese plans, and we support their interest in transparency and a multilateral approach and flexible approach on the Chinese side to this issue, and our convening of the meeting to kick off the Lower Mekong Initiative, is an effort to ensure that the Southeast Asians have all the information and resources they need to make good decisions vis-à-vis efforts to dam those rivers.

The initiative consists of environmental, health and education components that we hope will allow the Southeast Asian countries to make informed decisions in this regard.

With regard to the Burmese, with regard to your comment on the Burmese junta, I don't think anybody should be optimistic about the prospects for democracy and human rights in that country, and our effort to engage the Burmese regime I don't think is based on optimism about the prospects there, but on the fact that efforts based solely on sanctions and efforts based solely on engagement have not worked with the Burmese. So I think this is an effort to seek greater flexibility by trying something different.

MR. SCHER: And if I may, just because I had the honor of being able to be with Secretary Clinton when she unveiled the Lower Mekong Initiative, I can tell you that that initiative was received incredibly well by the states in Southeast Asia, as a real, as a tangible effort to help in a really critical piece of their interests, and the cooperation between that area and the Mississippi River Delta area, which they're going to team together to talk about experiences, is really, it was far beyond what my own cynical mind would have thought and realizing the importance of diplomacy even from a Defense Department official. It

was incredibly well received and a real tangible piece of our engagement.

COMMISSIONER CLEVELAND: You anticipated my question. I was interested in the regional reaction and assumed that it was--

MR. SCHER: And it has continued, and the initiative continues, and work on it continues, and I have no doubt it will be a centerpiece-- not a centerpiece, but continued. There's a lot of vibrant work behind this.

COMMISSIONER CLEVELAND: I'd appreciate some follow-up, if we could, in terms of how you plan to staff it and what exactly is involved in terms of the partnerships. Can I ask, on that point, how the Chinese reacted to it since I gather they may have been not as prepared for the announcement?

MR. SCHER: I can honestly say that in Phuket, no one really monitored, tracked or cared of that.

But perhaps there has been subsequent reaction.

MR. SHEAR: We're hearing from our Southeast Asian friends that the Chinese have expressed interest in this initiative. The Japanese have also taken a Mekong River Initiative and are meeting Lower Mekong countries themselves, and we welcome this effort as well.

COMMISSIONER CLEVELAND: Okay. Thank you.

VICE CHAIR BARTHOLOMEW: Thank you. Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Good morning. One general question. Are we basically saying that there's no conflict in our desire for regional stability and an autocratic government staying in power in PRC? My second question is a more specific one that deals with sovereignty. It's my understanding that--not yet officially--the PRC has taken a position that instead of being a global commons, the space above their borders is sovereign to the PRC, and they also link the issues of militarization of space with the sovereignty issue of space. Are we concerned about that yet? I understand these views have not yet been formalized, but they may become formalized.

MR. SHEAR: With regard to the Chinese government, we certainly are concerned about Chinese lack of respect for human rights and religious freedom, and the Obama administration has been very, very firm and very, very persistent in raising these issues with the Chinese.

The President raised Tibet and Xinjiang and a variety of individual human rights cases while he was in Beijing in November, and from the start, this administration has pressed the Chinese on the subjects of human rights and Tibet. We're particularly concerned about unrest, Chinese reaction to unrest in Tibet, and as well as their reaction to unrest in Xinjiang.

As to whether, answering the question about how the nature of the Chinese system affects their foreign policy, that's a harder theoretical question that I'm not prepared to answer, but we're certainly watching their activities in the region, throughout the region, very closely, and pursuing our interests, our own interests, vigorously.

MR. SCHER: Yes, the issue of the global commons, I can tell you for certain as you read through the Quadrennial Defense Review that was just issued this week, it makes a very clear point that the protection of the global commons is a U.S. national security interest, and that we are looking to make sure to protect the global commons to allow for the free flow of goods, services and the use of that.

It has become, sort of it has grown up, sea, air, space and cyberspace have grown up, the sinews of our globalized world, largely without us, to some extent thinking about it. Clearly, we now need to think about it a little bit more, and we in the Defense Department and the U.S. government have been very clear that we are thinking about it, and the protection of the global commons is a key interest to us.

COMMISSIONER VIDENIEKS: How does that relate to militarization of space? The issue brought up to us recently by some Chinese generals, that they link the issue?

MR. SCHER: I don't know enough to comment on how the Chinese view the space issue. But clearly it is going to be something that we are increasingly engaged in, and of course there will be an administration and a Department of Defense national space policy that will be issued later on this year which will address this, but in terms of protection of global commons, it's a key element, and a new element, if you will, of the Defense Department strategy.

COMMISSIONER VIDENIEKS: Thank you.

VICE CHAIR BARTHOLOMEW: Thank you. Commissioner Reinsch.

COMMISSIONER REINSCH: Mr. Shear, can you elaborate a little bit on the Trans-Pacific Partnership negotiations and the role they play in our larger Southeast Asian strategy and how you see those negotiations evolving, what the Administration's objectives are?

MR. SHEAR: As I mentioned in my opening remarks, we seek open and free opportunities to trade with and invest in Southeast Asia, and during his visit in November to Singapore, the President said that we would negotiate the Trans-Pacific Partnership with a number of Southeast Asian countries and Australia.

We see this as an effort to further open Southeast Asian markets to our goods and to increase the region's trade with us. And I expect that we will be moving forward on those negotiations within the near future.

COMMISSIONER REINSCH: Are you going to seek to expand the negotiations to include other countries beyond the current eight?

MR. SHEAR: I think that our approach to the Trans-Pacific Partnership is to create, initially create this framework and to invite other countries to join as we go forward.

COMMISSIONER REINSCH: What has been the Chinese reaction to the negotiation?

MR. SHEAR: I confess I'm not aware of a Chinese reaction, but the Chinese are certainly pursuing their economic interests in the region, and the conclusion of the China-ASEAN Free Trade Agreements and its implementation at the beginning of this year is a sign of Chinese interest in increasing their own economic interactions with the region.

COMMISSIONER REINSCH: Yes. You mentioned that in your statement, and I was getting to that. Can you forecast a little bit how you think the China-ASEAN Free Trade Agreement is going to change trading relationships in the region?

MR. SHEAR: I think we've already, even without the China-ASEAN Free Trade Agreement, we've already seen a huge addition of this layer of Southeast Asian-China economic relations just mushroom over the past ten to 15 years, and this is a phenomenon that I think most Southeast Asians welcome.

They are not without their concerns about Chinese economic penetration. You've probably seen articles in the New York Times recently about Indonesian concerns about Chinese export penetration of their market and Chinese competition. So it's not an unallayed benefit. Southeast Asians do have concerns about this, and we're watching it very closely.

COMMISSIONER REINSCH: Thank you.

VICE CHAIR BARTHOLOMEW: Thanks.

We have several other questions, but I wanted to follow up on Commissioner Cleveland's comment on the MeKong River, which is that it would be very ironic that as this administration has made food security one of the hallmarks of what it wants to accomplish, that there are threats to Vietnam's rice production because of what's happening with China and the dams on the Mekong, and Vietnam plays a very important role in food security throughout Asia with the capacity that it has there.

But I'd like to tie this into a question, which has to do with challenges or threats that China is posing to Vietnam's economic development, both, of course, as I mentioned with rice production along the Mekong but also oil and gas exploration in the South China Sea.

You mentioned that, Mr. Shear. I wondered if you could elaborate on what tools the U.S. government has at its disposal to deal

with the threats, particularly to U.S. companies, that might be involved both in the exploration, and most recently, of course, the threats to U.S. defense contractors who might be involved in selling arms to Taiwan. It seems that we're hearing a drum beat, a theme, and it looks like it's only going to be growing. What tools do we have at our disposal to address those kinds of concerns?

MR. SHEAR: With regard to Vietnam, we would certainly view any changes to the Mekong River that resulted in a decrease in food production very seriously. And our relationship with Vietnam is growing. It's a friendly relationship. We take Vietnamese concerns very seriously, and have increased our dialogues, diplomatic dialogue and consultation, as well as our security dialogue, with Vietnamese accordingly.

With regard to corporate interests, we've stayed in very close touch with the companies exploring for oil off the Vietnamese coast. They have asked us not to reveal their names publicly so I'm not at liberty to get into who they are or the details of our exchanges with them. But we've stayed in touch with them, and we've raised our concerns vis-à-vis the Chinese, at senior levels.

With regard to the Taiwan arms sales, we've also stayed in very close touch with the firms involved in that sale, and the Chinese reaction to that sale, in regard to what they may or may not do to these firms, and we're going to be looking very closely at--we certainly would regret any Chinese effort to sanction firms engaged in transfer of defensive systems to Taiwan and will be looking at how to address that as the Chinese reaction develops. But I can't get into any details at this time.

VICE CHAIR BARTHOLOMEW: Mr. Scher, anything to add?

MR. SCHER: I'll leave the economic pieces to the State Department. No, I think the Defense Department is we .

VICE CHAIR BARTHOLOMEW: Okay. Thanks.

Commissioner Shea.

COMMISSIONER SHEA: Thank you both for being here. I feel a little bit affinity to both you guys with a name like Shea, Shea, Shear, Scher. MR. SCHER: Just missing an "r".

COMMISSIONER SHEA: Right. Variation on a theme. There's another rising power in the region, and that's India, and as India watches China's great integration into Southeast Asia, I was wondering your views on whether India itself feels an imperative to become more involved in Southeast Asia, and if that's so, how does that manifest itself militarily, economically, diplomatically?

MR. SCHER: If I may, since my writ also covers parts of South Asia and India, I'll veer into a little bit of politics as well with the

acquiescence of my State Department colleague.

I think, in fact, India has had a "look East" policy, a proclaimed "look East" policy since the mid-'90s, I believe is when they started. So they have recognized that they see a future in Southeast Asia and East Asia as well, primarily economically, but they have also married up the economics with the political and military engagement as well.

It is currently still in its early stages, and it has progressed with halting speed depending on the situation, both in India, South Asia writ large, and Southeast Asia, but they clearly see it's an important area for them. They are especially engaging with countries such as Singapore in trade issues and were trying to work out the trade issues given that, in fact, they have sometimes overlapping economic portfolios so it's hard to find the right trade balance in issues between India and Southeast Asia.

But clearly India recognizes that it needs to participate more in Southeast Asia as it looks to expand its regional and global role, and also it understands that there is another emerging power in East Asia vying for influence, and that also I think influences their political, military and economic engagement in the region.

Still, and in absolute terms, it's far less than even China, which, as we have both said, is far less than ours as a whole, especially in military and security.

COMMISSIONER SHEA: You project greater and greater participation by India in the region?

MR. SCHER: I think that's certainly, I would--

COMMISSIONER SHEA: Is this something we encourage?

MR. SCHER: It is certainly something that we'd encourage. It is something that I would imagine will increase, but obviously India has a lot of issues that it needs to "look West" for, as well, in its parlance, so hard for it to--it's hard to know exactly where it will go, but I suspect it will go up as India becomes more integrated into the international economic system, needs more places for markets, needs more natural resources from other locations, just as China and Southeast Asia, I think, will see an advantage to having a greater number of partners from which to choose from for some of this economic trade.

COMMISSIONER SHEA: Mr. Shear.

MR. SHEAR: We certainly welcome increased Indian participation in Southeast Asia. As Mr. Scher said, we think their approach, their activity so far has been modest, but we encourage greater Indian interest in Southeast Asia. We encourage the Indians to become observers to the East Asian Summit, and they have participated actively in that capacity.

Secretary Clinton, recently visited India. The Indians are

interested in engaging us in dialogue on the region, and we're going to continue and develop that.

MR. SCHER: If I can just add, it is clearly part of our overall approach towards a stronger relationship with India across a range of issues, encouraging them to be more involved, and talking to them about not just bilateral and not just regional issue, but global issues, and in fact, our interests and India's interests are quite consonant around the world, and Southeast Asia is no exception.

COMMISSIONER SHEA: Thank you.

VICE CHAIR BARTHOLOMEW: Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chair.

When Deng Xiaoping changed the way China was behaving in '78 and moved it toward openness and seeking foreign investment, China was out to build what they call China's "comprehensive national power."

Have you heard that term being used? Yes. As I understand the term, it is a combination of economic, political and military power, your comprehensive power, and it's based on the economics. You got to have the economic strength in order to have the political and military. So they clearly went out to build that comprehensive national power. Mr. Scher, in your testimony on page 9, you say: "China has made substantial progress over the past 30 years in raising national incomes and in achieving higher living standards for the Chinese people." Then you say: "The United States has done much to encourage and facilitate China's development and prosperity through its engagement with the international community." So our policy has been to help China grow economically and not hinder it.

My concern is, though, that the way we've done this, we've strengthened theirs and weakened our own. You also talk about, Mr. Shear, in your testimony, about watching carefully as China has embarked on a comprehensive effort to translate its economic capacity into military power and influence in Southeast Asia and elsewhere.

So you see what I see, that their economic power gives them the political and now military power. I think the imbalance in this relationship economically is very detrimental to us. Do you folks in the administration integrate this and understand that our political and military influence is going to decline if we don't get a change in the imbalance in the economic relationship? If I could direct it to Mr. Shear, and Mr. Scher, if you would also comment.

MR. SHEAR: I agree with you completely that it is our economic strength that underlies our military and political, our military power and our political influence, not only in the region but globally, and this administration's number one priority is to restore and revive our economy, and on that basis we're going to continue to engage China and

the region in the pursuit of our interests.

You're right, the Chinese economy is imbalanced. We have pointed this out to them, and we are working as we rebalance our own economy to urge the Chinese to rebalance theirs as well.

MR. SCHER: And what I would say is that we, in fact, do--what you heard was, in fact, a unified U.S. government position, simply, perhaps slightly different angles on it given our different institutions.

But, in fact, it is a coordinated policy. We do look to, as Mr. Shear said, how do we help the economic prosperity of China, but I on the defense side look at the capabilities and am concerned about the growing influence in capabilities.

Of course, also in my testimony, it's clear that right now our interests are consonant with China's. The concern would become when we see that we don't have consonant interests, but while we still have those interests that we all share in common in Southeast Asia, we can all continue to grow and prosper together.

Obviously, there are the imbalance issues, as Mr. Shear has spoken of, and we in the Defense Department will always look at what are our capabilities so that we have to plan given what our capabilities, but intent right now is still something where we see there's great common interests and, hence, a great ability to all prosper together--U.S., China, and the region itself.

COMMISSIONER MULLOY: Does the Defense Department have concerns that we've outsourced so much of our manufacturing technological strength that we have weakened our defense industrial base?

MR. SCHER: Defense industrial base issues are clearly important to the department. There's a new office or reinvigorated office within the Department of Defense in the acquisition side of the house that is looking at that specifically, and it's always a concern. It's been a concern for years of how do you manage that industrial base while also managing the budget and the requirements and the fact that we no longer have quite the--the whole industrial system has changed.

So it's something we watch. I don't think at this point it is anything that we think is a critical concern, but that is something that would be best addressed by one of my colleagues in OSD.

COMMISSIONER MULLOY: Thank you both.

VICE CHAIR BARTHOLOMEW: Gentlemen, we have two Commissioners with one question each in a second round. Can you indulge us with say an extra three or four minutes?

MR. SCHER: Absolutely.

VICE CHAIR BARTHOLOMEW: Okay. Commissioner Fiedler.

COMMISSIONER FIEDLER: Mine is just a quick question, and

it's more a macro question. Do we believe, do you believe, does the government believe, that it is the Chinese government's strategic objective to dominate Southeast Asia and sort of, hence, diminish our influence there, as a matter of policy?

MR. SHEAR: I think the hierarchy of Chinese authorities are, first and foremost, the preservation of Communist Party power. I believe their second goal is to develop their economy, and that is an extremely important domestic goal for the Chinese. I think a third goal is to secure the areas around China's periphery to ensure stability and security in the areas immediately adjacent to China. And a final goal is to promote China's image as a rising and potentially great power. I think they are very general priorities. I think you can list them in that order of priority. So I think their primary focus continues to be on the development of their domestic economy, and I do not see an intention at this time to create a hegemony in Southeast Asia or to displace American influence in Southeast Asia, although they're certainly interested in increasing their own influence. But as we say, we do not believe this is a zero-sum game.

COMMISSIONER FIEDLER: Thank you.

VICE CHAIR BARTHOLOMEW: Mr. Scher, anything to add on that?

MR. SCHER: No.

VICE CHAIR BARTHOLOMEW: No. Excellent. Commissioner Reinsch.

COMMISSIONER REINSCH: Mr. Shear, I think twice indicated that the United States regretted the Chinese threats with respect to companies that are participating in the Taiwan arms sales. Larry and I here were just having a conversation to try to put that term in some kind of hierarchical context, and maybe you can help us. Is "regret," worse than "upset" or "angry" or "apoplectic"? Where does it sit on the scale of how unhappy we are?

MR. SHEAR: "Concerned." "Greatly concerned" would also be a useful word. The Chinese haven't done anything yet, and we're going to watch to see what the Chinese do and consult with the firms concerned and take it from there, and I'm not in a position at this time to be able to discuss concrete responses to that.

COMMISSIONER REINSCH: So if the Chinese actually do something, maybe we'll kick it up a couple notches to upset or angry?

VICE CHAIR BARTHOLOMEW: That's an unfair question.

COMMISSIONER REINSCH: I'm sorry.

COMMISSIONER FIEDLER: That's what we're supposed to do.

MR. SHEAR: I'll consult a thesaurus and get back to you.

COMMISSIONER FIEDLER: I don't think it's that--

VICE CHAIR BARTHOLOMEW: On that note, I'm going to step in.

COMMISSIONER REINSCH: Just trying to take the temperature. That's all.

VICE CHAIR BARTHOLOMEW: Gentlemen, thank you very much--

MR. SHEAR: Madam Vice Chairman, can I just say one more thing?

VICE CHAIR BARTHOLOMEW: Yes.

MR. SHEAR: I'm glad you invited us up here today because I think it's important to look at Chinese influence throughout the region, not just in Southeast Asia. I think it's important to make the point that our approach to China is not just a bilateral, not just an issue of our bilateral relationship with China, but how we relate to the rest of the region as well.

Someone once said that in order to get China right, you have to get the region right, and that's just what we're trying to do.

VICE CHAIR BARTHOLOMEW: Thank you, Mr. Shear. We have focused on different regions around the world. This year is Southeast Asia for us and China's role in that. So thank you very much to everything you've contributed. Thank you for your service to this country and we really appreciate your participation.

We're going to take a break until 11:00 o'clock, at which point we'll start our next panel. Thank you.

[Whereupon, a short recess was taken.]

Panel III: POLITICAL AND ECONOMIC ASPECTS

HEARING CO-CHAIR WORTZEL: It's my honor to introduce the next panel. They're going to look at the political and economic aspects of China's activities in Southeast Asia.

The first speaker will be Professor Catharin Dalpino, a Visiting Associate Professor and Director of Thai Studies at the Edmund A. Walsh School of Foreign Service at Georgetown University. She's also a non-resident Senior Fellow with the Atlantic Council's Asia Programs specializing in Southeast Asia. She has served as Deputy Assistant Secretary of State, as a fellow at the Brookings Institution, as career officer at The Asia Foundation, and as policy analyst at the World Bank.

She'll be followed by Mr. Ernie Bower, Senior Advisor and Director of CSIS Southeast Asia Program, and prior to joining CSIS, he formed BrooksBowerAsia, a consulting firm specializing in the Asia-Pacific region. Earlier, he served for a decade as president of the U.S.-

ASEAN Business Council working with government and the private sector leaders from both the United States and Southeast Asia.

The third speaker will be Walter Lohman, the Director of the Heritage Foundation Asia Studies Center, and before joining Heritage, he served as the Senior Vice President and Executive Director of the U.S.-ASEAN Business Council. He also served on Senator Jesse Helms' staff as an East Asia advisor and Senator John McCain's staff as a foreign policy, trade and defense advisor.

Now, I'll add my own editorial comment. For those of you who sometimes say we're not balanced, we have Brookings, CSIS and Heritage. So we've covered the ideological spectrum.

COMMISSIONER FIEDLER: I don't know anybody who said we weren't balanced.

**STATEMENT OF MS. CATHARIN E. DALPINO, VISITING
ASSOCIATE PROFESSOR AND DIRECTOR OF THAI STUDIES,
GEORGETOWN UNIVERSITY, WASHINGTON, D.C.**

MS. DALPINO: Thank you, Commissioner Wortzel. Madam Chair, and Commissioners, thank you for this invitation and particularly for scheduling these hearings on what I think a very important topic.

I would just start out by saying that while I agree with Mr. Shear's list of China's priorities, I think that two of those four speak directly to its role in Southeast Asia, particularly in mainland Southeast China.

Its domestic economic program is very much linked, at least for Yunnan Province, to mainland Southeast Asia, and its desire and attempts to secure the periphery also very much involve the region as a whole and particularly the mainland subregion.

It is my observation and my argument that China more intensely focuses on mainland Southeast Asia than it does maritime Southeast Asia, although it does have a regionwide intense policy, and that one factor that has enabled it to do so has been a relative neglect of the subregion by the United States in the past several years, and I don't want to make this sound too stark, but I think that these nuances and these dynamics certainly are notable.

China has a number of objectives in mainland Southeast Asia, and the first is to the development of infrastructure to increase and facilitate its trade and also to strengthen Chinese security, and I don't think that it's an overstatement to say that China is changing the face of mainland Southeast Asia through much of this infrastructure development.

Some of it through the Mekong and road building is an attempt, as I said, to enlarge and facilitate its trade. Some of it is an attempt to

gain greater energy security, particularly with its work with Burma and others, to give it a stronger position on the South China Sea, which leads to the second objective, which in my observation and my discussions with a number of Southeast Asian officials has been to increase the Chinese presence and implied control of the South China Sea, and in that sense, I would say that I think we can say empirically that Vietnam is getting the brunt of that at the present time. Again, I think it's a matter of degree and not necessarily, might not yet meet a critical mass, but that's my reading of where the trend is going.

Third is the exploitation of China's natural trade advantage, and all countries do that certainly, but it's tailor-made for a relationship with mainland Southeast Asia. Mainland Southeast Asia has natural resources it exports to China, everything from natural gas to logs and timber, and it is the recipient of light manufactures from China to the extent that in the poorer countries of Southeast Asia, an overwhelming number of goods in the markets now come from China.

There is a soft power aspect to this, I think, that we don't really take enough note of, which is that Chinese light manufactures--cell phones, motorbikes, even access to Chinese satellite television--give poor Southeast Asians in Laos and Cambodia, and even Myanmar, access to the accoutrements of a middle class life they would not otherwise have, and that has a tremendous soft power aspect to it.

Lastly, to some extent, and it's still minor but an emerging trend, is the use of mainland Southeast Asia as a population pressure valve. We've seen increasing migration, much of it illegal, but recently China has begun to bundle some migration and immigration factors into some of its infrastructure projects and its trade deals.

Now, we see in Laos, Cambodia, we'll see 20, 30,000 Chinese workers and their families accompanying infrastructure projects, and many of them without visas, so this is one way that China is helping to assist this migration.

China has some advantages. One is that there is serious poverty in mainland Southeast Asia, particularly in Laos, Cambodia and Burma, and China has paid some attention to that early on. They have bilateral assistance programs. Also, in the China-ASEAN Free Trade Agreement, they had "early harvest" funds to make up for the fact that those countries would not reap the benefits of the Free Trade Agreement early.

They also have somewhat easier cultural relations with mainland Southeast Asia than with maritime Southeast Asia. Chinese ethnic minorities have tended to assimilate more easily into mainland Southeast Asia, specifically and particularly Thailand, but also in recent years, they haven't been as subject to some of the communal violence against

ethnic Chinese that we've seen, for example, in Indonesia in 1998.

And lastly, we the United States, have been rather distracted, particularly with respect to mainland Southeast Asia, over the past decade, and have sort of de facto come to a position until recently of favoring maritime Southeast Asia.

The War against terrorism, the stronger focus on maritime security in the Strait of Malacca, some lingering Cold War views of some of the countries in mainland Southeast Asia, and also our human rights and democracy promotion policies which are universal, but on mainland Southeast Asia, oftentimes contrast to Beijing's approach, and Beijing is now what we would call a status quo power.

It does not for the most part care what kind of a government or the degree of freedom a country has, and where we, of course, make that criteria in our foreign policy, and there are direct correlations to times when the United States or the West has put pressure on a mainland Southeast Asia country and China has been able to increase its influence in that country accordingly.

I will say that I think this trend is reversing in the current administration and should be encouraged, as well, and I also do want to make clear that I don't think this is necessarily something that the Bush administration was not paying attention to. I think that this has been a bipartisan issue, but there have been opportunities recently to strengthen the U.S. role in Southeast Asia and mainland Southeast Asia.

Certainly, signing the Treaty of Amity and Cooperation helps not only our whole relationship but also that with the subregion. The first ever U.S.-ASEAN Summit also was important.

The administration's Burma policy was, I think, a good step in terms of engaging Burma, and we'll just have to see where it leads. I really don't think we can make a conclusion one way or the other about it.

The Lower MeKong Initiative is important as well, if perhaps some of those horses aren't already out of the barn, at least it's important. And also we are beginning to strengthen our trade relationship with Laos in a way that I think is appropriate, which is to build capacity.

Let me just very quickly talk about a few more recommendations. I think we do commit to an annual U.S.-ASEAN summit so that the President of the United States makes it a point to go to Southeast Asia once a year. I know that Hanoi is one of the venues. I think that should be seriously considered over any of the others.

I think that we do need to reassure Southeast Asians that we are going to continue our presence in the South China Sea. That seems self-evident to U.S. policymakers, but I think they are looking for some

more formal and public statement of that.

I think we do need to press Beijing to become part of the Mekong River Commission process. As long as Beijing and Burma are out of that commission, then they really still are part of the problem and not as much part of the solution.

There is a drift in U.S.-Thai relations for a number of reasons, and I think we need to address that. It's the only U.S. alliance in Asia that I would describe as being on autopilot, and I think that's one of the reasons for the drift. Obviously, there are serious political complications in Thailand, but we should whenever possible reinvigorate that.

And also I think that we should consider the benefits of the legislation to introduce, to extend trade preferences to Asian LDCs. That's currently under consideration. This would have, as far as I know, no impact on our global economic position, but it really would in many ways help to change the tone of our trade relations with those two countries, specifically Laos and Cambodia, and in this instance, and I'll just end with this, it might be worthwhile to sweat the small stuff.

Thank you.

[The statement follows:]

Prepared Statement of Ms. Catharin E. Dalpino, Visiting Associate Professor and Director of Thai Studies, Georgetown University, Washington, D.C.

Thank you for this invitation to testify before the U.S.-China Economic and Security Review Commission on the subject of China's changing role in Southeast Asia, and its differing approach to the mainland and maritime sub-regions of Southeast Asia. Without doubt, Beijing has advanced and strengthened its relations with Southeast Asia in the past two decades, in both the multilateral and bilateral arenas. The official launch of the China-ASEAN Free Trade Area, which represents the most extensive set of trade and investment agreements between Southeast Asia and an external partner and the largest free trade zone in the world, is emblematic of the economic inroads China has made in the region. It has passed the United States as Southeast Asia's third largest trading partner overall, and is the largest exporter to Southeast Asia. China-Southeast Asian trade accounts for almost half of total intra-Asia trade. If and when the China-ASEAN FTA reaches its potential, these trends can only accelerate and expand China's role as an economic power.

Beijing's economic strategy in Southeast Asia is arguably the easiest part of establishing a new image and presence in the region. Moreover, it helps to fuel China's own economic development, particularly in Yunnan Province. But China has also been methodical in building bilateral relations as well, normalizing diplomatic ties with the governments of Southeast Asia and in many cases beginning to strengthen security relations. Beijing's progress in political and security relations has been less uniform, less quantifiable and less spectacular than its progress in economic relations, but that does not negate the many watersheds that have been achieved by China's so-called "charm offensive."

At this juncture, however, it is worthwhile to look not only at China's relations with Southeast Asia as a

region and at its bilateral relations, but also at Beijing's sub-regional strategies. China's growing solidarity with ASEAN notwithstanding, its role in mainland Southeast Asia is increasingly distinct from its relationship to maritime Southeast Asia. This is primarily a matter of degree rather than dramatic differences in Chinese policy toward the two sub-regions; however, China's greater focus on and penetration of the mainland has created a *de facto* separation. This growing edge in mainland Southeast Asia has not developed in a vacuum; it was facilitated by the unevenness of U.S. policy toward these two sub-regions for several years and Washington's relative neglect of mainland Southeast Asia.

China's Historic Backyard

Ancient Chinese maps of the Asia region show significant portions of mainland Southeast Asia – Vietnam and portions of northern Burma in particular – as territory of the “Middle Kingdom.” This was far from notional in Vietnam, where China dominated for several centuries. In the 19th century colonialism ended even a symbolic role for China as the dominant external power, which only exacerbated the Chinese perception of a “century of shame” at the hands of the Western powers.

In the 20th century, history presented greater complications for China's relations with mainland Southeast Asia than with the maritime region. Although Beijing sponsored communist insurgencies in both sub-regions of Southeast Asia during the Cold War – including Indonesia in 1965 – the primary battleground was on the mainland. Vietnam was China's major ally in Southeast Asia and its proxy in wars against the French and the United States, but Beijing and Hanoi became estranged after Vietnam's reunification and fought a brief border war in 1979. These events paradoxically provided an opening for China to non-communist Southeast Asia. (Burma was the first non-communist Southeast Asian country to recognize the People's Republic of China, in 1949, but the two countries severed relations in 1967 over anti-Chinese riots in Burma.) The fall of Saigon in 1975 and the Vietnamese invasion of Cambodia in 1978 led Thailand to open a window to relations with China, as a hedge against Vietnamese aggression. The Thai-Chinese military relationship began in the late 1970's with cooperation that enabled China to support the Khmer Rouge on the Thai-Cambodian border. Three Southeast Asian countries normalized relations with China in the mid-1970's – Thailand, Malaysia and the Philippines – but Bangkok, which shared concerns with Beijing about both Vietnam and the Soviet Union, established more extensive ties and remains China's closest partner in Southeast Asia.

These historical ties and rivalries persist to some extent, albeit on a much lower scale. As a result, China's relations with mainland Southeast Asia require more daily management than those with the maritime region, particularly with border states. To reduce tensions, China negotiated formal border agreements with the northern tier of mainland countries. Beijing and Hanoi finalized a border agreement in 1990, and China signed an agreement with Laos in 1992. China and Burma negotiated an original border agreement in 1960, but refined that in 2001.

Border tensions remain between the two countries, however, and have become sharper in recent months. When Burmese military forces cracked down on ethnic minorities in the Kokang Special Region of the northern Shan State last August, 30,000 Burmese refugees were pushed into China's Yunnan Province. Beijing warned the junta to resolve the situation and, in particular, to protect Chinese citizens in Burma. The incident was sobering for Chinese leaders. Although China has become Burma's closest external partner over the past decade, the Burmese regime appears to be focused myopically on maintaining internal control of the country. This dynamic could worsen as the country moves toward elections later this year.

Chinese Objectives in Mainland Southeast Asia

Beyond closing an historic circle, the immediate and future advantages of a focus on mainland Southeast Asia are clear to Chinese policymakers. Many of these relate to the economic development of Yunnan Province through expanded trade and migration. However, a stronger Chinese presence on the mainland also helps protect Beijing's geo-strategic position in the region, as well as China's global energy sourcing. China's pursuit of its objectives in this regard can be seen in:

1. *The development of infrastructure to increase and facilitate trade with the mainland, and to strengthen Chinese security.* Beijing's ambitions in Southeast Asia have literally changed the face of the mainland sub-region. Chinese dams and other developments on the Mekong River provide electricity for Yunnan but they also open new paths for trade. A good deal of this development takes place upriver in China rather than in the sub-region. However, China's ability to make these infrastructure changes has depended in part on the acquiescence of the downriver countries, which are now feeling their impact through environmental disruption. New Chinese-backed roads in Laos will give China greater land access to the mainland. Beyond developments that directly benefit China's economic position, Beijing has also emerged as a sponsor of infrastructure projects on the mainland that could have long-term environmental consequences. In the mid-2000's, for example, China offered to replace World Bank financial guarantees for Laos to build the Nam Theung II dam when the Bank balked over environmental standards.

This changing infrastructure supports China's long term energy security as well as its more immediate trade interests. Proposed pipeline projects with Burma along the Irawaddy River trade route would link Yunnan to the Bay of Bengal and could give China an alternative to transporting oil from the Middle East, lessening Chinese dependence on the Straits of Malacca. These projects alarm India, which has launched its own program of infrastructure development with Burma.

2. *The increased Chinese presence (and implied control) in the South China Sea.* China's stronger bilateral relations with such countries as the Philippines and its vigorous ASEAN policy have enabled Beijing to reduce tensions over the Spratly Islands in the South China Sea and to sign a Declaration on Conduct of Parties in the South China Sea in 2002. Among other advantages, this broader regional strategy to make Chinese presence in the South China Sea more acceptable constrains China's southern neighbor, Vietnam, in protecting its maritime interests. In addition to disputes over Spratly claims, Hanoi also contests China's continued occupation of the Paracel Islands. Beyond these disputes, China has recently been more bellicose toward Vietnamese cooperation with other external partners (particularly the United States) in joint exploration of offshore oil and gas, and Beijing has recently announced that it intends to develop the Paracels as a tourist destination. Much of this thrust is aimed at the United States, but at present Hanoi feels the impact more. Paradoxically, China could not have risked raising tensions with Vietnam in this manner if it had not strengthened its relations, not only with Hanoi but with Southeast Asia as a whole.

3. *The exploitation of China's natural trade advantage.* Mainland Southeast Asia provides Yunnan with natural resources, ranging from natural gas to timber, with the lowest transactional costs. Geographical proximity also enables China to market its light manufactures and other goods to the mainland with the greatest ease and the lowest cost. This felicitous set of circumstances is not necessarily in the mainland's long term economic interests, as it all but guarantees a trade deficit with China, but it has been an economic glide path for China. In a different dimension, brother owners in northern Thailand have reconfigured their businesses to accommodate Chinese customers, and the trafficking of women along the China-mainland Southeast Asia border has increased.

4. *The use of mainland Southeast Asia as a population pressure valve.* The last decade saw surges of illegal migration from China into the upper tier of mainland Southeast Asian countries. More recently, China has attempted to regulate this, but not necessarily to stop migration. Agreements for joint infrastructure projects with mainland Southeast Asian governments often contain provisions for upwards to 30,000 Chinese workers and their families, to be settled on special “plantations.”

Chinese Advantages

Beyond the great advantage that geography provides, the pursuit of China’s economic and security objectives in mainland Southeast Asia has been made easier by some specific conditions in the sub-region, and by broader power dynamics. These include:

1. *Serious poverty in parts of mainland Southeast Asia.* Burma, Laos and Cambodia rank as some of the poorest countries in the world, and stand out as ASEAN’s poorer members. Although Vietnam has made impressive strides in poverty reduction in the past two decades, it is also poorer than most of the older ASEAN members, although it is quickly climbing up the ASEAN ladder.

For example, the collective per capita share of GDP in all of the mainland Southeast Asia countries does not equal even half of the per capita GDP of Singapore, and only just exceeds that of Malaysia. Compared to the West, the poverty of the poorer mainland countries is even more profound. In the United States, there is one doctor for approximately every 3,000 people; in Laos, the ratio is one to 23,000. China has reached out to these impoverished nations with economic assistance, both bilateral and through “early harvest” funds in the China-ASEAN Free Trade Agreement. Moreover, China can provide affordable consumer goods to poor mainland Southeast Asians who would not otherwise be able to own motorbikes, cell phones or satellite television.

2. *Easier cultural relations with mainland Southeast Asia.* The 1967 anti-Chinese riots in Burma notwithstanding, over the centuries Chinese immigrants have often assimilated more easily in mainland Southeast Asia than in the maritime sub-region. This is particularly true of Thailand, where the highly assimilated Sino-Thai were instrumental in establishing the bilateral trade relationship. With the exception of Chinese-majority Singapore, ethnic Chinese in maritime Southeast Asia have often experienced more communal violence (in 1965-66 in Indonesia, as well as in 1998; in the 1969 race riots in Malaysia, etc). Although Chinese cultural diplomacy and assistance, particularly language training, is increasingly welcome throughout Southeast Asia in the 21st century, it has made more inroads in the mainland.

3. *An often distracted United States.* Just as China has, over the past decade the United States has forged a *de facto* separation in its relations with mainland and maritime Southeast Asia. Not coincidentally, these policies are mirror opposites, with a greater focus in Washington on maritime Southeast Asia during the Bush administration. Several factors have contributed to this dynamic:

- The post-September 11 global war against terrorism, and the perception of Southeast Asia as a “second front.” This naturally drew attention to the Muslim-majority states of Indonesia and Malaysia, as well as to the southern Philippines. Counter-terrorism provided the entry point for a renewed US military relationship with Indonesia and helped the United States and Malaysia set aside the rhetorical tensions of the 1990’s. It affirmed Singapore’s importance in the region and re-energized the US-Philippine alliance. These gains have had the effect of limiting China’s strategic reach into maritime Southeast Asia, although Beijing has made some inroads in security relations with these countries nevertheless.

- A stronger focus on maritime security, specifically in the Straits of Malacca. Since the unfortunate US overture in 2004 through the Regional Maritime Security Initiative, the United States has quietly been able to strengthen cooperation in Southeast Asian maritime security. This has been a priority area for China as well, since 80% of Chinese oil imports pass through the Straits, but US assistance has overshadowed that offered by China to date.
- Cold War ideological baggage with the countries of the former Indochina. The United States did not normalize relations with Cambodia and Vietnam until 1993 and 1995, respectively, and waited until the 1990's to upgrade relations with Laos. Although ties with these three countries have expanded in recent years – the United States is now Vietnam's and Cambodia's leading trade partner - advances in relations still meet with some opposition in the domestic US political environment.
- US human rights and democracy promotion policies in Southeast Asia. Although the "Asian Values Debate" of the 1990's has faded from government statements and media reports, it has become an operating principle in Chinese policy in Southeast Asia. In contrast to the more confrontational policies of the United States and the West, China offers the "Beijing Consensus," economic assistance and trade preferences for Southeast Asia without conditions. This marks China's transformation from a revolutionary power as it was in the Cold War, when it sponsored communist insurgencies, to a status quo power, marked by Beijing's indifference to a Southeast Asian partner's form of government. (Ironically, with the Bush administration emphasis on "regime change" the United States is viewed in some quarters of the region as a revolutionary power.) This policy has particular appeal in mainland Southeast Asia, which is host to several authoritarian regimes and which, whether deservedly or not, often receives greater US criticism on human rights, democracy issues and religious freedom.

Beijing is adept at exploiting the differences between US and Chinese policy in this regard. The genesis of the current Sino-Burmese relationship is in the 1988 crackdown against Burmese pro-democracy activists and the Western policy of sanctions and isolation. Beijing has expanded that opening ever since. In Cambodia, when the West criticized Prime Minister Hun Sen for his part in the 1997 rupture of the government coalition, it put Beijing's relations with the Prime Minister on a new, more positive footing. Even the US reaction to the coup in Thailand in 2006 sparked modest gains for Beijing in Sino-Thai relations.

A Turning Point for US Policy?

It would be an exaggeration to describe the countries of mainland Southeast Asia as "satellites" of China, but it is increasingly possible to discern an emerging Chinese sphere of influence in the sub-region. This is focused primarily on the lower income countries of the mainland – Burma, Laos and Cambodia – but it also affects Thailand and Vietnam, albeit to a lesser extent. China's expanding reach in the sub-region has implications for power dynamics in the South China Sea and in the Bay of Bengal which directly or indirectly affect US security interests in the region.

Most likely, the "Beijing Consensus" and US policy on human rights and political development will continue to be at odds in the sub-region for some time, although both sides have shown signs of softening their positions in the past year. The Obama administration's policy of expanding engagement where appropriate, particularly toward Burma, may give the United States an opening with Vietnam, Laos, Cambodia and Burma that it did not have with more isolationist policies. Ironically, after the Kokang incident in Burma last summer, and with the prospect of its repetition along the China-Burma border,

Beijing appears to view the Burmese regime as an exception to the “Consensus” principle. With its oil and gas investments and its desire for an outpost on the Bay of Bengal, what China most wants from Burma in this regard is political stability. At this juncture, Beijing shows signs of reconsidering whether the political status quo in Burma can offer that. It is unlikely that China will move to a more strident insistence on a political democracy in Burma, but neither is it likely to continue to provide automatic support for the present regime.

At this point, it is also possible to observe some negative reactions in mainland Southeast Asia to Chinese policy. A Chinese agreement with the Laotian government to place a Chinese industrial settlement outside Vientiane, near the largest Buddhist temple in the country, met with public resistance. Cambodians have voiced opposition to the National Assembly’s guarantee of profits for Chinese developers in the Kamchay Power Plan project. The Vietnamese government had to face stiff public opposition last year over Chinese investment in Vietnamese bauxite mines. More indirectly, but significantly, Thai environmental activists have sharply criticized China for its changes on the Mekong that have negative consequences for Cambodian and Vietnamese living in the affected downriver areas.

It is important to look at the dynamics in each of these cases. They involve popular protests against Chinese actions in mainland Southeast Asia and hint at a diminution Chinese “soft power” in the sub-region. However, they also pit citizens in these countries against their governments and carry a risk of instability if these issues are not adequately resolved. It should not be assumed in every case that popular expressions of discontent would have a positive outcome; they may also be met with government repression. In some cases, a thoughtful expansion of US involvement in Southeast Asia could offer alternatives to mitigate some of these tensions. However, there is no simple zero-sum equation for soft power in this case. Criticism of China will not automatically boost the US “soft power” quotient if the United States does not take pro-active measures to strengthen its ties in the sub-region.

Expanding the Policy Menu

Recent US initiatives in this regard, some of which affect US relations with the entire Southeast Asia region, have been encouraging, although they are only preliminary steps. These include:

- Signing the ASEAN Treaty of Amity and Cooperation (TAC) last year, which provides legal formality to the US-ASEAN relationship;
- The first-ever US-ASEAN Leaders Meeting in Singapore in November;
- The administration’s announcement last October that it would take steps to engage the Burmese regime at high levels, adding a new instrument to a policy that had been overwhelmingly dominated by sanctions;
- The Lower Mekong Initiative, which will work with Thailand, Laos, Cambodia and Vietnam on environmental, educational and health issues;
- A new phase in the US-Laos trade relationship, which will provide funds to help Laos make the reforms required to join the World Trade Organization; implement the US-Laos Bilateral Trade Agreement; and help boost Laotian economic development and poverty reduction. This could become an exemplary effort because it aims to make existing commitments work and focuses on Lao capacity-building, both measures that will build trust in the US-Lao relationship.

Strengthening US relations in mainland Southeast Asia does not require a grand strategy but more the

daily attention to relations and the search for appropriate next steps. Nor does it necessarily require a neglect in turn of US relations with the maritime sub-region: the United States can and should build upon the cooperation it forged with these states in the past decade. To strengthen mainland relations, however, the United States should consider the following measures:

1. *Commit to an annual US-ASEAN Summit, and use it as a vehicle to bring the President of the United States to Southeast Asia once a year.* Vietnam has invited President Obama to visit Hanoi for next year's summit, and this option should be favored above others (e.g., a meeting on the margins of the UN General Assembly meeting in New York; a summit following the APEC meeting in Japan).

2. *Reassure Southeast Asians that the United States will not decrease its presence in the South China Sea.* Washington does not take a position on rival claims such as those surrounding the Spratly Islands, but the Seventh Fleet plays an important role in stabilizing power relations in the South China Sea. Southeast Asians fear being caught between the United States and China in conflict in the Asia-Pacific region, but they also fear that US-China comity could lead to Washington's ceding control of the South China Sea to Beijing and point to what they perceive to be a lackluster US response to recent Chinese saber-rattling with Southeast Asian states. While this may strike US policymakers as far-fetched, Washington should give affected Southeast Asian countries more explicit reassurance with public criticism of Chinese infractions.

3. *Press Beijing to become part of the Mekong River Commission, which would help legitimate discussion and action to remediate the environmental, human health and employment impacts of developments on the Mekong.* Neither China nor Burma, the two Upper Basin Mekong countries, are members of the MRC. To call upon a well-worn phrase, if they are not part of the solution they will remain part of the problem.

4. *Address the drift in US-Thai relations with a dialogue process to reinvigorate the alliance and lower tensions over specific issues.* Thailand continues to struggle with an ongoing political crisis and fears that the United States does not understand the complicated nature of the problem - many Thais viewed the US reaction to the 2006 as excessively harsh. On a more fundamental level, younger-generation Thais do not grasp a rationale for the alliance relationship, and point to the reluctance of the United States to offer bilateral aid to Thailand in the 1997 financial crisis and the wars in Afghanistan and Iraq, which are remote to many Thais, as examples the dissonance between the two countries. The ongoing nature of security threats in Northeast Asia and post-September 11 cooperation with the Philippines are occasions for the US to review alliances with Japan, South Korea and the Philippines on a regular basis, the alliance with Thailand has been on auto-pilot for several years.

5. *Let the new engagement policy with Burma play out in the fullness of time.* Burma continues to draw policy heat in Washington, which the announcement of elections in October has only intensified. A singular focus on the polls will risk a return to the polarization of the past two decades in US policy toward Burma. At appropriate intervals, the administration should assess the impact, if any, of adding an engagement element to policy, but the criteria for that assessment should not be focused solely on Burma's political development.

6. *Consider the benefits of legislation introduced to extend trade preferences to Asian Least Developed Countries, similar to those given to African and Caribbean countries.* On mainland Southeast Asia, these preferences would benefit Laos and Cambodia and rival trade preferences they receive from China. The impact of this measure on the US global trade position would be minimal but it could have a noticeable impact on these two countries. It could reinforce the cautious new

momentum in trade with Laos and help cushion the impact of the economic crisis on Cambodia, which is heavily dependent on trade with the United States.

**STATEMENT OF MR. ERNEST Z. BOWER, SENIOR ADVISOR
AND DIRECTOR, SOUTHEAST ASIA PROGRAM, CENTER FOR
STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON,
D.C.**

MR. BOWER: Madam Chair, Commissioners, thank you very much for giving me the honor to testify before you today.

I've worked in Southeast Asia for nearly 25 years now, and during that time, Southeast Asia has changed significantly, and China's role has completely transformed. China's role in the region also impacts U.S. interests, and U.S. policy tends to undervalue the extent of American interests in the region. So I'd like to congratulate you today for focusing on the important questions posed to those testifying.

China's rise over the last two decades has been remarkable, and to date, it's been fairly peaceful and relatively benign given its rapid economic expansion, the fact that it's overtaken Japan as the world's second-largest economy already.

One could easily imagine less favorable scenarios than those we've witnessed. Predictably, the impact of China's rise has been most notable in Southeast Asia.

While China has transformed itself, the U.S. role in the region has remained fairly consistent. We have a major presence there, as you know, in Southeast Asia economically and strategically, but without a unifying strategy.

On the other hand, China's fast growth has been an opportunity and a curse for Southeast Asia. It's brought money and markets and so far without asking too much in return. On the other hand, China has a focused strategy for the region and has seen its leverage increase incrementally. This worries the region's leaders and heightens their fear of domination.

Southeast Asia wants and needs the U.S. to step up its game, and only then will Southeast Asia's atavistic hunger for balance be fed.

Over the last 15 years, China has transformed how it's perceived in Southeast Asia from that of a very large, awkwardly ideological, self-focused security concern looming to the north to that of an engaged and interested neighbor providing significant benefits in trade, aid, tourism, and the promise of increased investment and prosperity.

Its size is even more relevant today than it was 15 years ago, and

its economic and military muscle is there for all to see. However, security concerns remain, that that "charm offensive," the Chinese "charm offensive" towards its neighbors in the South is part of a strategy to build goodwill and leverage which will allow it to assert itself in pursuit of its national security priorities, including issues such as Taiwan and the South China Sea and energy and food security.

In soft power terms, China has made great gains attracting more Southeast Asian students and building on its cultural ties to the Chinese communities that proliferate throughout the region. The Chinese policies towards Southeast Asia over the last 15 years have transformed from ideological to opportunistic and pragmatic.

Chinese trade, aid, and foreign policy suggest a strong inclination to see the region as within its sphere of influence, covered by China's own version of the Monroe Doctrine. It is this Beijing perspective that's not widely articulated, but is conveyed through posture, profile and persistence, that causes concern among Southeast Asian nations and warrants constant attention and concern among U.S. policymakers.

While outwardly pragmatic, China has shown it will bear its fangs when its key interests are at stake such as in the cases of the South China Sea, as Catharin has referred to, and the recent Uighur refugees in Cambodia.

The region's leaders recognize these examples as the iron fist and the velvet glove of China's new diplomacy in the region.

On the other hand, the U.S. role over those 15 years has been much more consistent. We're a major presence there economically and militarily, and I go into this in some detail in my testimony.

Southeast Asia's perspective is balance. Its primary concern, as it was 15 years ago, remains balancing among major powers. Today, that doesn't mean balancing the United States to Japan; it means balancing the United States and China.

Southeast Asia is sending a message to the United States. They're encouraging us to step up our engagement, providing leadership on trade, addressing our own fiscal health, proactively pursuing a central role in regional security architecture, increasing investment in training, and working on expanding leadership in areas such as education.

ASEAN strategy to avoid domination by China, or any other power for that matter, includes enhancing regional integration through the roadmap laid out in the ASEAN Charter, encouraging strong and sustained engagement by the United States and other dialogue partners, and solidifying ASEAN's role as the core of a regional security and trade architectures.

I would say the main difference between China and the United States in terms of Southeast Asia is that China has a clear strategy for

the region and the U.S. does not.

I go into, in my testimony, China's strategy. I talk a lot about its dominance in trade and how Chinese aid works. Trade, I'd just say that the Chinese-ASEAN Free Trade Agreement cuts both ways for the United States.

From 1993 to 2008, China increased its share of the total ASEAN trade from two to 11 percent, while the U.S. share decreased from 18 to 11 percent, and China overtook us this year, last year--sorry--as ASEAN's third-largest trading partner behind Japan and the EU. However, Chinese investment in ASEAN remains relatively small compared with the U.S., estimated at less than one-tenth of the \$173 billion the U.S. has invested.

In my testimony, I detail some examples of Chinese aid in Southeast Asia, how it works, how it's targeted. It's directly linked to their strategy in Southeast Asia. It's much more practical and mercantilist than American aid, and I think the impacts on the United States are twofold:

On the one hand, China is building major infrastructure projects in Southeast Asia, and that's good for everyone--Southeast Asians, Americans, Chinese. However, all too often Chinese funds are used for political expediency rather than practical requirements, and so there's some very strange major projects that are being built around the region.

On the negative side, that mercantilist nature of Chinese aid does undercut reform-minded and reform-linked assistance like that by the United States and other donors, which may lead some ASEAN policymakers to ask the question: why take less funding to achieve harder and less tangible goals?

It also makes competition for American companies much harder, and we've seen that change over the last 20 years. While American firms must abide by the Foreign Corrupt Policy Act, Chinese firms are not so encumbered, as you know.

In conclusion, China has stepped onto the global stage in a constructive manner over the last 15 years. Its presence in Asia has transformed and is now robust. It will continue to build on that position, but its development need not be at the expense of U.S. interests.

Competition for markets and models between the U.S. and China in Southeast Asia will remain strong, and at the same time, the markets in Asia will continue to grow and be a source of global growth.

The U.S. has a very strong foundation in Southeast Asia and maintains a commercial and security base that currently far exceeds that of China.

The ASEAN countries will strive for balance, not only between

the U.S. and China, but also with other emerging powers. In that sense, ASEAN may prove to be a vital strategic fulcrum on which a sound and enduring U.S. strategy for Asia can and should be built.

In this context, I believe it's not so much Chinese initiatives and activities in Southeast Asia that impact U.S. interests, but rather the need for the U.S. to define its interests, focus on priorities, and devise a strategy that ensures those interests are proactively and consistently advanced.

Thank you very much.

[The statement follows:]

Prepared statement of Mr. Ernest Bower

February 4, 2010

**Ernest Z. Bower
Senior Adviser & Director, Southeast Asia Program
Center for Strategic & International Studies (CSIS)**

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

**“China’s Activities in Southeast Asia and Implications for U.S.
Interests”**

Summary

Commissioners, ladies and gentlemen, it is an honor to share my testimony on China’s role in Southeast Asia and implications for US interests in the region.

China’s Rise

China’s economic progress over the last two decades has been remarkable. As a major world power, recent history has not witnessed such an emergence since the United States began to engage the world after our Civil War.

To date, China's entry on the world stage has been mostly peaceful and relatively benign. Given its rapid economic expansion – it has likely overtaken Japan as the world's second largest economy already -- one could imagine less favorable scenarios than those we have witnessed. Predictably, the impact of China's rise has been most notable in Asia, particularly in Southeast Asia.

While China has transformed itself over the last decade and half, the US role in Southeast Asia has remained relatively consistent – a major presence both economically and strategically, but unfocused. A fast growing China is both an opportunity and a curse for Southeast Asia. It has brought money and markets without asking too much in return – yet. On the other hand, the fact that it China a focused strategy and has seen its leverage increase incrementally – worries the region's leaders and heightens their fear of domination. Southeast Asia wants and needs the US must step up its game and articulate a strategy to advance its interests in the region. Only then will Southeast's Asia atavistic hunger for balance be fed.

China Transforms its Perception in Southeast Asia

Over the last 15 years, China has transformed how it is perceived in Southeast Asia from that of a very large, awkwardly ideological, self-focused, security concern to the north to that of an engaged and interested neighbor providing significant benefits in trade, aid, tourism and the promise of increased investment and prosperity. Its size is even more relevant today than it was then – its economic and military muscles are there for all to see. Security concerns remain, and there is evidence that China's so called "charm offensive" toward its neighbors to the south is part of a strategy to build good will and leverage which will eventually allow it to assert itself in pursuit of its national security priorities including issues such as Taiwan, the South China Sea and energy and food security.

In soft power terms, China has made great gains attracting more Southeast Asian students and building on its cultural ties to Chinese communities throughout the region. China has made it easier for Southeast Asian students to travel and study in China and is providing scholarships a several levels, including masters and doctorate degrees. Chinese policies toward Southeast Asia over the last 15 years have transformed from ideological to opportunistic and pragmatic.

Chinese trade, investment, aid and foreign policy suggest a strong inclination to see the region as within its sphere of influence – covered by China's own version of the Monroe Doctrine. It is this Beijing perspective, not widely articulated but conveyed through posture, profile and persistence that causes concern among the Southeast Asian nations and warrants the constant attention and concern of US policy makers.

China's approach to Southeast Asia is clearly defined by its national security interests. Relative to other countries, and certainly to the United States, it takes a longer term view. As a result, Chinese policy has been practical and flexible on issues not vitally important to China. However, and tellingly for Southeast Asian analysts, when China's priority equities are involved, such as the in the case of the South China Sea or Uyghur refugees in Cambodia, it acts decisively and uses its leverage and muscle to achieve its goals. The region's leaders recognize these examples as the iron fist that flexes under the velvet glove of China's new diplomacy.

The US Role is More Consistent

Over the same time frame, the perception of the United States has been more consistent. A decade and a half ago, the US was the region's top trading partner and number one investor (when including energy investments with official foreign direct investment figures). Its military presence and forward deployment assured security in the Asia Pacific. The perception of the United States was generally positive. However, despite its significant commercial and military presence, Southeast Asian leaders felt that the US was not engaged enough, and was ceding economic opportunities and leadership to Japan. US soft power remained relatively strong, especially when compared with Japan, whose role as an aggressor in World War II was – and still is -- fixed in Southeast Asia's collective psyche.

Today, the US remains a major trading partner and arguably the top investor (when including energy investment to official figures which exclude energy). The US military continues to play the preeminent role in regional security and is the primary deliverer of "public goods" to the region, for instance in humanitarian assistance and disaster relief effort during the 2004 tsunami. However, over the same period, perceptions of US engagement and commitment dipped significantly, particularly during the Asian financial crisis and during the wars in Iraq and Afghanistan.

Southeast Asia's Perspective – Balance

Southeast Asia's primary concern, as it was 15 years ago, remains maintaining balance among the major powers. Today, that means balance between the United States and China.

In the 1980's the ASEAN countries, at that time only numbering five (5) members, came to the US in the context of the ASEAN US Dialogue and urged America to re-engage, particularly economically. Japan had presented ASEAN with industrial development blueprints that regional leaders felt suggested virtual domination of their industrialization processes by the Japanese. Japanese aid supported the famous "Japan, Inc." approach aggressively, as did Japanese diplomacy. Every year, the Prime Minister

of Japan would make leader visits to every ASEAN capital, doling out aid and promoting policies that would augment Japanese trade and investment.

Today, China is the country making those leadership visits and getting the headlines. While the Japanese presence is still appreciated, China has been effective in promising the future: growth, markets, assistance and an Asian century.

So Southeast Asia is sending a similar message to the US. They are encouraging the US to step up its engagement, provide leadership on trade, address its own fiscal health, proactively pursue a central role in regional security architecture, increase investment and training, and work to expand on its leadership in areas such as education.

Southeast Asia's leaders understand that China's rise is economically beneficial, but they do not want to be dominated by China. Their strategy is to avoid domination by enhancing regional integration through the ASEAN Charter¹, encouraging strong and sustained engagement by the United States and other dialogue partners, and solidifying ASEAN's role as the core of regional security and trade architectures.

The Difference – A Strategy for Southeast Asia

Perhaps the most significant difference between China and the United States in Southeast Asia is that China has a clear strategy for the region, and the US does not.

China's Southeast Asia Strategy

China's policy for Southeast Asia is to become the dominant partner in East Asia, its perceived sphere of influence. China believes that strong ties and influence with the ASEAN countries ensures it cannot fall victim to any containment strategy. It also needs to secure access to long term food and energy supply as well as to protect existing logistics routes and develop new ones. Finally, tied aid creates new opportunities for Chinese companies and helps alleviate unemployment by allowing China to export labor.

Good examples are plentiful, but China's large and proactive aid program in Burma provides a case in point. Chinese aid dominates the Burmese economy. Chinese military sales support the ruling junta. Aid is directed at infrastructure projects that are built by Chinese contractors and laborers and designed to channel natural resources from Burma and the Andaman Sea to China. There is a new 6,000 mile pipeline under construction designed to pump oil and gas shipped from the Middle East and Africa overland through Burma and supply most of western China. Such new supply lines are coincident with the need for an increased security presence in the Indian Ocean along with port access and repair facilities. These facilities have been built in Burma and in offshore island and will likely lead to the development of the Chinese navy into a two ocean power in the future.

China ASEAN Free Trade Agreement

From 1993 to 2008, China increased its share of total ASEAN trade from 2 percent to 11 percent. The US share decreased from 18 to 11 percent over the same period. China overtook the US this year as ASEAN's third largest trading partner behind Japan and the EU. However, Chinese investment in ASEAN remains relatively small compared to the U.S., estimated at less than one tenth of the \$173 billion the US had invested in 2008.

Trade is a good example of how an opportunistic and practical approach has benefited the perception of China in Southeast Asia. Instead of pursuing comprehensive, legally binding agreements such as the US pursues, China offered the ASEAN countries "free trade agreements" that had lower level commitments and were more economic cooperation agreements than FTA's. While the US spent years negotiating the US Singapore FTA, saw Trade Promotion Authority (TPA) languish and pass away, and left negotiations with Malaysia and Thailand on the table at the end of the Bush Administration, China forged ahead.

China, following the discipline of its focused strategy in ASEAN, took full advantage of the fact that ASEAN is the world's most trade dependent grouping of nations, with trade accounting for nearly 100 percent of aggregate gross domestic product in the ten member countries. China responded with a series of economic agreements it calls Free Trade Agreements and on January 1, 2010 the China ASEAN Free Trade Agreement (CAFTA) went into effect.

The ASEAN Secretariat now predicts China will become ASEAN's top trading partner within the next "few years" due to the CAFTA². While the CAFTA is not an agreement that US trade negotiators would consider a true and substantive free trade agreement, it creates an economic region of 13 million square kilometers with 1.9 billion consumers, a regional GDP of about \$6 trillion and total trade estimated at \$4.5 trillion. It is also the biggest FTA in the world in terms of population size and the third largest in terms of economic value (after EU and NAFTA). CAFTA may not be comprehensive, but its impact is practical and it is clearly having a strong impact on the economic integration of China and ASEAN and East Asia generally.

It should be noted that US companies invested in China and or in ASEAN can, and in some cases among more sophisticated companies are, taking advantage of the CAFTA. American companies manufacturing in Thailand, for example, can use the provisions of CAFTA to more efficiently export their products within one of the world's largest and fastest growing regional markets.

CAFTA has also suffered from protectionist concerns among key ASEAN countries, most prominently Indonesia, who has asked for a one year delay in implementation and

submitted a large list of over 200 industries it would like to be protected from the agreement.

Chinese Aid in Southeast Asia

Chinese aid to ASEAN countries has dual purposes of supporting diplomatic initiatives and creating new opportunities for Chinese companies. Major projects are built by or contracted to Chinese companies and built using labor exported from China. Not unlike the very commercially oriented Japanese aid programs in Southeast Asia in the 1990's, Chinese aid, though hard to quantify is growing fast and is a primary tactic in the implementation of China's Southeast Asia policy.

The best estimates to quantify Chinese aid in Southeast Asia have come from a Congressional Research Service Report which estimates that aid increased from \$36 million in 2002 to over \$6.7 billion in 2007. By comparison, the same source recorded US aid to Southeast Asian countries to be \$452 million in 2007. Of total Chinese aid for the region, CRS estimates 59% of this aid was tied to infrastructure projects, 38 percent to natural resources investments and the remaining 3% to humanitarian, military and high profile "gifts" such as sports arenas for regional games.

Over the same period, Chinese aid in ASEAN targeted maritime Southeast Asian nations. The Philippines, a US treaty ally, turned out to be quite open to Chinese "aid" after the Bush-Arroyo relationship started to flag as a result of President Arroyo pulling her country out of the "coalition of the willing" supporting the war in Iraq after a Philippine citizen was kidnapped and ransomed. China saw its opening to crack a traditionally hard nut. The Philippines had always been suspicious of Chinese intentions in the South China Sea, and had vocally rallied its ASEAN colleagues to stand together to face up to perceived Chinese provocation at Mischief Reef and other islands. However, after flooding Manila with aid for major projects such as the North Rail and hosting a series of Presidential trips to China, relations warmed considerably. Perhaps coincidentally, in 2007 the Philippines unilaterally agreed to Chinese urging for a Joint Seismic Maritime Undertaking (JMSU) to explore energy resources in the South China Sea. Vietnam, which was informed that the other two partners had already signed, rightly felt it had been the victim of a *fait accompli*.

Indonesia was another major target. The fourth largest country in the world, third largest democracy and the country with the world's largest Muslim population, Indonesia had, until just a decade ago, banned documents written in Chinese – a vestige of Soeharto's anti-Communist campaigns. China could ill-afford an arm's distance relationship with Indonesia, the anchor of the ASEAN and one of the world's richest reservoirs of natural resources. Using the opening provided by the perceived harshness of the Western response to the Asian financial crisis, China stepped in to implement its strategy. Chinese assistance to Indonesia during the financial crisis was not exceeding

large, but by Chinese standards it was, at the time, a major new level of commitment. Dividends were paid and Chinese aid clearly helped to mute or soften Indonesian concerns about Chinese motivations and helped establish long term supply contracts for coal and gas.

Chinese aid in ASEAN is generally directed through well placed politicians of the host country who have control or influence over projects that will serve Chinese interests such as roads to access natural resources or pipelines to access oil and gas.

Aid from China is provided for the most part in the form of low interest loans, but with repayment rates higher than the Japanese have employed. Funds are generally targeted on a project basis and infrastructure projects are a favorite target. According to ASEAN's Secretary General Dr. Surin Pitsuwan, Beijing is offering a \$10 billion infrastructure investment fund to improve roads, railways, airlines and information-telecommunication links between China and ASEAN and also providing a \$15 billion credit facility to promote regional integration and regional connectivity.

Projects are secured with business like memoranda of understanding that ensure Chinese equipment suppliers, contractors and even exported Chinese labor are the beneficiaries of project funds. In addition, there is ample evidence that in many of these projects, extra funds are available for politicians who help create and direct the opportunity. One of the most high profile cases in point is the infamous National Broadband Network (NBN) project in the Philippines. Chinese funds were reportedly expended through a Chinese university to help fund a nationwide initiative to increase broadband access ahead of Philippine Congressional elections in 2008. Major corrupt practices were alleged and brought the deal under public scrutiny, resulting in prosecutions and Congressional investigations and hearings.

The primary implications of China's aid in Southeast Asia are positive and negative. To the extent that Chinese aid projects build much needed infrastructure in Southeast Asia, all with interests in business and security and the well being of the region's 600 million people benefit. However, too often, Chinese funds are used to build unnecessary projects that serve political rather than practical requirements. These projects support local politicians and Chinese contractors and labor, but not the indigenous population.

On the negative side, the mercantilist nature of some of China's aid may undercut reform-linked assistance offered by the US and other donors. Why take less funding to do achieve harder and less tangible goals?

In addition, American companies find themselves at a competitive disadvantage in the region when Chinese businesses, supported by non-conventional and targeted Chinese aid, compete for the same projects. While American firms abide by the provisions of the Foreign Corrupt Practices Act (FCPA), they lose major projects to competitors who use

tactics that would violate the provisions of US law. This has become nearly endemic in the area of major public sector infrastructure projects. US firms, once preeminent leaders in the area of infrastructure in Asia, now play niche roles in supplying high end services or technical equipment to such projects instead of acting as prime contractors and major suppliers.

Due to the paucity of reliable data on Chinese aid in Southeast Asia, CSIS Southeast Asia is developing a proposal for a research project to assess where China's aid goes in Southeast Asia, how it is directed and channeled and its linkage to Chinese foreign policy and national security goals.

US: A Strong Presence but Not a Strategy

The United States has a strong presence and significant interests in Southeast Asia. The US has over \$173 billion invested in Southeast Asia, more than three times the amount invested in China and almost ten times US investment in India. The US has two treaty allies in ASEAN – the Philippines and Thailand, and a strategic relationship with Singapore that practically goes beyond most treaty relationships. In addition, the Obama Administration has indicated its interest in developing a new Comprehensive Partnership with Indonesia, which President Obama will help to advance when he visits the country next month. Concurrently, the US is rapidly developing strong ties with Vietnam, moving beyond political and economic linkages to expand strategic cooperation. To his credit, President Obama has joined hands with the ASEAN leaders and inaugurated the US ASEAN Summit last November in Singapore.

While it lacks a coherent trade strategy, the US Government has indicated it will join the negotiations for the Trans Pacific Partnership (TPP) starting in March in Australia. The concept is to create a very high level agreement among a coalition of 8 willing and motivated countries (Australia, Brunei, Chile, New Zealand, Peru, Singapore, the US and Vietnam) and then encourage other countries in the Asia Pacific region to join.

On the security architecture front, the US has indicated an interest in strengthening the ASEAN Regional Forum (ARF) and building on that structure to create a structure with ASEAN at its core.

The new US policy toward Burma is another important step in the right direction, particularly when thinking strategically about ASEAN. In the past, concerns about the political situation in Burma kept the US from engaging the ASEAN leaders. This gave other countries, most notably China, the policy equivalent of sanctuary. By adjusting the policy focus to employ both engagement and sanctions, US policy has the opportunity to be more effective on a bilateral basis in Burma and regionally with ASEAN.

The change in US policy on Burma takes away an inherent Chinese competitive advantage. By asserting support for the principle of non-intervention in the internal affairs of other nations, China was able to build up support among Asian countries that were (and are) working through difficult political transitions. As ASEAN countries' political models evolve, it is less clear that the Chinese approach will be as effective unless it adapts.

Conclusion

China has stepped onto the global stage in a relatively constructive manner during the last 15 years. Its presence in Southeast Asia has transformed and is now robust. It will continue to build on its position, but this development need not be at the expense of US interests.

Competition for markets and models between the US and China in Southeast Asia will remain strong. At the same time, the markets in Asia will continue to grow and be a source of exponential global growth.

The US has a very strong foundation in Southeast Asia. It maintains a commercial and security base that currently far exceeds that of China in the region.

The ASEAN countries will strive for balance, not only between the US and China, but also with other major and emerging powers. In that sense, ASEAN may prove to be a vital strategic fulcrum on which a sound and enduring US strategy for Asia can be built.

In this context, it is not so much Chinese initiatives and activities in Southeast Asia that impact US interests, but rather the need for the US to define its interests, focus on priorities and devise a strategy to ensure those interests are proactively and consistently advanced.

HEARING CO-CHAIR WORTZEL: Walter, go ahead.

**STATEMENT OF MR. WALTER LOHMAN, DIRECTOR, ASIA
STUDIES CENTER, THE HERITAGE FOUNDATION
WASHINGTON, D.C.**

MR. LOHMAN: Thank you, Larry. Thank you, Madam Chairman, Commissioners.

During the course of the day, you're going to hear a lot of dates thrown around. We all know basically the same dates and a lot of the same statistics, but to my mind, the seminal date in U.S. and China-ASEAN relations is 2002. 2002 is when China and ASEAN signed the Declaration on Conduct of Parties in the South China Sea, which has been referenced in the previous panel, and they signed the Framework Agreement on Comprehensive Economic Cooperation.

I think it's important to know the date because this has been underway a long time. A lot of folks are just focusing on it in the last couple months, in fact, realizing that the trade agreement with China is coming into full effect in January, but in fact it's been going on quite some time.

Specifically, on the issue of the Declaration of Conduct, that agreement is a very weak agreement. What it did is essentially set aside conflicting territorial claims, set them aside in the interest of developing a broader ASEAN-China relationship. In so doing, it removed a highly visible political barrier to closer economic ties between the two areas.

The DOC, as it's called, is, in effect, if not provision, actually more an economic agreement than it is a security agreement because it allows for that economic integration that's taken place and the broader engagement that ASEAN has had with China.

You'll have to remember the 1990s, it was a particularly hard time for China's image in Southeast Asia. You had China passing laws on territorial sea, specifically related to South China Sea. You had the highly visible dispute with the Philippines over the Spratlys, the missile dispute with Taiwan, 1995-1996. They began to turn things around for themselves--that is the Chinese--in 1997, when they turned a predisposition for currency stability into a diplomatic coup. They promised they wouldn't devalue their currency, and they didn't.

That same predisposition for stability is today causing Southeast Asia problems. So it just shows you it wasn't really a diplomatic initiative; it was more of an economic one from their point of view. But they took the diplomatic leverage as they could get it.

The Chinese also made token contributions to the IMF bailouts in

Thailand and Indonesia. By 2002, the official Chinese image of "good neighborliness and mutual trust," had clearly won out and set in motion the profile in the region that China enjoys today.

The 2002 Economic Framework became the centerpiece of China's economic engagement in Southeast Asia. It provided for negotiations on Agreement on Trade in Goods, the one that just came into effect this January; a Trade in Services Agreement that came into effect July 2007; and an ASEAN-China Investment Agreement signed in August of 2009, this past August, that will be in effect shortly.

According to the ASEAN Secretariat, trade between ASEAN and China has maintained an average growth of about 26 percent a year since 2003, reaching almost 200 billion in 2008.

The Trade in Goods Agreement, I think, is effective, and it's a very important thing to keep an eye on. I think they will have problems implementing their Trade in Services Agreement and Investment Agreement, the same problems that ASEAN has had, and some of the problems that we're familiar with as well.

I think what you can learn from this history is that the Chinese have sought to internalize ASEAN's process. They've learned to roll with the punches in ASEAN. Some have gone so far as to say that they have basically adopted the ASEAN way themselves in development of their diplomatic style. They don't spend a lot of time complaining about ASEAN's "talk shop," like a lot of circles in Washington.

They've made investments in time and patience in the "ASEAN way" of doing things. They've pushed hard when necessary and they've eased off at others. I think the trick to engaging ASEAN is knowing when the leaders are just talking and when there is really something to it, and knowing that the difference between those two things can often be determined by the outside influence.

The China-ASEAN FTA was more than talk just ten years ago, but it was so because the Chinese made it so. Many of us underestimated the seriousness the Chinese would bring to the process and the reciprocity they would encounter on the ASEAN side.

Today, my appeal is that we not make the same mistake again. The economic trends there are real, and Chinese diplomacy in the region is very effective. It's taking place across the board from financial markets cooperation to infrastructure development. They're down in the weeds, consulting with ASEAN in forums that are barely on our radar screens.

Let's not wake up five years from now like many did on the Trade in Goods Agreement to realize that there's a massive amount of economic integration that, in fact, has been in the works for 15 years.

Briefly, I wanted to comment on the individual ASEAN countries,

how the decision-making works in them. I think all of us have our own sliding scale of China disposition in Southeast Asia. My own goes something like--beginning with the most friendly to China to the least: Laos, Burma, Cambodia, Thailand, Malaysia, Singapore, which is in the middle, Philippines, Indonesia and Vietnam, Vietnam being the most concerned about China.

I won't go into much here, but just commend to you a piece of scholarship by Kuik Cheng-Chwee--he's at SAIS--who's gone through and explained the Southeast Asian hedging strategy in the best way that I've seen it evaluated.

The one thing you have to keep in mind with the way that the ASEAN countries react to China is that they have a great interest in regime legitimization in a way that great powers don't normally, when you're talking about hedging and you're talking about bandwagoning or balancing. A lot of their actions can be explained in what they need to do at home for their domestic audience, including economic development, including probably some personal needs of leaders.

I think we can step up our game in the region. Quickly, several suggestions:

First, the biggest priorities in ASEAN are trade, trade and trade. You can't really have an effective policy in the region without a coherent trade policy.

Second, we need to have a long-term vision for the region. I think that includes the Trans-Pacific Partnership that is fully rooted in the goal of an APEC-wide FTA, and an ASEAN-U.S. FTA.

Third, take agreements with ASEAN seriously in concept, negotiation, and subsequent implementation, just like China has.

Fourth, be as flexible as possible. We can't be as flexible as the Chinese, that's for sure, but we can be more flexible than we have been.

Fifth, integrate economic objectives with broader diplomatic ones.

Sixth, don't buck the current economic order; try to leverage it. The U.S. should have relationships in the region that when the Chinese come in with big money to improve infrastructure, to integrate the markets there, that we can have some influence on how that money is spent.

In the end, if the U.S. is to continue leading in Asia, we have to prove that our concerns about security and our geopolitical competition with China are not going to upset the ASEAN's economic apple cart, and that, in fact, we are a positive actor, not a reactive, negative one.

Thank you.

[The statement follows:]

**Prepared Statement of Mr. Walter Lohman, Director, Asia Studies
Center, The Heritage Foundation
Washington, D.C.**

Testimony before the US-China Economic and Security Review
Commission
Hearing on

"China's Activities in Southeast Asia and the Implications
for U.S. Interests"

Walter Lohman
Director, Asian Studies Center
The Heritage Foundation

February 4, 2010

There is an extraordinary amount of literature out there on the objectives and modus operandi of China's diplomacy in Southeast Asia. In the interest of full disclosure, I tend toward the more suspicious view of China's ambition. I believe China is a strategic competitor of the United States, and that Southeast Asia is being warmly contested by it. But given the "peaceful development" counter-narrative so effectively pursued by China, and many well-respected alternative opinions, I thought my value-added today would lie less in proving one side of that debate than in looking at China's economic diplomacy from where the ASEAN leaders sit.

The seminal year in China's "Charm Offensive" was 2002. That year, China and ASEAN signed the "Declaration on the Conduct of Parties in the South China Sea (DOC)" and the "Framework Agreement on Comprehensive Economic Cooperation."

As commissioners know, the territory comprising the South China Sea is disputed by China, Taiwan and four ASEAN members: Vietnam, the Philippines, Malaysia and Brunei. The DOC commits, in non-binding fashion, ASEAN and China to the peaceful resolution of conflicts over their claims. It is important to note that the DOC does not directly address those claims, nor does it necessarily provide a venue for addressing them. In fact, as the Chinese happily point out, the DOC explicitly calls for disputes to be addressed through "friendly consultations and negotiations by sovereign states directly concerned".

In and of itself, the DOC is a very weak agreement. What it did essentially was to set aside conflicting territorial

claims in the interest of developing the broader ASEAN-China relationship. In so doing, it removed a highly visible political barrier to closer economic ties. The DOC is in effect, if not provision, more an economic agreement than a security agreement.

The early to mid-1990's were hard on China's image in Southeast Asia. Its 1992 Territorial Sea Law, the highly visible dispute with the Philippines over the Spratlys, and the 1995-1996 missile crisis in the Taiwan Straits, all confirmed Southeast Asia's worst expectations about China's rise. Economic diplomacy began to turn things around for the Chinese in 1997 when they turned a predisposition for currency stability into a diplomatic coup. Chinese leaders claimed that as a contribution to recovery in the region, they would not devalue the RMB. This contained the damage that the Asian crisis was inflicting on Southeast Asia by helping them keep their exports competitive. Token contributions to the IMF bailouts of Thailand and Indonesia also contributed to China's evolving "good neighbor" policy. President Obama held the first US-ASEAN Summit just last year. Then-Chinese-President Jiang Zemin held the first ASEAN-China Summit in 1997. It was at a summit meeting in 2000 that China proposed the idea of an ASEAN-China FTA, and at a 2001 summit that the two sides began to flesh out the idea. By 2002 the official Chinese image of "good neighborliness and mutual trust" had clearly won out and set in motion the profile in the region that China enjoys today.

The 2002 economic framework agreement became the centerpiece of China's economic engagement in Southeast Asia. It provided for the negotiation of an Agreement on Trade in Goods that came into full effect this January, a Trade in Services Agreement that came into effect in 2007 (July), and the ASEAN-China Investment Agreement signed in August of 2009 (effective date six months from signing). Emblematic of how far the U.S. is falling behind in its economic diplomacy in the region, much of the press has reported the trade in goods agreement as something new. In fact, it has been phasing in since January 1, 2004, first with tariff reductions on 600 agricultural products under an "Early Harvest" program, and then beginning on July 20, 2005 with additional phases for goods more generally, covering in total more than 7000 tariff lines. According to the ASEAN Secretariat, trade between ASEAN and China has maintained an average growth of 26 percent a year since 2003 - reaching almost \$200 billion in 2008.

Relatively speaking, goods are easy. Liberalization in

services and investment - because of the nature and constituencies for non-tariff barriers - are much more difficult to realize. My judgment is that the ASEAN-China agreement on services will experience many of the same problems that ASEAN itself has experienced with its own ASEAN Framework on Services. That is, commitments will mostly represent window dressing on commitments made in the World Trade Organization, and not offer significant benefits beyond.

A similar dynamic is at play in the area of investment. The ASEAN-China agreement is based on the ASEAN Investment Area (now the ASEAN Comprehensive Investment Agreement). The limited number of sectors covered and exceptions have meant the concept is vastly underutilized. There is no reason to believe that agreements in these areas between China and ASEAN will fare better than ASEAN's own.¹

The impact of liberalization on trade in goods alone, however, is very powerful. China is now ASEAN's third largest trading partner behind the European Union and Japan, and is on pace to become number one very soon. And investments from China, whether driven by agreements or not, are continuing to grow. Chinese direct investment in ASEAN today is relatively small; ASEAN investment in China is much larger, \$6.1 billion compared to around \$50 billion.

There has long been a debate in Washington over whether China is "eating America's lunch in Southeast Asia." It depends on how you measure. The security types will mostly tell you "no." There is simply nothing to match the military footprint and capacity of the U.S. in the Asia-Pacific. It is hands down the winner. The worriers have been looking at the other side of the equation: The economic trends and high-level, active Chinese economic diplomacy. The ASEAN states are playing a game whereby they take full advantage of near-term trends in China's economic development while hedging against their longer-term security concerns. The question is whether in the long-term they might outwit themselves and be so deep on the economic side that their political choices are constrained. The less sanguine view of China's intentions holds that this is the Chinese design.

This is important background because it demonstrates how well the Chinese have learned to play the game in Southeast

¹ Walter Lohman and Anthony B. Kim, "Enabling ASEAN's Economic Vision" Heritage Foundation *Background* No.2101, January 29, 2008, at <http://www.heritage.org/Research/AsiaandthePacific/bg2101.cfm>.

Asia and, by contrast, how far the United States has fallen behind in its own game. The Chinese have sought to internalize ASEAN's processes; they've learned to roll with the punches. They don't spend much time complaining about the ASEAN "talk shop." They have made investments in time and patience in the "ASEAN Way," pushing hard when necessary, and easing off at others.

The 2002 economic framework is a prime example. Once the framework agreement was signed, the Chinese moved aggressively to implement it. They divided it into three agreements, separately covering goods, services, and investment, and agreed to each running on its own timeline. Negotiators did not wait for all three to be done before concluding each one.

The Chinese negotiated the "Early Harvest" program on what was widely perceived at the time as near-concessionary terms. It allowed for a two-tiered approach to liberalization that allowed more developed nations to come into compliance in 2010 and less-developed in 2015. In fact, when you consider the phasing in of the agreement on goods, it is actually multi-tiered, as it allowed almost a custom fit for compliance with the timetable. Like ASEAN's own agreements, the ASEAN-China agreements also allow different treatment for "sensitive" and "highly sensitive" products and "general exceptions."

The trick to engaging ASEAN is knowing when leaders are just talking and when there is something to it - and knowing that the difference is often determined by the energy and skill of an outside actor. The ASEAN-China FTA was more than just talk 10 years ago, but it was so because the Chinese made it so. Many of us underestimated the seriousness the Chinese would bring to the process - and the receptivity they would encounter on the ASEAN side.

My appeal today is that we not make the same mistake again.

These economic trends are real, and Chinese diplomacy in the region is very effective. It is taking place across the board from financial markets cooperation to infrastructure development. They are down in the weeds consulting with ASEAN in forums barely on our radar screens. Let's not wake up five years from now - as we did on the Agreement on Trade in Goods - to discover a level of economic integration that has, in fact, been in the works for 15 years.

I have focused entirely on China's multilateral engagement in ASEAN because of the emphasis they have given it in their economic relations and for the sharp contrast it provides to

the American approach. For the most part, the ASEAN states prefer the multilateral approach to China, obviously, because there is strength in numbers. But I also want to touch briefly on individual country dispositions toward China. The dynamic these various positions produce is critical to understanding the direction the organization takes in its relationship.

Everyone has his own version of ASEAN's sliding China disposition scale. My own goes like this (from most China friendly to least): Laos, Burma, Cambodia, Thailand, Malaysia, Singapore (midpoint), the Philippines, Indonesia, Vietnam.

To understand this scale and the political decision making process in Southeast Asia, I commend to you an excellent bit of scholarship by Kuik Cheng-Chwee at SAIS entitled "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China."² Kuik proposes that to understand decision making in Southeast Asia, analysts have to get beyond the classic formulation of balancing vs. bandwagoning. Most the ASEAN states - and all the big ones - are "hedging" against China's rise. And the best way to understand their hedging strategies is by seeing them as "driven not so much by the growth of the Great Power's relative capabilities per se" but "by an internal process of regime legitimization in which the ruling elite evaluate - and then utilize - the opportunities and challenges of the rising power for their ultimate goal of consolidating their authority to govern at home."

You simply cannot understand ASEAN's decision making process the way we learned it in school, with countries strategically seeking to maximize advantages without consideration for the domestic (sometimes personal) demands on leaders. The Chinese approach to economic diplomacy accounts for this dynamic in a way that ours doesn't.

The U.S. cannot replicate the Chinese effort in Southeast Asia. Obviously, American officials are accountable to the American people in a way that the Chinese are not to their own. We cannot structure trade agreements in ways that chooses winners and losers by diplomatic or industrial policy imperative. Just getting agreements through Congress means that they must cover the range of sectors and issues. Hard to imagine telling the service industry that they're

² Kuik Cheng-Chwee, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, Vol. 30, No.2, Singapore Institute of Southeast Asian Studies (2008).

going to have to wait two years for their part of the agreement and still get their support on the Hill. The Chinese are also closer and have more diplomats to throw at ASEAN. We can do better than we are in covering ASEAN - establishment of the U.S. mission in Jakarta focused exclusively on ASEAN and headed by an Ambassador is a good start - but we cannot match the Chinese diplomat for diplomat, forum for forum.

The other reality is China's own economic engagement. We can't stop it, and we shouldn't want to. Economic growth in ASEAN and China is a good thing and to the extent that cooperation benefits them both, that is good. Economic growth in Asia is lifting millions of people out of poverty and providing opportunities that many generations in the region have never enjoyed. We want to compete, but we never want to be in the position of begrudging China or ASEAN their economic success and improvement in welfare.

But we can step up our own game. Considerably. And we can learn valuable lessons from the developments in the region over the past 10 years.

First, the first three priorities for ASEAN are trade, trade, and trade. The U.S. cannot have an effective policy in Southeast Asia without a trade policy. Period. The Administration's effort to get more deeply engaged in ASEAN's processes, raise the American profile and stabilize participation in ASEAN activities is very well-advised, but it is empty gesture without a discernable free trade component. ASEAN's concerns about China are long-term. They are not so worried that the demonstration effect of American official visits alone is a sufficient advantage. We need substance, and the substance that counts is trade.

Second, we need to have a long-term vision: a Transpacific Partnership firmly rooted in the goal of an APEC-wide FTA, and an ASEAN-US FTA.

It is very encouraging that the Administration has picked up where the Bush Administration left off on the Transpacific Partnership. It will be interesting to see what they bring to the negotiations. The members of the TPP, including ASEAN states Singapore, Brunei, and Vietnam, understand that the U.S. is going to approach these discussions differently than the Chinese. Our tougher positions, they know, can actually enhance their competitiveness and access to quality goods and services in ways the China agreement cannot. They also expect issues like labor and environment to be on the

table.

But if the Administration plans to take any version of the proposals outlined by the House Trade Working Group, it would be better they just stay home until such time as they can fashion a trade agenda intended more to free trade than to constrain it. There are two sides to trade negotiations, and with China's economic clout in the region growing, we need every bit of leverage our market offers just to secure market access and the standards we have already set.

Third, take agreements with ASEAN seriously in concept, negotiation and subsequent implementation - just as China has. The fact that sometimes when left to its own ASEAN does not take its own agreements seriously is not important. The U.S. can be the catalyst. It is in this context that its investment in time is most important. It cannot be a catalyst if it demonstrates merely sporadic interest.

Fourth, be as flexible as possible. The U.S. can maintain its FTA gold standard. That is in the interest of both sides. But it can be flexible in other ways - and not necessarily in the text of the agreements. The U.S. and ASEAN have a mutual interest, for instance, in helping small businesses compete. Financing for small and medium enterprises in ASEAN has long been a problem for which they have sought help with. Assistance with infrastructure development is another key area for ASEAN.

Fifth, integrate economic objectives with broader diplomatic ones. In the 1990s, China started out mostly with political liabilities and the promise of economic development not yet fulfilled. The U.S. starts with massive advantages, not the least of which are decades of positive engagement in the region, a global profile, military alliances in the region, partnerships, and USAID. The list of advantages the US has over China in this competition is long. The Bush Administration took some limited steps to integrate priorities under its ASEAN-US Enhanced Partnership, an agreement since endorsed by the Obama Administration; in the US-ASEAN TIFA process; and in its ADVANCE program (Development Vision to Advance National Cooperation and Economic Integration). The Obama Administration's Lower Mekong Initiative is an excellent start to expanding on this and gets directly at a geographical spot where the Chinese have a significant head start on the U.S.

Sixth, don't buck the current economic order, leverage it. If the Chinese want to invest in ASEAN's infrastructure, fine. The U.S. should have relationships in the region that help ASEAN determine its priorities and voice its concerns.

If Chinese multinationals want to invest in ASEAN, great. Work to bring them into compliance with U.S.-friendly standards and integrate them into American supply chains. If there is to be more ASEAN-China trade, American companies ought to be invested in it on both sides of the border and integrated into markets back home. Fighting current economic trends undermines the credibility of our leadership.

In the end, if the U.S. is to continue leading in Asia, we have to prove that our concerns about security and our geopolitical competition with China are not going to upset ASEAN's economic apple cart, and that, in fact, we are a positive actor not a reactive, negative one. This will ensure that we stay at the table long into what remains in the larger scheme of things, a still uncertain future.

The Chinese are competing very effectively for influence in Southeast Asia. Worries in the region about their defense capabilities are rooted so distantly in the future that the U.S. role of security guarantor is not enough to substantiate an energetic engagement of the region. Neither is engagement without free trade leadership. There are many areas of potential economic cooperation, but without trade agreements, they are all small potatoes. The U.S. must be at the ASEAN table; it must also bring something tangible.

Panel III: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: Thank you all for your thoughtful testimony.

I will start with a question really stimulated by Ms. Dalpino. One of the priority issues that Ms. Dalpino raised, but I'd invite any of the three of you if you have comments to comment on it, is on Southeast Asia as an immigration and "population pressure valve" for China. I think that was exactly the term you used.

The Russian far east, the time I've spent talking to Russian geostrategists, has shown a real deep expression of concern about the potential effects of Chinese immigration up there, and the recent trip that we made to Vietnam demonstrated, I think to all of us, but certainly to me, that popular opinion about Chinese migration in Vietnam's

central highlands has been pretty negative. There's quite a reaction.

The question is, in the other places that Mr. Lohman mentioned as most friendly to China--Laos, Cambodia and Burma--do you still see similar popular discontent or official concern about this population pressure valve?

MS. DALPINO: Let me start, Commissioner. I'm not sure. I agree with Mr. Lohman's spectrum, but I'm not sure Laos, Cambodia and Myanmar have all that much choice in being friendly.

In terms of the popular pressure, and I did mention this in my testimony, as well, because I think it's very important, we have seen tensions and even small public uprisings in recent years in Laos, in Cambodia. Vietnam has pretty established now public resistance to some of the things we're seeing in terms of Chinese immigration, and I think that we need to understand that this is not necessarily going to have a sanguine outcome, that we as Americans think popular uprisings, popular pressure, great. It could also lead to more repression as well, and so there's a danger in that.

But I do think that these issues are where the United States has a particular expertise and a niche because we are more environmentally concerned. We can address some of the root causes that are disturbed by Chinese migration.

I would also say we see it in things like human trafficking as well, and that's particularly serious in terms of Burma and a little bit less Laos, but certainly the border countries are feeling the impact, and historically there hasn't been a lot of border delineation.

Only recently has China actually been making agreements and treaties regarding its borders with mainland Southeast Asia.

MR. BOWER: I'd just add two points. In my testimony, I focused on the exportation of Chinese labor that's tied with Chinese aid so they're building major infrastructure projects, those projects go to Chinese contractors, Chinese equipment suppliers, and the Chinese, another element to that, which is they export Chinese labor to build some of these projects, which helps China deal with its growing unemployment situation. I think that's an interesting trend to watch.

I would say this: in Burma, I think the Burmese are really feeling claustrophobic about the Chinese, and I think that's part of the reason that they're allowing or they're opening their arms to this engagement strategy by the United States and giving us some room to maneuver. How far that's going to go, I don't know.

But I think the big question, if I was Kurt Campbell, that I would have is, why are the Burmese playing along other than to try to get some quick and easy media hits, which I think they've kind of gone beyond that? So I think this is a factor there, too.

MR. LOHMAN: I think that covers it, but I'd use it as an opportunity to make the distinction between the ethnic Chinese minorities in these countries and the Chinese, and I think that's important because all of these Chinese communities are fully indigenous basically to the countries where they live, and they're highly susceptible to pressure from both China and sometimes their ruling class. Important to keep in mind.

HEARING CO-CHAIR WORTZEL: Thank you very much.
Commissioner Fiedler.

COMMISSIONER FIEDLER: I have a technical question first. In the Chinese damming of the Mekong River, the projections of their plans, what would the effect be, their ability to turn off the flow of water?

MS. DALPINO: Commissioner, I think that Dr. Cronin who is going to be appearing this afternoon would probably know that.

COMMISSIONER FIEDLER: Okay. Then I'll leave that alone except it leads into the question, you rank Vietnam as the most concerned, and historically, since the Chinese sort of dominated Vietnam for a thousand years of its history and as its historical heroes or heroines all revolve around Chinese-Vietnamese history, and the Chinese are controlling the Mekong, aren't their concerns legitimate?

MR. LOHMAN: Absolutely, and I think they also have concerns at sea, but, yes.

COMMISSIONER FIEDLER: And they have new concerns. From the Chinese point of view, what is their concern with Vietnam? Can Vietnam actually threaten them? No, not that I can see, beyond are they really concerned that we may establish bases in Vietnam at some point?

MR. BOWER: I'll take a first swing at this. I do think that they're very concerned about the rate and pace of the warming of the U.S.-Vietnam relationship. I know they are. I've been a big proponent of advancing that relationship, and I get Chinese visitors all the time who want to talk about it and what are we doing? What was the Vietnamese Defense Minister here, what was he doing here, and how rapidly are the United States and Vietnam moving forward on things like mil-to-mil sales, for instance?

So I think that is a big concern. But I would say that--I guess I'll stop there and see if Catharin--

COMMISSIONER FIEDLER: Let me ask you a variant question. Do the Chinese view the Vietnamese, that taming and/or dominating the Vietnamese, neutralizing them in some sort, as a key to the dominance of others in Southeast Asia?

MR. BOWER: I think there's a very interesting dynamic going on in Laos, and to a lesser extent Cambodia, which is Vietnamese-Chinese

competition for the hearts and minds of those countries. Catharin studies this in some detail, but I think the Chinese worry about the Vietnamese being at the end of Walter's spectrum, and that maybe the Vietnamese, who are now chairing ASEAN this year, by the way, might lead the group into closer to the United States or away from this Chinese ten years of fantastic diplomacy, which they've really capitalized on.

That's not going to be a linear sort of relationship, and I think they're concerned about where the Vietnamese might take that.

COMMISSIONER FIEDLER: She's anxious to answer.

MS. DALPINO: I don't think that the Chinese think that they can dominate Vietnam. I think that if there is one thing we know about Vietnam, it's not going to be dominated by an external power, but they too have lingering Cold War tensions, and they too remember the border war of 1979, and I would agree that they are wary of Vietnam's becoming too tied to the United States.

They also observe that Vietnam is the rising economic star in ASEAN, and more that Vietnam would be able to in certain ways overshadow parts of mainland Southeast Asia and the rest of Southeast Asia than it would directly be able to overshadow China economically.

In Laos, there is an interesting dynamic, and I don't want to call it "Finlandization" because it's not quite that, but you do have the historic political relationship between Vietnam and Lao, which still is very much existing, but you have the cultural and commercial relationship with Thailand, and that has--Thailand has been, has helped Lao in its entry into its market reform and into trade with mainland Southeast Asia, and there is a religious and linguistic and cultural commonality, and although the Chinese economically are all over Lao, they are aware of that dynamic, and they try to stay a little bit below the radar just so that they don't trip into issues that they really don't want to deal with.

COMMISSIONER FIEDLER: Thank you very much.

HEARING CO-CHAIR WORTZEL: Commissioner Cleveland.

COMMISSIONER CLEVELAND: I don't know about the Chinese views of the Vietnamese, but when we were in Vietnam, the Vietnamese did note repeatedly that they were the only country that had defeated three of the superpowers in the Security Council so it may or may not chill Chinese blood.

I have two unrelated questions. The first, a quick one. Would any of you characterize Chinese investments in Southeast Asia as--or aid, assistance or investments--as transparent?

MR. LOHMAN: Absolutely not.

COMMISSIONER CLEVELAND: That was a resounding no?

MR. LOHMAN: Right.

MR. BOWER: No.

MS. DALPINO: No.

COMMISSIONER CLEVELAND: Okay. That was my concern. I'm reading an article from the India Economic Times, and it notes that China is trying to persuade ASEAN nations to enter into bilateral agreements for trade settlements in Renminbi, and that they recently launched the first ever international bond in Renminbi in Hong Kong.

Can you tell me what the trade implications might be as, according to--I'm going to screw this up--Xu Ningning, the Executive Secretary of the China-ASEAN Business Council, says, that CAFTA will quicken the process of RMB rationalization?

MR. LOHMAN: I think you have to keep it in perspective. I think if this were to develop over a long period of time it could have some impact on the international use of the dollar, but I think right now no one, even where China has set up these exchange mechanisms elsewhere like with the Russians, the Russians don't want to hold a lot of RMB. Nobody wants to hold it so until you get to a point where people want to hold RMB like they hold dollars, it's not going to be a problem, in my judgment.

COMMISSIONER CLEVELAND: You don't see it as an emerging issue in terms of ASEAN?

MR. LOHMAN: I don't see it as an emerging issue, no.

MR. BOWER: I don't either.

MR. LOHMAN: It will continue to be out there, and they'll continue to work these things, I think, on a small scale, but it's just really the basis of something to watch longer term.

COMMISSIONER CLEVELAND: Thank you.

HEARING CO-CHAIR WORTZEL: Vice Chairman Bartholomew.

VICE CHAIR BARTHOLOMEW: Thank you. And thanks to all of our witnesses.

I think that Commissioner Wortzel made a point of noting that it's balanced with the think-tanks that we have here, in part, because, of course, he's always got a predisposition to making sure we have Heritage Foundation people participating, and Catharin, it's wonderful to welcome you, too. It's been a long time that we've known each other, as you've mentioned. We won't talk about just how long. So welcome to all of you, and thank you for your testimony today.

I want to ask about economic development, but I want to put it in the context of sustainability. Elsewhere in the world where the Chinese are doing or promoting economic development, we're seeing, as they are in Southeast Asia, they're bringing in their own workers to build the infrastructure that's taking place.

They're consuming resources, they're purchasing resources that

isn't really adding long-term value-added to the economic development in some of the countries where they're working in Africa. It's a concern across Latin America, and also Chinese goods are flooding the markets. Cheap Chinese goods are flooding the markets and displacing indigenous capacity in terms of manufacturing and starting to move up the manufacturing chain.

So in some places in the world, people are seeing this as a new form of colonialism, and I wondered, in Southeast Asia, is there any sense of that, that that is taking place, concern that what China is doing is what's economic development in the Chinese government's interests, but what happens if they stop purchasing the resources and what happens--what happens? They're not doing training and development with any of these projects. What's going to happen?

MS. DALPINO: I think there is concern. I don't know that it would be perceived as colonialism, but there's certainly concern of overdependence economically, as there has been of overdependence economically in the United States and the West, and so that's a hedging strategy as well.

But just as they felt the impact of the economic crisis of last year, so they fear that if China can't maintain its growth targets, and particularly if China should really suffer some sort of a crisis, that they would bring many parts of Southeast Asia down as well.

There are many interesting questions you raise about the leave behind, and I don't see a whole lot other than big roads, which is the Chinese predisposition because they're a regime of engineers so it makes sense to do that, but it's also been something that they've done for decades.

One of the things that we have behind, particularly in our trade relationship with Vietnam and Cambodia, is more of an administrative structure and some degree of legal reform as it relates to trade, and I think that's very valuable, and I think that's actually more impact than the Chinese have had.

It makes me worry about Cambodia, however, because the United States is Cambodia's largest trade partner. We encouraged them to go to something they call the "American model," which is to have stronger labor standards than other LDCs, and we rewarded them accordingly, but they have suffered more because they were linked to us economically with the economic crisis.

Vietnam was able to cushion that somewhat, obviously, given the size of its economy, but that implies that we're really in the hot spot to help make that right, to help them out of that a little bit more or we will lose some of the soft power that we were able to accumulate in the way that we arrange our trade relationships with those two countries.

MR. BOWER: I think an additional point here, I think maybe you're talking about environmental impact, too. Is that fair? One thing we should note is that the Chinese have jumped into the environmental sector from a kind of commercial motivated point of view. They're now the largest manufacturer of wind turbines, and I think they're quickly overtaking whoever is next, whether it's us or the Europeans, as a manufacturer of solar panels.

So the Chinese are into this market. They're investing in these areas in Southeast Asia. So they do have, I just want to point out, they are having a positive impact on the environmental side, too.

At the same time, I think I was hopefully very clear in my testimony, that their interest in many of the Southeast Asian countries, and Catharin and Walter noted this too, is natural resources, and they're extracting things like forests and minerals and oil and gas from the region and not always using the same level of technology and techniques that one would hope to see as sustainable resources developed.

MR. LOHMAN: I think you need to take a look at the nature of the governments themselves in ASEAN. Even the democracies are highly irregular democracies. They're not necessarily focused on maximizing sustainable development. That might be part of their equation, but there's a lot of other factors that come into play, and they're not directly accountable in the same way that American government is to people and what they want and that sort of thing.

A lot of other factors come into play, and so they have a higher tolerance for investments that may be not in the best interests of the people who are most subject to them.

VICE CHAIR BARTHOLOMEW: It's interesting that you put it that way. You're also very careful how you're saying it, and I haven't heard the word "corruption" come up, but it certainly is an issue elsewhere around the world, particularly with Chinese investments.

For me, yes, some of it is about environmental sustainability, but it's also about economic sustainability, and even where the U.S. has been funding infrastructure, like through the Millennium Challenge Corporation, we are making sure that there are local hires, that it is local people who are getting the benefit of the salaries that are coming through this, and hopefully and presumably they're getting some training so that it becomes sustainable.

And what I wonder is if you play this out ten years down the road, if these countries are not focused on longer-term sustainable economic development, if the tensions between the governments and the people of those countries get worse, how that plays out.

So it becomes a stability issue, that if people see only a certain group of people benefiting from this Chinese investment, and they're not

getting any trickle-down effect of that, what is that going to mean?

MR. LOHMAN: I think back to the point I made earlier, the place where you see the most impact is in the most democratic country which is Indonesia. In Indonesia, there are a lot of complaints right now about Chinese investment and Chinese imports, but it's getting so much attention from the government because the government basically has to listen to them.

VICE CHAIR BARTHOLOMEW: Catharin.

MS. DALPINO: I'd just like to caveat that a little bit. I think that if you look at Thailand, for example, although Thailand is going through political difficulties, I would say it still has a democratic government, and it takes a different approach than Indonesia, and the Thais probably have the closest relationship to China of any of the countries because it's more freely chosen.

They don't see much contradiction in terms of having a strong relationship with the United States and a strong relationship with China. It's the smaller countries of mainland Southeast Asia where you're seeing the unhappiness--Laos, Cambodia and Myanmar--because they don't have as much leverage, and they don't have as much pushback.

That said, Thailand got the first brunt of the China-ASEAN FTA early on when they had the Chinese Vegetable and Fruit Agreement with Thailand as the sort of starter FTA, and quickly Thai garlic farmers found themselves priced out of the market when their garlic was four times what it cost to buy a Chinese braid of garlic. So they were a little disillusioned early on and took note of that.

VICE CHAIR BARTHOLOMEW: Did they take steps accordingly?

MS. DALPINO: Yes, they did.

VICE CHAIR BARTHOLOMEW: Thank you.

Commissioner Videnieks.

COMMISSIONER VIDENIEKS: I heard comments made about economic stability and sustainability, and the question of "time bombs" comes up in my mind. Stability whether dynamic, whatever, does it take into account, for example, the one-child policy? All these projected trends we see 50 years out and 30 years out, and comparisons of the various ages of people. Are these various projections based on demographics?

Pretty soon the wage earners per retiree are going to reach a certain ratio, and —given that can the PRC still have an active role, for example, in Southeast Asia, to the extent they have now, exporting labor and goods and so forth? Maybe you all would want to comment on it.

MR. LOHMAN: I think it's a very long-term issue, and the

comment has been made that it's very likely the Chinese will get old before they get rich, and they're very much aware of that possibility. But, they could also do a lot more before they get old. So, it's a relatively long-term possibility, I think, that the aging of the population--

COMMISSIONER VIDENIEKS: Japan was mentioned in an article today.

MR. LOHMAN: --and the leveling of the growth will affect the immigration patterns.

MR. BOWER: I wonder more about how long China can sort of sustain the "charm" part of the offensive. And I think maybe that's what you're getting at. And I do wonder. I'm not a China specialist, but I do wonder what the implications are of having a disproportionately male population under continued pressure.

I guess you can go back to Greek tragedy. That doesn't bode well for countries who take a sort of hostile warlike posture. We've not seen that in Southeast Asia. I don't see any sort of implications of China saber rattling other than in the South China Sea, and I guess that was the point I made in my testimony, that when their core interests are addressed, the velvet glove is off very quickly, and the Chinese are very clear about what they need and what their interests are.

I think if you talk to Southeast Asian leaders, they're very concerned about this balance issue that I touch on in my testimony because what are the implications of China being the biggest trading partner? What are the implications of China suddenly popping up as your main supplier of aid?

If China starts to ask for things in return that you're not prepared to give, what's your leverage? And I think that's the core question that I think a lot of us are talking about here today.

Without trying to seem alarmist, I think that is the Southeast Asian concern. My point is the Americans can help balance that issue by just being more focused, do a better assessment of what our interests are in Southeast Asia economically, militarily, strategically.

If we were able to, almost if we were able to articulate those interests into a strategy, I think that would help Southeast Asia manage this big hug they're getting from the Chinese over the last decade or so.

VICE CHAIR BARTHOLOMEW: Catharin.

MS. DALPINO: Commissioner, let me just speak about your mention of the one-child policy in China because we are seeing that play out in Southeast Asia.

Most of the brothels in northern Thailand now cater exclusively to Chinese customers who come across the border, and human trafficking is also a function of economic discrepancy so we're also just seeing in

Northeast Asia, Southeast Asia dynamic. For example, there has been a trend for Taiwanese men seeking Vietnamese brides, and we know that there is some element sometimes of trafficking in that as well, as well as trafficking into Japan.

But we are feeling the impact of the disproportionate number of Chinese men in the human trafficking dynamic in Southeast Asia.

COMMISSIONER VIDENIEKS: The only point I was making is a lot of times these 30 and 50 year projections may be based upon some unknowns or unknowables. Thank you.

VICE CHAIR BARTHOLOMEW: Thanks.

Commissioner Shea.

COMMISSIONER SHEA: Thanks for being here.

I just want to follow up on questions that the Vice Chair and Commissioner Cleveland raised, and this is the issue of Chinese aid, and you all nodded your head in absolute agreement that Chinese aid is nontransparent. I got that.

Mr. Bower, you write in your testimony, you said "Chinese aid in ASEAN is generally directed through well-placed politicians of the host country who have control or influence over projects that will serve Chinese interests such as roads to access natural resources or pipelines to access oil and gas."

And then you say later that "too often Chinese funds are used to build unnecessary projects that serve political rather than practical requirements."

I'm just wondering, could you give us some examples of these types of projects? That's my first question.

Secondly, do the Chinese recognize that these projects might provide some short-term benefit, but do you think these could be ticking time bombs for the Chinese and could basically mitigate against any advances that they might have in terms of their soft power projection?

MR. BOWER: Yes. In terms of probably one of the greatest examples of the infrastructure projects that serve Chinese interests is the over 6,000 mile pipeline that they're building through Burma that will take oil and gas from the Middle East through the Indian Ocean and the Andaman Sea up through Burma and to serve all of western China and thereby, you know, cutting off the need to access the shipping lanes in the South.

That also could result, by the way, in the formation of an eventual rationale for a Chinese Navy that's a two-ocean Navy, and I think, I wouldn't be surprised if that goes in that direction. They've started to really build ports and access on Burmese islands that are not only commercial, they clearly have some military, military purposes.

On kind of the "white elephant" projects that they're building,

there's a good study on this--some Chinese projects that have been built in the Pacific Islands. I'll actually send you a copy of this report. It's kind of sad but funny. Some of these bridges to nowhere, but major dollars are spent, politicians somehow have a lot of funds to run campaigns and take trips to Beijing, and the Chinese get to come in and build these things, but they're not of any use. But I'll share some--

COMMISSIONER SHEA: I know many of these countries in ASEAN aren't what we would describe as democratic, but are there examples of popular backlash to perceived corruption in some of these deals?

MR. BOWER: I think Walter is right, where the reticence has been most vocal has been Indonesia, and some major Chinese oil and gas projects on Java, which is the most populous island in the world, in Indonesia have really caused some outcry because literally there are workers standing around the fence watching Chinese nationals laborers build projects right in Indonesia when these people need jobs, and there's, if you're a politician in Indonesia, that's a difficult one to swallow because the population is, I guess it's about 230 million now, but the big issue for any Indonesia politician is you've got to have GDP growth over six or seven percent just to keep your head above water in terms of population growth, keep people working. And if people are unemployed, you're going to be unpopular very quickly. It's not a new political lesson. So I would say, yes, Indonesia is a great example of that.

MR. LOHMAN: Just a quick qualification. When you talk about non-transparency, it's just like with the military modernization. It's not officially transparent, but everybody knows about it. You guys devote a lot of your work on the military side and publish a report every year. The Pentagon publishes its report every year. It's pretty transparent. It's just not officially transparent.

COMMISSIONER SHEA: Right.

MR. LOHMAN: It's the same with the aid. Every time a small island in the Pacific gets assistance from China, they put a lot of press out on it because they get political benefits from it and other sorts of benefits, the same in Southeast Asia. So it's out there. You just got to chase it down and systemize it in some way.

VICE CHAIR BARTHOLOMEW: Commissioner Reinsch.

COMMISSIONER REINSCH: I apologize for missing the first two statements so if this is redundant, just say this is redundant, and I'll move on; we can move on to something that's relevant.

I want to pursue a couple of things that I brought up with the last panel, which I assume some of you heard, on the -Trans Pacific Partnership issue. They didn't feel they had a good grip, I don't think,

on the Chinese reaction to the announcement of the TPP negotiations, and I wondered if any of you could comment on what you think the Chinese think of it or anything you're aware of that they said about it?

MR. BOWER: I don't know the answer, but--

COMMISSIONER REINSCH: An honest statement.

MR. BOWER: Yes.

COMMISSIONER REINSCH: You don't hear that very often.

MR. BOWER: But I will say this, that it does highlight an important point that I tried to bring out in my testimony, which is that the Chinese trade agreements with Southeast Asia, in particular, and other countries, in general, have been much more flexible and not legally binding, not what American negotiators would call a free trade agreement by any measure.

I think it's really interesting, the question that you may be getting at, which is the Chinese have got this short-term leap forward because they haven't really ground into extensive negotiations to get these agreements, the more kind of economic cooperation pacts. They are getting benefit in the short term from those.

But the TPP, from what I understand the U.S. approach is going to be, is to create a platform that is substantially beyond even any FTA we already have that's in existence, although I will say this, that the TPP partners are wondering whether the Americans are serious and whether they'll be able to deliver that package, and everyone is waiting for what the Americans will bring to the table in Australia this March.

But I think the Chinese will have to pay attention to that, and they will, at some point, have to play, moving their agreements up to the level of American agreements, trade agreements, in the region.

MS. DALPINO: I would be surprised if they were overly alarmed at this point because of the incremental nature of the TPP and the fact that we still have to figure out where we're going with that.

I agree with Ernie that there's a difference in the way that China and most other countries negotiate FTAs versus the United States. We start with a bottom line. We say this is what we need; this is what it would take to get something passed, and China certainly is sort of a master of the incremental negotiation, sort of notional negotiation.

But I do think, as I mentioned in my testimony, that what we're doing, for example, with this small \$2 million program in Laos to help them actually take advantage of the bilateral trade agreement we signed several years ago that they haven't really been able to use, and also to help them with their WTO accession negotiations with us, is pitch perfect so that shows some sensitivity to the capacity needs of the Lao and the lack of capacity there. And I think that we'll pick up a lot of soft power for that in Laos.

MR. LOHMAN: I think the Chinese are in the same position most folks are in Washington. We don't know what's going on with the TPP. We know that there's going to be negotiations in Australia in March. Nobody knows what exactly the administration is going to bring to the table.

I have heard that the Chinese are around asking questions, the same questions I'm asking. What are we trying to do? Where do you think this is going? That sort of thing. So I think it does have their interest, but they're not complaining because they don't really know what it is or if it has any prospect of going anywhere.

COMMISSIONER REINSCH: You're not the only one asking those questions. I think there are a lot of us asking them, but rather than pursue that line, let me go back to architectural questions first, and--well, I'm going to be out of time. Let me just go back to architectural questions.

Thinking about the way the United States ought to interact economically in the region, and I'm focusing primarily on economics here, not on geopolitics, do you think that the TPP is the right architecture for that? I know one of you alluded to that in your testimony, but do you think it's the right architecture or that there would have been a better way to go about it?

MR. BOWER: I think we're going to war with the army that we have on trade, which is very little, unfortunately, and I would agree with what Walter said in his testimony that in Southeast Asia, a trade policy is a core part of a strategy for the region. It's a core part of a foreign policy. And, unfortunately, we don't have one. That is we don't have a trade policy.

I think that really makes Southeast Asia nervous so I think in terms of architecture and TPP, if indeed we come to Australia and we come to the negotiating table, and the TPP is, as I think USTR intends it to be, sort of the start of a core or a foundation for an Asia, a Free Trade Area of the Asia-Pacific, of the FTAAP, then I think Southeast Asia would really welcome that because what you would build is a very high-level agreement that countries, you know, a coalition of the willing on trade, if you will, could join that agreement, and you could end up with, I think, Walter, you know, the FTAAP is an APEC-wide free trade agreement.

But I don't think anybody sees that yet, and I don't think the White House has support for that vision, and I don't think the White House is actually signed up to that vision. I think probably the professionals at USTR see that, but I don't think we see it. My point is that -ASEAN should be the core of a trade architecture, economic architecture, in Asia, but we have to be clear that TPP doesn't

necessarily include ASEAN. It only includes two ASEAN members--Singapore and Brunei--right now.

COMMISSIONER REINSCH: Do either of the other two want to comment?

MS. DALPINO: I think that we've been able to get away with not having a trade policy, coherent roadmap for a trade policy, in Southeast Asia, because of the size of our market, and as the world's largest market, that still is a very premium factor.

I'm a little surprised that the policy community isn't looking down the road to the EU's attempts to negotiate an FTA with Southeast Asia.

We're starting to be alarmed with the EU-Korea agreement, and if the EU actually is able to get it together and negotiate that, that is going to be a nightmare scenario in terms of an economic competitor in Southeast Asia.

COMMISSIONER REINSCH: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman.

All three of you in your testimony have talked about the need to expand trade with the ASEAN countries. Presently I think we're running about a \$22 billion trade deficit in our trade with the ASEAN region. I think we export \$80 billion and we're importing \$100 billion so we got about a \$20 billion deficit.

So I think one of the reasons you don't have--like a later witness, Ellen Frost, will talk about, Fasttrack or trade promotion authority--one of the reasons Congress won't give it is because the American people don't think trade is serving their interests anymore, I think. I think that's what's going on.

So do you feel that we should be moving toward a balanced trade somehow or other in our account? Professor Weatherbee, who's going to be one of later witnesses--he talks about the China-ASEAN Free Trade Agreement--I think he calls it CAFTA--and CAFTA has become "a Chinese push for ASEAN countries to use the RMB as the settlement currency unit."

I think part of the reason that the dollar is falling out of favor is because we've run these massive current account deficits year after year.

Professor Weatherbee further says: "The undervalued RMB and China's unwillingness to revalue have made ASEAN exports less competitive in global markets and Chinese imports--which will increase with CAFTA--more competitive in ASEAN domestic markets."

He points out "Vietnam has already found it necessary to devalue its currency." The Vietnamese already have a \$12 billion deficit with China, which they financed out of a \$12 billion surplus with us.

But Professor Weatherbee states, "Vietnam has already found it

necessary to devalue its currency, and other ASEAN countries, especially Thailand, may have to follow suit."

Do you think the ASEAN countries could be enlisted by us to help us in our efforts to get China to revalue its currency and put some more fairness into this international trading system?

I'll start with Mr. Lohman and then Mr. Bower and then Ms. Dalpino.

MR. LOHMAN: Yes, I believe we could enlist their help. We'd have to demonstrate a certain amount of consistency and seriousness about it though. We'd have to have some consistency in it. They're not going to want to run the risk that we get out there complaining about the valuation of the currency, and then we're not there later when the Chinese start beating up on them.

So we've got to be there the whole time, and I think if we demonstrate that, you could get them in international forums and that sort of thing to support the U.S. position a little bit more. But it would be hard work. It's not going to be putting out a statement and coordinating responses from the ASEANS.

MR. BOWER: I agree, but ASEAN will never lead from the front on this issue. And I think we should be talking with China and ASEAN about these issues, and it would be very helpful if ASEAN would weigh in.

One of the things, one of the trends that we can see, is China is concerned about its global image, and I think that's, you know, to what extent and on what issues, those are other questions. Whether on this issue, ASEAN weighing in would have a, make a big difference, I'm not convinced.

MS. DALPINO: I'll make it unanimous. Yes, but I think ASEAN would see us as having greater firepower, and they'd be happy to follow in our lead in that, but it does bring up issues about ASEAN fears of U.S.-China relationship, and some of them have to do with getting caught in an economic conflict is one that they would fear. Also emerging are some fears that United States and China might get along too well, and that ASEAN might suffer in that as well, and some of that comes off with South China Sea as well.

But I think they also see the U.S.-China relationship as part of the function of economic problems in the world, too, so they would look to us to take the lead on that.

COMMISSIONER MULLOY: If I could just ask one quick question, Dr. Frost on page 13 of her testimony, which she'll deliver later, says that we should not press for a seat at the East Asian Summit table. If each of you could give me your opinion? Should we be pressing for a seat at the East Asian Summit?

MR. BOWER: We need an architecture that we're involved in that's the dominant architecture for security and also trade in Asia. So I don't know. I didn't read Ellen's testimony yet, but I'm sure there's more context there. She must have said somewhere else that we should be part of whatever architecture.

DR. FROST: Definitely.

MR. BOWER: Yes, okay.

HEARING CO-CHAIR WORTZEL: And she will if she hasn't yet.

VICE CHAIR BARTHOLOMEW: And she will if she has the chance.

MR. BOWER: Yes, all right. So assuming that she covered that base, then I think, I'm not convinced that the East Asia Summit, which is maybe the point she was making, is the architecture that we should agree to be part of, and maybe so I might agree with her on that point--after I read her testimony.

COMMISSIONER MULLOY: You want to see it. Okay.

MR. LOHMAN: I basically agree. I think it's important for us to determine what kind of architecture we want to have. Incidentally, I don't think that we need any new combination of the alphabet in Southeast Asia so I think we're doing fine right now. And EAS, so far, it's been relatively irrelevant except for the big PR aspect that comes along with it. So I can take it or leave it basically.

MS. DALPINO: I think there was an expectation in Washington that half of the reason to sign the ASEAN Treaty of Amity and Cooperation was so the United States could be qualified to get into the EAS. So I think there is some momentum already to do that.

That said, I think the United States needs to solve its own internal contradictions. If you look at Secretary Clinton's speech in Honolulu last month, she says, on the one hand, I think quite correctly, that we need to sort of slow down this growth industry of regional organizations and stop and find some kind of a division of labor. And then halfway down, she says, and we're going to have consultations about the East Asia Summit, which implies that the executive branch will be forward-leaning on that.

I'm more with the first point, that this is an opportunity and an interval for us to look at APEC and EAS and all these other processes and see if we can't streamline them a little and so strengthen them in doing so.

COMMISSIONER MULLOY: Thank you.

MR. LOHMAN: Just very quickly, already President Obama has committed to go to the region, as far as I can count, three times this year. He's going to Asia, he's going to India, he's going to Japan. How many times can an American President go to Asia? That's great,

commendable. I'm glad he's doing it, but now we have another summit. At some point, we've got to draw the line and develop our own, our own rationale here.

COMMISSIONER MULLOY: Thank you all very much.

HEARING CO-CHAIR WORTZEL: We probably have time for one more. No. Then, if I could be permitted one short one that takes a different tact, and then we'll close the panel out.

I'd like to pursue the relationship between Thailand and China, particularly in the security arena. At one time, Thailand turned to China for arms that the U.S. really couldn't supply, light amphibious tanks, good long-range artillery when they had Vietnamese divisions on the Cambodia-Thai border.

You've commented that we've sort of let the alliance relationship with Thailand languish. Is the security relationship between Thailand and China sort of languishing or is that improving?

MS. DALPINO: It's not moving ahead in leaps and bounds. If you just contrast the Cobra Gold exercises that we have annually with Thailand and with a few other partners now, just the massive amount of personnel and equipment that's involved in that, compared to the 2005 Thai-Chinese Friendship Security Exercises, which were three hours long and had a couple of ships, I think sort of is very telling.

It's more the younger generation of Thais that don't see a rationale for an alliance when there is not an immediate self-defense threat as there was during the Vietnam War. And also when they see that the price of a treaty alliance is that you send some of your forces, however small the contingent, to Iraq and Afghanistan, when these other countries in Southeast Asia, who have improved their security relations with the United States, but are not treaty allies, are not necessarily bound to that.

Before the political crisis hit, Bangkok was seriously trying to push the idea of moving from an alliance to something they called "a strategic partnership," which they never quite defined, and then of course the global crisis interrupted that. But they were really assessing what the upsides of having a treaty alliance with the United States were in the 21st century.

HEARING CO-CHAIR WORTZEL: Well, they ought to check with the Philippines who lost Mischief Reef after they decided it wasn't worth having a treaty alliance with the United States.

But, on that note, we're going to break for lunch. I thank all of you for being here. We'll resume at 1:00 p.m.

For those of you not familiar with the building, there's actually a snack bar down in the Russell Office Building basement, and if you have a congressional ID, there's a cafeteria in the basement of this building.

Thank you very much, all of you.
[Whereupon, at 12:15 p.m., the hearing recessed, to reconvene at
1:00 p.m., this same day.]

AFTERNOON SESSION

PANEL IV: SECURITY ASPECTS

VICE CHAIR BARTHOLOMEW: Our next panel today will examine Chinese activities in Southeast Asia from a security perspective. We are honored to be joined by Dr. Andrew Scobell, Mr. Bronson Percival, and Dr. Richard Cronin.

Dr. Scobell, who I know is a partner in crime with Commissioner Wortzel, is an Associate Professor at the Bush School of Government and Public Service at Texas A&M. Previously, he was an Associate Research Professor in the Strategic Studies Institute at the U.S. Army War College, Adjunct Professor of Political Science at Dickinson College, and an Associate Professor of Political Science at the University of Louisville.

He is the author of *China's Use of Military Force: Beyond the Great Wall and the Long March*, and other publications, and has a forthcoming book on Chinese foreign policy coming out soon titled *China's Search for Security*.

Mr. Bronson Percival is an expert on Sino-Southeast Asian relations, a former diplomat and professor at the U.S. Naval War College. He is currently a senior advisor with the Center for Strategic Studies at CNA. He also chairs a course on Southeast Asia at the U.S. Foreign Service Institute and recently taught a class on China and Southeast Asia at the School of Advanced International Studies, Johns Hopkins University. He's the author of *The Dragon Looks South: China and Southeast Asia in the New Century*, published in 2007.

And Dr. Richard Cronin heads the Southeast Asia Program at the Henry Stimson Center. Currently he's working on China's relations with the Mekong Basin countries, U.S.-ASEAN relations, and issues concerning Japan and Southeast Asia. Dr. Cronin joined the Stimson Center after a long career as the Senior Asian Affairs Specialist with the Congressional Research Service. He has taught comparative political economy of Asia at Washington area universities and lectured on Asian political and security issues at the National Defense University, the Foreign Service Institute, and in more than a dozen Asia-Pacific countries.

Welcome to all of you. Thank you for giving us the benefit of your time and expertise. Dr. Scobell, we'll start with your testimony.

**STATEMENT OF DR. ANDREW SCOBELL, ASSOCIATE
PROFESSOR, TEXAS A&M UNIVERSITY, COLLEGE STATION,
TEXAS**

DR. SCOBELL: Thank you for the opportunity to appear before the Commission today.

I've titled my prepared remarks "China's Geostrategic Calculus in Southeast Asia--The Dragon's Backyard Laboratory."

This is not meant to conjure up any nutty or eccentric scientists conducting experiments like Christopher Lloyd's memorable character in the movie "Back to the Future" where the professor develops a machine that allows Michael J. Fox to travel back in time.

Rather, China's activities are more down to earth and here and now. Southeast Asia is a real-world testing ground for Chinese foreign and security policies. Beijing has experimented with multilateralism, working to promote and protect China's interests in a subregion that is extremely important to Beijing.

The results have been very successful from China's point of view, dialogues which suit Beijing's purposes because China is increasingly viewed by Southeast Asians as a constructive partner rather than a military threat or expansionist power.

It's easy to dismiss these foreign summits as "talk shops," jaw fests, where nothing is ever accomplished. But if the purpose is to reassure Southeast Asia that China comes in peace, that Chinese values are consistent with the "ASEAN way," and the outcome of greater Chinese involvement in the subregion is a win-win for all concerned, then perhaps there is something more to this.

Moreover, there have been actual deliverables--expanding trade and investment, we heard about in the previous panel, and on the South China Sea issue, the issue, I would say, has been defused, and in all of these endeavors, China has conceded almost nothing while gaining immensely.

Prior to the end of the Cold War, China was a regional power without a regional policy. Up until the 1990s, Beijing's focus was on the two superpowers and its efforts in Asia were undertaken within that larger context.

But with the disappearance of the Soviet colossus and the emergence of a more contentious relationship with the United States, following the 1989 Tiananmen massacre, Beijing began to focus on its own neighborhood, Asia, and the practice of "good neighbor" diplomacy.

I think there have been four drivers of Chinese strategy towards Asia generally and Southeast Asia, in particular:

First, a consuming desire to secure its borders and ensure internal security; second, a preoccupation with maintaining robust economic growth; third, unrelenting efforts to counter or at least check U.S. power and influence in the region and subregion; and fourth, China has worked to reassure Asians and Southeast Asians, in particular, that, as China grows strong, it does not constitute a threat to any other country.

I'd like to say a word about continental Southeast Asia and then talk a little bit about maritime Southeast Asia. First, in continental Southeast Asia, I'll focus on a particular country--that came up in an earlier panel--Burma/Myanmar.

I think it's one of the most fragile states on China's periphery with significant strategic value to Beijing because of its location on India's eastern flank. Thus, Myanmar serves as a key point in China's ongoing geostrategic chess game with India.

The international pariah status of Myanmar's military regime has left the country with limited options, and, as a result, Myanmar has moved closer into China's embrace militarily and economically. I wouldn't call it a client state, but it's on the road to becoming one.

China has ongoing military bilateral relationships with all countries in the region. I elaborate on that a little in my written testimony. China sells arms to at least four or five Southeast Asian countries, but far and above the most important recipient of Chinese arms is Myanmar, and statistics I've found indicate that almost two-thirds of China's arms exports to Southeast Asia go to Myanmar.

As far as maritime Southeast Asia, I want to hone in on the South China Sea. China's concentrated efforts to resolve territorial disputes in the past two decades have been much more successful on land than they have been at sea. Indeed, maritime territorial disputes have been among the most contentious and difficult for China to resolve.

Of the 16 times since 1949 that China has used force in pursuit of territorial claims, half of these episodes have involved Taiwan or islands in the South China Sea.

I think the most direct challenge to U.S. interests from China's activities in the subregion concern its assertive actions to make good on China's claims to maritime sovereignty.

Although China has adopted a more flexible approach to joint exploration and sharing of resources in the South China Sea, it remains adamant on the issue of sovereignty, unwilling to concede anything.

The strict interpretation of sovereignty has resulted in Chinese harassment of U.S. military air and seacraft on routine surveillance and monitoring missions that most of the rest of the world, including us, consider international airspace and international waters.

To wrap up, while Southeast Asian countries generally welcome

China's increased presence in the subregion and its growing participation in multilateral fora, this embrace has not been total. The countries of ASEAN continue to desire a robust U.S. military, economic and diplomatic presence in Southeast Asia as a counterweight to a rising China.

Even the pariah state of Myanmar is keen to improve its relationship with the United States to balance against Chinese domination. In this context, perhaps the greatest challenge to U.S. interests in Southeast Asia is not China but rather Washington's own inattention to the subregion.

Thank you.

[The statement follows:]

**Prepared Statement of Dr. Andrew Scobell, Associate Professor,
Texas A&M University, College Station, Texas**

February 4, 2010

Testimony before U.S.-China Economic and Security Review Commission
China's Activities in Southeast Asia and the Implications for U.S. Interests
Room 562 Dirksen Senate Office Building
1st Street and Constitution Avenue
Washington, DC 20001

***China's Geostrategic Calculus and Southeast Asia—
The Dragon's Backyard Laboratory***

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This statement examines the People's Republic of China's geostrategic thinking since the end of the Cold War and where Southeast Asia fits into the calculus. The author suggests that Southeast Asia might best be thought of as a "backyard laboratory" where China first tests new ideas and experiments with new approaches in its foreign and security policies. Southeast Asia was deemed fertile ground for such experimentation because there was no regional hegemon nor was the subregion totally dominated by any great power. Moreover, the subregion is of considerable importance to China. While the United States has been the most significant external security actor in Southeast Asia, its footprint has shrunk as a result of the withdrawal of military bases in the Philippines in the early 1990s. Furthermore, the United States does not completely dominate economically or

diplomatically. Indeed, it is Japan that has been the most important external economic actor but Japan has not dominated diplomatically nor had any military presence. Thus, Southeast Asia proved to be a valuable location where China has tested multilateral diplomacy and experimented with other soft and hard power initiatives.

In the early 1990s, China entered a brave new world. The Soviet Union disintegrated in 1991 sending shock waves through the ruling Chinese Communist Party (CCP). The whimpering end of the once mighty Soviet superpower shook Beijing because it immediately called into question twin core security issues: regime security and national security. The CCP is adept at conflating the two by making continued communist rule synonymous with the survival and wellbeing of China as a nation-state. The double blow meant the CCP was at once increasingly alarmed about internal stability and fearful of new threats at China's borders. So the end of the Soviet Union not only meant the sudden and shocking disappearance of the oldest and most consequential communist party-state in the world but also the appearance of three new neighbors in Central Asia.

Moreover, the Soviet collapse heralded the end of a bipolar world and the emergence of regional multipolarity. By 1992, the global system was no longer dominated by two superpowers. The system had been replaced by a chaotic situation in which power in Asia was becoming more diffuse and world politics more complicated and confusing. Beijing, long a proponent of multi-polarity, suddenly confronted the adage of "be careful what you wish for," and scrambled to adapt to the new reality. Although the emergence of a multipolar Asia appeared to be an unmistakable trend, global unipolarity was the overarching reality because of the preponderance of American power. For China this meant the greater salience of a U.S. threat to China. Another core concern was the perpetuation of economic growth and prosperity. As a result, in 1992, ageing patriarch Deng Xiaoping sought to personally reinvigorate the reform effort and ensure there was no turning back from the course he had set the country on more than a decade earlier. Thus, Deng launched what became known as the "Southern Tour" (*nanxun*) on which he urged Chinese to embrace energetically 'reform and opening.'

The situation forced Beijing to rethink its foreign policy outlook and China's own neighborhood suddenly loomed much larger in its thinking. Securing regime stability and national borders required greater attention to neighboring countries. Countering the greater perceived challenge of a hostile—or at least unfriendly—United States meant serious efforts to build a network of relationships with other states, especially within Asia.

This impulse was reinforced, in Beijing's view, by the transformation of the United States from a prime catalyst for China's economic trade and investment to a key obstruction to Chinese growth. Thus, Beijing began to seek commercial opportunities elsewhere. In short, China awakened to its geographic realities—it was first and foremost an Asian power.

What this meant was the emergence of a heretofore unseen phenomenon—the formulation of an Asia policy. Prior to the end of the Cold War, China had "been a regional power without a regional policy."¹ By the mid-1990s Beijing had adopted "good neighbor

¹ Steven I. Levine, "China in Asia: The PRC as a Regional

diplomacy” (*mulin youhao waijiao*) by which China undertook a multipronged effort to improve relations with all its neighbors. The result was the de facto appearance of an Asian policy.

Drivers and Regional Priorities in Asia:

There have been four drivers of China’s new found Asia policy. The first and most pressing driver was Beijing’s alarm over border protection and internal security. A close second was to maintain economic growth which Beijing feared might stall or sputter. Together these were China’s top priorities because they were seen as directly related to political stability. Without secure borders Beijing felt exceptionally vulnerable to the twin threats of external confrontation and internal upheaval.² An economic downturn raised the specter of rising unemployment which would trigger social unrest. Dissatisfaction would be directed at the CCP calling into question the unwritten social contract between the rulers and the ruled. Once Beijing had made progress on the first two drivers, then a third driver came into play: countering the enormous power of the Washington colossus. In the aftermath of the 1989 upheaval in China and the rapid unraveling of the Soviet bloc which came on its heels, the United States loomed as the single greatest source of external challenges to China. Washington was deemed hostile and threatening—a conclusion based on U.S. rhetorical support for the spring 1989 protests, the vocal condemnation of the crackdown, combined with the post-Tiananmen sanctions imposed on Beijing. The emergence of a unipolar world only magnified the ominous nature of the U. S. threat from China’s perspective. As a result, Beijing began to undertake concerted efforts to check—or at least limit—U.S. influence in Asia. Lastly, a fourth driver emerged as China recognized that it possessed an image problem in the region. Beijing’s efforts to secure its own borders and protect its national interests had triggered a significant security dilemma. China’s neighbors began to fear that its military buildup and growing assertiveness constituted a threat. Starting in the late 1990s, Beijing sought to reassure its neighborhood and the world there was no “China threat.”

Initially the priority area for Beijing was Central Asia. The disintegration of the Soviet Union created major uncertainty on China’s vast land borders to the north and west. In addition to questions about the border with the Russian Federation and Mongolia, China suddenly faced newly formed Central Asian republics. Of particular concern were the countries of Kazakhstan, Kyrgyzstan, and Tajikistan which shared common borders with China. Once cordial relations with all these newly independent states had been established and confidence building measures had demilitarized the frontiers, border agreements reached, and territorial disputes resolved, Beijing’s attention turned to Northeast Asia, and the Korean Peninsula in particular.³ The unraveling of the Soviet Union meant the end of

Power,” in Harry Harding, ed., *China’s Foreign Relations in the 1980s* (Yale University Press, 1984), p. 107.

² This is still the case. See, for example, *China’s National Defense in 2008* (Beijing: Information Office of the State Council of the People’s Republic of China, January 2009), p. 6.

³ For an overview of China’s effort to deal with the

Moscow's economic largesse to Pyongyang. The cutoff of Soviet aid triggered an economic crisis for North Korea in the early 1990s while tensions with the United States ratcheted up as Washington became alarmed over a burgeoning nuclear program. China sought to perform a delicate two-level 'balancing act.' First, Beijing attempted to shore up its relations with Pyongyang as it simultaneously engaged in a rapprochement with Seoul.⁴ Second, China tried to moderate North Korean behavior while at the same time restraining the U.S. impulse to react too harshly. Beijing seemed able to pull off the balancing act as it established full diplomatic relations with Seoul in 1992 while maintaining cordial if strained relations with Pyongyang. Moreover, the 1994 Agreed Framework seemed to ease tensions between Pyongyang and Washington as well as offer a roadmap for a rapprochement between the two erstwhile adversaries.

Coming to terms with Southeast Asia.

With conditions on China's northwest frontiers ameliorating and the Korean Peninsula temporarily stabilized by 1995, Beijing could turn its attention more fully to its southeast. Possibilities in Southeast Asia seemed brighter than they did South Asia where progress on improving relations with India moved at a glacial pace. In contrast to the situation south of the Himalayas where New Delhi proved a wary and reluctant neighborhood hegemon unwilling to move quickly on contentious and seemingly intractable issues, Beijing faced no massive single great power to stall its initiatives in continental or maritime Southeast Asia. The greatest challenge China confronted in Southeast Asia was its own reputation. For the states of continental Southeast Asia—Burma/Myanmar, Cambodia, Laos, Thailand, and Vietnam—China's legacy was one of war and revolution. China, for these countries, was a warmonger albeit one that had aided indigenous struggles against external "imperialists" in the 1950s, 1960s, 1970s, and 1980s. But China was also seen as having a history of aggression in a short and limited but very bloody war with Vietnam in 1979 and in subsequent clashes along their disputed land border throughout the 1980s.

For the states of maritime Southeast Asia—Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Vietnam—China's legacy was as a fomenter of revolution.⁵ Here especially, the sizeable ethnic Chinese populations in these countries were seen as fifth columns orchestrated by Beijing as the subversives and/or insurgents intent on seizing power. Ongoing insurgencies in countries such as Malaysia and the Philippines, and a bloody communist uprising in Indonesia in 1965 kept this a real concern until at least the late 1970s. Beijing made concerted efforts to overcome these fears by severing its ties

security challenges with Russia and the Central Asian republics, see Bates Gill, *Red Star Rising: China's New Security Diplomacy* (Brookings Institution Press, 2007), pp. 37-52.

⁴ Andrew Scobell, "China and Inter-Korean Relations: Beijing as Balancer," in Samuel S. Kim, ed., *Inter-Korean Relations: Problems and Prospects* (New York: Palgrave Macmillan, 2004), pp. 81-96.

⁵ By virtue of its geographic location Vietnam is both part of maritime and continental Southeast Asia.

with various insurgencies AND making clear that ethnic Chinese in Southeast Asia were citizens of their country of birth or residence with no allegiance to another state based on ties of race or ancestry. The greatest challenge over the status and loyalty of ethnic Chinese living outside of China emerged in Vietnam with the Hoa who were systematically persecuted in the late 1970s. This issue was a contributing factor to the 1979 war between China and Vietnam.

During the final years of the Cold War, China's efforts to build better relations with Southeast Asia and improve economic ties made some progress. However, the perception within Southeast Asia of China as a military threat was only reinforced by Beijing's clumsy and ham-handed steps to exercise sovereignty claims in the South China Sea. During the late 1980s and on into the late 1990s, China used coercive force to make good on its maritime territorial claims. While it sought to keep a relatively low profile, it did not eschew confrontation. Thus conflict flared in 1988 over the Spratly Islands between Chinese and Vietnamese forces. Conflict flared again periodically during the 1990s, including clashes between Chinese naval vessels and fishing boats from various countries and controversy over the occupation of small islands. Moreover, the 1995-1996 Taiwan Strait Crisis raised fears in Southeast Asia that China was becoming more assertive and threatening.⁶

Beijing began to recognize it had an image problem and sought to address this directly. The initiative began with repeated insistence that allegations of a "China threat" were "baseless" and malicious. This campaign was not terribly sophisticated, well calibrated, or immediately effective. Beijing unveiled in the late 1990s a 'New Security Concept.' Significantly, this was first launched in Southeast Asia. The concept was essentially a repackaged version of the Five Principles of Peaceful Coexistence promoted by Beijing back forty years earlier. Nevertheless, the concept gradually resonated with many Southeast Asians because it was consistent with the so-called "ASEAN Way" which emphasized mutual respect, non-interference in the internal affairs of other states, and consensus decision making. China's multilateral initiatives were generally well received in Southeast Asia and the overlap in values and rules of the game proved a good fit for both the interloper (China) and the host entity (ASEAN) and its member states. Each learned they could get along relatively harmoniously to their mutual benefit. China found an unexpected level of comfort in the experience and was reassured that ASEAN states did not seek to gang up on them; ASEAN states were reassured by China's conciliatory diplomatic efforts and the general absence of overt coercion.

As a result, Southeast Asians enter the second decade of the 21st Century more concerned with China as an economic threat than of China as a military threat.⁷ China has reassured continental Southeast Asian states of Chinese security intentions through peacefully resolving land border disputes. These include bilateral agreements with Vietnam and Laos

⁶ Allen S. Whiting, "ASEAN Eyes China: The Security Dimension," *Asian Survey* XXXVII: 4 (April 1997), pp 299-322.

⁷ See, for example, Tim Johnston, "A wider radius: Southeast Asia as China's economic of strategic influence grows...," *Financial Times*, January 28, 2010, p. 7.

during the 1990s and 2000s.⁸ Moreover, the expansion of economic ties with the countries of Indochina has signaled that China is not immediately interested in territorial expansion or military conquest. The negotiation of a China-ASEAN Free Trade Agreement and Beijing's accession to the Treaty of Amity and Cooperation in October 2003 have underscored this point to many Southeast Asians. Maritime states were also reassured by China's willingness to engage multilaterally on the territorial disputes in the South China Sea—by signing in November 2002 the Declaration of the Code of Parties in the South China Sea at the eighth ASEAN Summit in Phnom Penh in November 2002. China's immediate primary interests are in expanding markets and securing natural resources. Continental Southeast Asia has seen a higher profile for Chinese manufactured exports, investments, and extraction of raw materials. This has led to controversy over the negative impact of Chinese economic hegemony, including damage to domestic economies and 'theft' of national resources. In Vietnam, for example, public outrage erupted in 2008 over the efforts of a Chinese corporation to mine bauxite. Perhaps no issue has captured the concern of continental states more than management of river systems. The headwaters of some half a dozen major rivers including the Irrawaddy and Mekong are in China and flow through Indochina into the Bay of Bengal or South China Sea. Upstream Chinese dam building has serious downstream impact.⁹

The non-traditional threats to Chinese security from continental Southeast Asia involve such things as the illegal trafficking in narcotics and people. While these issues are present in China's relations with all five countries in Indochina, they are particularly sensitive in the case of one Southeast Asian neighbor: Myanmar/Burma. This country is one of the most fragile states on China's periphery with significant strategic value to Beijing because of its location on India's eastern flank. Thus, Myanmar serves as a key pawn in China's on-going geostrategic chess game with India. The international pariah status of Myanmar's military regime has left the country with limited options. As a result, Myanmar has moved closer into China's embrace economically and militarily (see next section) to become almost a client state of Beijing. Myanmar has been wracked by ethnic insurgencies, internal unrest, and political instability. In 2009, domestic upheaval spilled over into China with a cross-border exodus of refugees.

Meanwhile, in maritime Southeast Asia, China's focus has been on strengthening its claims to the South China Sea, exploiting or exploring for natural resources, and expanding trade and investment with the countries of the region.

The Military Dimension.

China is also active in Southeast Asia militarily. China has ongoing bilateral military relationships with all of the countries in the subregion. Senior Chinese military figures or PLA delegations have visited all of the 10 ASEAN states at least once in the past three

⁸ M. Taylor Fravel, *Strong Borders, Secure Nation: Cooperation and Conflict in China's Territorial Disputes* (Princeton University Press, 2008), chapter 3.

⁹ See for example Richard Cronin's Mekong research <http://www.stimson.org/southeastasia/?SN=SE20060519999>

years.¹⁰ In the past few years, China has also conducted a number of military exercises with Southeast Asian countries. These include bilateral military exercises with Thailand in July 2007 and July 2008, and a multilateral maritime exercise in May 2007 in Singaporean waters.¹¹ Between 2000 and 2008 China sold an estimated US\$264 million worth of arms to Southeast Asian states. Of this total almost two thirds (62%) reportedly flowed into one country—Myanmar.¹² China has also reportedly been involved in the construction of military facilities on several islands controlled by Myanmar in the Andaman Sea.¹³

The South China Sea in China's Geostrategic Calculus.

Maritime matters have loomed increasingly large for the PRC in recent decades. Why? Because, since the 1970s, China has turned increasingly outward. With booming international trade, an ever-expanding commercial fleet, and a growing navy, looking seaward is an inexorable trend. Moreover, the PRC has long standing territorial claims in the maritime sphere—most notably Taiwan but there are other claims in the East China Sea and South China Sea as well. Since the 1982 United Nations Convention on the Law of the Sea (UNCLOS), which established 200 nautical mile economic exclusion zones for countries, Beijing has displayed a heightened interest in its maritime claims. Greater concern over natural resources, notably energy, has prompted China to make good on these. This is especially true where energy resources are concerned because Beijing has become preoccupied with energy security, especially since 1993 when China became a net importer of petroleum. This has elevated the importance of the South China Sea in two ways. First, it has heightened China's belief that there are very likely subterranean hydrocarbon deposits. Second, it has highlighted the importance of sea lines of communication through which China's petroleum must be transshipped from the Middle East and Africa. After navigating the Straits of Malacca, oil tankers must then transit the South China Sea.¹⁴

China's concentrated efforts to resolve territorial disputes in the past two decades have been much more successful on land than they have been at sea. While both types of disputes are important to Beijing, greater significance seems to be attached to the latter. Indeed, maritime disputes have been the most contentious and difficult to resolve. The vast majority of territorial disputes that have been resolved amicably are inland and in

¹⁰ Data collected by Cristine Salo.

¹¹ *China's National Defense in 2008*, p. 50.

¹² "The Strengthening Sino-ASEAN Defense Ties," *The Straits Times* (Singapore) October 12, 2009 citing Stockholm International Peace Research Institute data.

¹³ Joyce Roque, "China's Relationship with Myanmar," *China Briefing* August 27, 2008 accessed @ <http://www.china-briefing.com/news/2008/08/27/chinas-relationship-with-myanmar.html>

¹⁴ On these points, see Andrew Scobell, "China's Strategy toward the South China Sea," in Martin Edmonds and Michael M. Tsai, eds., *Taiwan's Maritime Security* (Routledge Curzon, 2003), p. 41.

many cases China has conceded significant amounts of disputed territory to the rival claimant. Of the 16 times since 1949 that China has used force to pursue its territorial claims, half of these episodes have involved Taiwan or islands in the South China Sea.¹⁵ It is noteworthy that the most contentious unresolved disputes involve the island of Taiwan along with islets, reefs, and atolls in the East China and South China Seas. Since the 1950s, the PRC has claimed most of the South China Sea as Chinese maritime territory.

Slow Intensity Conflict in Three Phases

China has adopted a strategy toward the South China Sea that befits an ambitious rising power with weak naval capabilities but considerable national resources at its disposal. I have dubbed this strategy ‘Slow Intensity Conflict’ (or ‘SLIC’).¹⁶ This strategy is tailored to avoid serious backlash or unified resistance to China policy or adverse impact to China’s image. This SLIC strategy has progressed through three phases.

During the first phase, which lasted from the 1970s to the 1980s, China adopted a tough approach emphasizing hard power. Beijing made no real effort to make good on its claims in the South China Sea until the 1970s. In 1974 Chinese naval forces clashed with military forces of the crumbling Republic of Vietnam in the Paracel (*Xisha*) Islands. Emerging victorious, the PLA Navy (PLAN) took control of the western group of the Paracels. In the battle, a larger PLAN flotilla bested 4 vessels from the Republic of Vietnam. Then, 14 years later, in March 1988, Chinese naval forces clashed with forces of the Socialist Republic of Vietnam in the Spratly (*Nansha*) Islands. The main battle, which took place at Johnson Reef, was won by the PLAN and China went on to occupy seven nearby islands.¹⁷

That same year, Hainan Island became China’s newest province—the PRC’s 30th provincial-level jurisdiction. Up until this time the island had been part and parcel of Guangdong Province. There were multiple reasons behind this move, including spurring Hainan’s economic development. In addition to the island, the new provincial jurisdiction included all the islets, reefs, and atolls that the PRC claimed in the South China Sea. Thus the newly created province signaled greater attention to China’s maritime territories. Some of Beijing “highest hopes” were that petroleum and LNG would be found inside the territorial waters of China’s newest province.¹⁸

In the second phase, during the decade of the 1990s, China adopted a hard power approach but blended this with a soft power dimension. In the aftermath of the 1991 Persian Gulf War, Beijing became more conscious of the importance of energy security.

¹⁵ Andrew Scobell, “China’s Rise: How Peaceful?” in Sumit Ganguly, Joseph Chinyong Liow, and Andrew Scobell, eds., *Routledge Handbook of Asian Security Studies* (Routledge, 2010), p. 16. The statistic is comes from Fravel, *Strong Borders, Secure Nation*, Table 1.5 on pp. 64-65.

¹⁶ Scobell, “China’s Strategy toward the South China Sea,” pp. 42-43, and Andrew Scobell, “Slow Intensity Conflict in the South China Sea,” E-Note (Philadelphia, PA: Foreign Policy Research Institute, distributed August 16, 2000).

¹⁷ Scobell, “China’s Strategy toward the South China Sea,” pp. 44-45.

¹⁸ Ezra F. Vogel, *One Step Ahead in China: Guangdong Under Reform* (Harvard University Press, 1989), p. 307.

This highlighted the importance of China's maritime territories. In early 1992 Beijing passed the Law of the People's Republic of China on Territorial Waters and Contiguous Territories which reasserted China's claims to the South China Sea. Then, in early 1995, the Philippines discovered that China had built a solid, permanent looking structure on the disputed Mischief Reef. After initially working to resolve the issue bilaterally with Manila, Beijing began to work through the ASEAN Regional Forum.

During the third phase, in the first decade of the 21st Century, China adopted a more conciliatory approach toward dealing with the South China Sea emphasizing soft power. Perhaps the key multilateral agreement was the code of conduct signed between China and all ten member states of ASEAN. While the agreement definitely improved the overall "climate" of relations, there were significant limitations to the agreement. First, the issue of sovereignty was sidestepped. Second, the geographic area covered by the agreement was not specified. Third, and most importantly, the agreement was not legally binding.¹⁹ In September 2004, the China National Off-shore Oil Corporation (CNOOC) signed an agreement with the Philippine National Oil Company to conduct joint marine seismic exploration in the South China Sea. Then, in March 2005, the Vietnam Oil and Gas Corporation also joined the Joint Marine Seismic Undertaking (JMSU). However, China did not completely abandon coercion and the above agreements did not prevent the rise of tensions between China and Vietnam in 2007. One of the most serious bilateral incidents of that year occurred in July when a Chinese patrol boat fired on a Vietnamese fishing boat in the Paracel Islands killing one fisherman.²⁰

The Challenge to U.S. Interests

The most direct threat to U.S. interests concerns assertive actions to make good on China's claims to maritime sovereignty. China claims a 12 nautical mile-wide band of territorial waters and a 200 nautical mile Economic Exclusion Zone in vast areas of the South China Sea. This constitutes a serious Chinese challenge to freedom of navigation. Although Beijing has adopted a more flexible approach to joint exploration and sharing the resources of the South China Sea, it has remain adamant on the issue of sovereignty, unwilling to concede anything. This strict interpretation of sovereignty has resulted in Chinese harassment of U.S. military air and sea craft on routine surveillance or monitoring missions in what are considered international airspace and international waters. Of particular relevance are the EP-3 Incident of April 2001 and the USNS Impeccable Incident of March 2009. It is not clear whether these actions are the manifestations of an intentionally confrontational policy by the highest echelon of the CCP or the result of *roguish* soldiers acting without the full knowledge and approval of their civilian leaders.²¹

¹⁹ Ralf Emmers, "Maritime Security in Southeast Asia," in Ganguly, Scobell, and Liow, eds., *The Routledge Asian Security Studies Handbook*, p. 245.

²⁰ Ian Storey, "Trouble and Strife in the South China Sea: Vietnam and China," *China Brief* Vol. 8, no. 8 (April 14, 2008).

²¹ On this issue, see Andrew Scobell, "Is There a Civil-Military Gap in China's Peaceful Rise?" *Parameters* Vol.

While China clearly does seek to push back on the scope and range of U.S. military operations in the South China Sea, it does not appear intent on total area denial at this time. China continues to see the U.S. Navy in particular as an important protector of the sea lines of communication. However, as China's own naval capabilities improve this thinking may change. For the United States China at present constitutes a truculent but key player in Southeast Asia. Beijing is an important partner for Washington as it attempts to address a host of non-traditional security threats which plague Southeast Asia such as terrorism, piracy, narcotics, human trafficking, environmental degradation and pollution.

Conclusions

The drivers of China's strategy toward Southeast Asia are fourfold. First, Beijing is driven by a consuming desire to secure its borders and ensure internal security; second, Beijing is preoccupied with maintaining robust economic growth; third, China is engaged in unrelenting efforts to counter or at least check U.S. power and influence in the subregion; and fourth, Beijing is working to reassure the neighborhood that as China grows strong it does not constitute a threat to other countries.

Southeast Asia has provided China with an important testing ground—a “backyard laboratory.” The area is an important one for China economically and security-wise, ranking second only to Northeast Asia as a priority for Beijing. Thus, it is not surprising that China has made its first real steps in multilateralism, and experimented with soft power initiatives in Southeast Asia. Significantly, these various trial efforts have been deemed successful and served as the prototypes for larger global initiatives. While exporting these efforts beyond Southeast Asia have met with varying degrees of success, China's comfort level in the subregion has grown considerably with the ‘ASEAN Way’ proving entirely consistent with China's own paradigm for diplomacy.

While Southeast Asian countries have generally welcomed China's increased presence in the subregion and growing participation in multilateral fora, this embrace has not been total. The countries of ASEAN continue to desire a robust U.S. military, diplomatic, and economic presence in Southeast Asia as a counterweight to a rising China. Even the pariah state of Myanmar is keen to improve its relationship with the United States to balance against Chinese domination. In this context, perhaps the greatest challenge to U.S. interests in Southeast Asia is not China but rather Washington's own inattention to the subregion.

VICE CHAIR BARTHOLOMEW: Mr. Percival.

**STATEMENT OF MR. BRONSON PERCIVAL, SENIOR ADVISOR
WITH THE CENTER FOR STRATEGIC STUDIES, CNA,
ALEXANDRIA, VIRGINIA**

MR. PERCIVAL: Thank you for inviting me to share my thoughts on Sino-Southeast Asian security perceptions and relationships.

I'm not a China scholar; I'm a Southeast Asia expert. I'll be looking at this issue from a Southeast Asian perspective.

I think Beijing has three important security interests in Southeast Asia. The first is to build a buffer of countries along China's southern border that is particularly friendly to China. In part, this is an insurance policy should the United States ever again try a policy of containment in mainland Southeast Asia.

China's second security interest is to eventually secure acceptance of China's claims to most of the resource and energy rich South China Sea.

The third is security of the sea lanes of communication and maritime chokepoints through which China imports most of its energy and will import an increasing amount of its oil and natural gas.

When I look at Chinese and U.S. interests in Southeast Asia; what's the bottom line for the U.S.? The bottom line is simple: we have a fundamental strategic interest in the sea lanes and maritime chokepoints that connect the Indian and Pacific Ocean.

The United States must be able to move its armed forces between these two oceans, and also needs unimpeded passage for energy supplies through the South China Sea. This is essential if we are to maintain our alliances with Japan and Korea.

Let me just make a few key observations and then we can cover more in the question and answer period. In Southeast Asian eyes, China in a little more than a decade has transformed itself from a threat into a partner. It's accomplished this feat through a coordinated top-down campaign to court its southern neighbors. It's not adjustment on the part of Southeast Asians. It's adjustment on the part of China.

I would argue, though, that in the last few years, China's attention may have flagged a bit. It's hard to put your finger on it, but you're starting to get that impression, despite the fact that very senior Chinese leaders are still going to Southeast Asia, for example, last year, and despite the fact that the new CAFTA, the new free trade area, came into force on January 1 of this year. China is still courting Southeast Asia, but you get the sense that there's less high level Chinese attention.

In building China's security ties in Southeast Asia, Beijing has always done its best to raise security issues behind a curtain of economic and political initiatives. Security has been the lowest priority.

China realized that it would be counterproductive to compete with the United States in the region. China started out, before 2001, by criticizing Southeast Asians' security relationships with the United States. However, they quickly backed off from that because it was counterproductive.

They're also very aware of Southeast Asian skittishness when you start talking about traditional security. So Beijing ended criticism of American policies in Southeast Asia in 2001

It's built important security relationships in Southeast Asia, but those security relationships are all in mainland Southeast Asia. They are with Burma, Thailand, Cambodia and Laos.

China's security relationships in maritime Southeast Asia are dwarfed by America's security relationships. China has military relationships with all the countries of Southeast Asia, but that doesn't tell you very much. China is focused on mainland Southeast Asia.

The security of energy imports through the Southeast maritime chokepoints is a constant worry for the Chinese. It is. There is a great deal of talk and gnashing of teeth, even on the part of China's leaders. But more interesting is that Beijing has showed restraint on this issue, particularly on the Strait of Malacca.

Although Malaysia may have been speaking on China's behalf, basically Beijing left it to Southeast Asians to take care of the problems, unlike the United States, India and Japan.

But I want to turn to the only really serious security issue in terms of Southeast Asia and China, conflicting claims in the South China Sea.

Since late 2007, China has reverted to more assertive tactics in advancing its claims. It has increased its naval patrols. It has pressured foreign energy companies, including some U.S. energy companies, to halt operations in contested waters. It has created new administrative mechanisms to strengthen its claims in the islands. It has unilaterally imposed fishing bans. It has vehemently disputed submissions to UNCLOS by Malaysia and Vietnam that extend their claims to the Continental Shelf.

The Chinese ambassador to ASEAN has stated that China will not negotiate with ASEAN on the South China Sea. Talks must be bilateral.

The Chinese are now blocking a Vietnamese attempt to bring the South China Sea up in ASEAN forums. Vietnam just took over the chairmanship of ASEAN.

China has also constructed a new naval base on Hainan. Why has it done this? I don't think this has much to do with conflicting claims, but rather with the Chinese desire to keep the U.S. Navy as far away as possible from China's shores.

I'm not sure of the connection between that base, China's harassment of U.S. surveillance vessels, and the conflicting claims in the South China Sea, but it's something that is worth looking at.

It is not clear why China has dropped its accommodating approach in the South China. The South China Sea is not yet a major issue for Chinese nationalists.

It is important to remember that if China increases pressure in the South China Sea, it will probably again reveal ASEAN irrelevance when confronted with major security issues. It's likely to push Southeast Asia apart because they're only a few countries--four Southeast Asian countries--that have a stake in the South China Sea conflict. Already, for example, we have seen criticism by the Thai press of Vietnam's acquisition of new military equipment as anti-Chinese.

The U.S. government testified on this issue--both State and Defense--in mid-July on the South China Sea before the Senate Foreign Relations Committee. The U.S. government is on top of this, but it is not clear how long it will remain so.

I hope that the South China Sea is on the agenda of President Obama's visit to Jakarta in March because one of the problems we have with the comprehensive partnership between Indonesia and the United States is that we're too focused on bilateral issues, with an occasional nod to a global issue. We need to stress regional issues.

It's very important to keep Indonesia, which has traditionally been the regional leader, involved in regional issues. The tendency in Indonesia at this point is to leap from bilateral issues to global issues, now that it has become part of the G-20.

[The statement follows:]

Prepared Statement of Mr. Bronson Percival, Senior Advisor, The Center For Strategic Studies, CNA, Alexandria, Virginia

Threat or Partner: Southeast Asian Perceptions of China

Thank you for inviting me to share my thoughts on Sino-Southeast Asian security perceptions and relationships, and on their implications for the United States.

Introduction and Summary

In most Southeast Asian eyes, in little more than a decade China has transformed itself from a perceived threat into a partner. It has accomplished this feat through a comprehensive diplomatic and economic campaign to court its southern neighbors. This courtship has been based on adjusting Chinese policies to better conform to Southeast Asian preferences and on the rapid integration of Southeast Asian economies into China-centered trade networks. Nonetheless, the Southeast Asian response has not been uniform. National reactions to China's growing influence break down into the following categories: Beijing's partners in mainland Southeast Asia, Vietnam, ambivalent states in maritime Southeast Asia, and

Indonesia. In the region, Vietnam and Indonesia are the most resistant to the new wave of Chinese influence.

Southeast Asian elites usually distinguish between great power rivalry, best left to others, and internal and non-traditional security issues. Few Southeast Asians continue to fear coercion by China's conventional military forces or subversion from China. Few seek to strengthen military-to-military ties with China or prefer to acquire Chinese military hardware. None have designed their armed forces to contribute to a theoretical coalition to contest China's military power. When Southeast Asian leaders think of traditional security issues, they usually combine determination to avoid being drawn into Sino-U.S. rivalry with the assumption that the U.S. will come to their assistance in the unlikely event that Beijing threatens to use force to coerce them.

However, when they think of the current threats they face, they focus on internal political stability, economic growth, and regional institutions designed to create webs of entangling ties as ways to address either internal or transnational challenges. Thus Beijing's new security concepts find a sympathetic ear in the region. China is judged primarily on its' contribution – including through regional institutions - to managing non-traditional security problems, and by its' contribution to Southeast Asian countries' own internal stability through access to China's market.

In the past few years the Chinese government's attention to the region may have flagged, though senior Chinese leaders again visited Southeast Asian countries last year and the China-ASEAN Free Trade Agreement came into force on January 1, 2010. Meanwhile, Beijing has reverted to more assertive tactics in advancing its' territorial claims in the South China Sea. It is not clear why China's accommodating approach on this security issue is shifting. The South China Sea has not yet become a prominent public issue for Chinese nationalists. The internal factors driving China's policies remain opaque. However, if Beijing adopts more insistent and confrontational policies in the region, it is likely to undermine such limited Southeast Asian cohesion as now exists, including through ASEAN.

From Threat to Partner

For almost five decades after China "stood up" under communist leadership in 1949, China was viewed in most of Southeast Asia as the primary external threat to the peace and stability of the region. Only gradually after the collapse of the Soviet Union did a tentative rapprochement slowly get underway. The breakthrough came when Chinese leaders turned their approach to Southeast Asia on its head, replacing the assertiveness that had long characterized Chinese policy with accommodation. Whether this policy reversal can be dated to the 1996 confrontation between the United States and China in the Taiwan Strait, as security analysts are inclined to argue, or to the Asian Financial Crisis of 1997-98, as political and economic analysts contend, China had clearly reassessed its policy goals and the mechanisms it would use to achieve these goals by the end of the 1990s. Lists of China's strategic goals usually include maintaining stability on China's periphery, encouraging economic ties that contribute to China's economic modernization and thus to the communist regime's legitimacy, protecting China's territorial integrity (Taiwan, Tibet, Xinjiang), increasing Chinese influence to forestall containment, and acknowledgement of China's status as Asia's most influential state.

Riding the exponential growth of Sino-Southeast Asian trade (which surpassed Southeast Asian trade with Japan and the U.S. to reach about \$240 billion by 2008), Beijing launched an intensive campaign to court its southern neighbors. China became the foremost supporter of the status quo in Southeast Asia, agreed to place contentious issues on the shelf, and learned to play along with Southeast Asia's "Gulliver Strategy" of tying China into a web of multilateral organizations and commonly accepted norms. It avoided direct criticism of U.S.-Southeast Asian ties and eventually even toned down its' rivalry with

Japan in the region. The highest level of China's political leadership was prepared to devote extraordinary time to this effort, and to the resolution of conflicts that bubbled up from lower levels. All China asked from Southeast Asians was a bit of deference, their participation in China's booming economy through the ASEAN-China Free Trade Area, and the severance of old semi-diplomatic ties between Southeast Asian states and Taiwan. Asking so little and offering so much, China was successful in portraying itself as an attentive, accommodating and friendly "elephant."

But the romance seems to have faded a bit over the past several years. China hoped to use the first East Asian Summit in December 2005 as a means to assume the leadership of Asian multilateralism, but those aspirations were dashed by the inclusion of additional states at the summit and ASEAN's determination to retain leadership of this multilateral organization. In addition, the high-level attention devoted to Southeast Asia may simply have proven unsustainable as China penetrated new commercial markets and continued its rapid rise to great power status. In any event, China is still courting Southeast Asia but Beijing's tone appears to have become slightly more assertive as the relationship has matured.

National Reactions in Southeast Asia

When assessing Southeast Asian responses to China's new policies and prominence, only the ignorant fail to distinguish among Southeast Asian states located in one of the world's most politically, economically and culturally diverse regions. The standard approach is to acknowledge ambivalence in all Southeast Asian reactions to China's rise and to then distinguish between mainland and maritime Southeast Asia. China looms over its "backyard" in mainland Southeast Asia, where it has a long history of tributary relationships and is now the predominant foreign influence in poor, authoritarian states such as Burma, Cambodia and Laos. Thailand has bent before the wind from the north and Vietnam is trapped in its' historic, asymmetric relationship with China. China has achieved its primary security goal, predominant influence with its closest neighbors that should preclude their participation in any future efforts to "contain" China. In maritime Southeast Asia, where China has never had significant political influence and its ties are based on trade, Beijing must continue to defer to America's overwhelming presence and influence.

However, viewed primarily through a security lens, Southeast Asian states responses to China could be broken down into four categories, as follows:

- Acquiesce to increased Chinese influence: Burma, Cambodia, Laos, and Thailand
- Ambivalence about increased Chinese influence, with claims in the South China Sea: Malaysia and Philippines
- States that view international relations through a "realist" perspective and stress balance of power issues: Vietnam and Singapore
- Rivalry for regional leadership: Indonesia

If these distinctions are accurate, they imply that a coalition to defend Southeast Asian states' claims in the strategic South China Sea is conceivable, if unlikely. That coalition could include Vietnam, Malaysia, and the Philippines, supported by Indonesia, Singapore and the United States. The coalition would be fragile and non-confrontational, primarily diplomatic, and certainly initially reluctant to entertain a security component. Though highly speculative, a complementary security development may be the eventual emergence of an Indonesian-U.S. strategic partnership modeled on the current Indian-U.S. partnership.

Traditional Security Issues and Relationships

As China sought to transform itself into a “friendly elephant,” Beijing saw no benefit, and many problems, if it stressed traditional security issues in its relationships with Southeast Asia. Thus China has done its’ best to hide, obfuscate, and shelve security issues, and has diffidently advanced proposals to strengthen security ties behind a curtain of high-profile economic and political initiatives. Sensitive to local perceptions and preferences, Beijing quickly learned that criticism of old Southeast Asian security alliances and partnerships with Washington was not welcomed because it implicitly required Southeast Asian states to choose between China and the United States. Anti-American statements and actions also attracted the attention of a distracted power that could complicate and constrain China’s diplomatic and economic campaign to court Southeast Asia. Thus, determined to avoid counterproductive competition with the U.S. in the region and well aware of Southeast Asian skittishness when security issues were raised, Beijing ended open, direct criticism of American policies in Southeast Asia in 2001. Instead, it has advanced its own new security concepts that fit so well with Southeast Asian preferences and left grumbling about the “militarization” of American foreign policy during the Bush administration to Southeast Asians.

China’s restraint and diplomacy does not mean that Beijing has forgotten its security interests in Southeast Asia, though it has usually avoided a direct approach to securing these interests. These security interests are important. They include:

- Constructing a buffer of Southeast Asian states along China’s southern border where China is the predominant external power, in part to forestall an American attempt to contain China.
- Maintaining and, when possible, advancing China’s territorial claim to most of the resource and energy-rich South China Sea.
- Improving the security of the sea lanes of communication and maritime chokepoints through which China imports the bulk of the oil that fuels its economy.

In building security ties, China has resorted primarily to bilateral mechanisms with individual Southeast Asian states, though it has also been prepared to quietly suggest security arrangements with ASEAN and the ASEAN Regional Forum (ARF). This multilateral effort was kicked off at the 2003 Bali ASEAN Summit where China’s foreign minister proposed that the ARF sponsor a “security policy conference.” Subsequent ARF meetings have moved the ball forward modestly, while the 2004 ASEAN-China plan of action to implement their “strategic partnership” included references to dialogue on security issues. The real action has taken place at the bilateral level.

China has mature security relationships with Burma and Thailand, as well as newer defense ties with Cambodia and Laos. The complex, asymmetric Sino-Vietnamese relationship includes a military-to-military component. Beijing’s outreach to Southeast Asian states further from its shores has produced modest military-to-military ties that usually include a declared security partnership, modest exchanges of visits between senior military officers, and extremely limited sales of Chinese military equipment. In maritime Southeast Asia, American defense ties dwarf China’s.

The Sino-Burmese security relationship is usually advanced as the poster child of China’s security relationships in Southeast Asia and, in fact, China has sold Burma’s military regime about \$1.5 billion in military hardware over the past fifteen years. This regime and the People’s Liberation Army (PLA) maintain a dense network of visits and exchanges. Nonetheless, Burma’s military is designed to suppress internal opposition, and the xenophobic Burmese regime is not a Chinese client. Indeed, as it has become wealthier, that regime has begun to look to other sources, primarily Russia, for advanced military equipment.

Thailand also retains close military-to- military links to China, first developed during their common effort

to oust Vietnam from Cambodia in the 1970s. There is no evidence that Bangkok views this security relationship as incompatible with its “alliance” with the United States, itself a hangover from the Cold War. Substantial military-to-military networks and formal mechanisms anchor the Sino-Thai security relationship, which has included the sale of some Chinese military equipment. The major constraint on the relationship is the Thai armed forces preference for more sophisticated weaponry from Russia and the United States.

Perhaps China’s most ambivalent security relationship is with Beijing’s communist partner in Hanoi. A thousand years of Vietnamese history can be summarized as a cycle of defeating Chinese invasions and then carefully deferring to the giant to the north. The PLA maintains close ties to Vietnam’s military, and Hanoi has been cautious about expanding security ties with the United States. On the other hand, Vietnam thrashed invading Chinese forces in 1979, fought a pitched battle at sea with Chinese naval forces in the 1988, and is now reportedly in the process of acquiring fighters and Kilo-class submarines from Russia.

China has also become the main patron for the Cambodian and Laotian military, though it must still compete with Vietnam in Laos. Despite speculation that China would like to eventually develop a naval base along Cambodia’s coast, these security relationships are limited to the usual array of visits, training, and the transfer of unsophisticated Chinese military equipment.

Several years ago, “baby-step” military-to-military ties were launched between China and maritime Southeast Asian states such as Indonesia, Malaysia, the Philippines, and Singapore. None of these ties are comparable to or a challenge to these states’ robust security relationships with the United States.

China’s President Hu Jintao has publicly lamented China’s “Malacca dilemma.” Assuring the security of China’s energy imports through Southeast Asian maritime chokepoints is a constant worry for China’s leaders. In 2008, China imported about 45 percent of its total oil demand, with 76 percent of crude oil imports shipped across the Indian Ocean from the Middle East and Africa. The International Energy Agency estimates that China will import 63 percent of its total demand by 2015.

Nonetheless, Beijing deferred to Malaysian and Indonesian determination to take primary responsibility for improving the security and safety of maritime traffic through the Strait of Malacca. China has resisted the temptation to join Japan, India and the United States in publicly pushing for improved maritime security. Instead, it has largely confined itself to diffidently advancing its interests – interests that apparently are remarkably similar to those of a sympathetic Malaysia. Malaysia has been the state most resistant to an Indian security role in the Straits, most critical of Indian assistance in 2002 in protecting U.S. supply ships transiting the Strait of Malacca during Operation Enduring Freedom, and most antagonistic to an alleged (incorrectly) U.S. plan in 2004 to unilaterally patrol the Strait of Malacca. In the event, Indonesia, Malaysia and Singapore have successfully reduced piracy in the Strait. China continues to offer to be helpful, but its’ contribution has been confined to an International Maritime Organization safety project in conjunction with the United States.

The South China Sea

New tensions and escalating rivalry in the South China Sea pose the most serious and intractable security problem in Sino-Southeast Asian relations. Four of ASEAN’s members - Vietnam, the Philippines, Malaysia and Brunei - have claims in the South China Sea, which overlap with each other and with claims advanced by China and Taiwan. These disputes over the rocks, shoals and reefs that dot 1.2 million square miles of sea are important for several reasons. Through the South China Sea pass about one third of global maritime commerce and more than half of northeast Asia’s imported energy supplies.

Moreover, the United States depends on free passage through these waters to deploy American armed forces between the Pacific and Indian Oceans. This seabed also has the potential to become a major source for the energy supplies that are essential to the further economic development of East Asia, though U.S. estimates of potential energy reserves are considerably smaller than those of China, some of whose experts have labeled this sea a “new Persian Gulf.” Finally, the South China Sea is an important fisheries resource for Asian nations.

Rising tensions and armed clashes in the South China Sea attracted the attention of policy makers as far away as Washington in the 1990s, but these disputes and tensions fell off foreign and defense ministries’ mental maps after agreement was reached in 2002 on a Declaration on the Conduct of Parties in the South China Sea. This Declaration deterred claimants from occupying vacant “features” in the South China Sea. Though not a legally binding document between ASEAN and China, the Declaration and China’s campaign to court Southeast Asia appeared to pave the way for confidence building measures and eventually peaceful resolution of these disputes. A 2005 agreement on a bloc in the South China Sea in which China, Vietnam and the Philippines would conduct joint seismic research appeared to be the first in a series of confidence building measures until, in 2008, it collapsed amid a political scandal in Manila.

Since late 2007, however, China has reverted to its assertive approach of the 1990s in the South China Sea. China has increased naval patrols, pressured foreign energy companies to halt operations in contested waters, created new administrative mechanisms to strengthen its claims in the Paracel and Spratly islands, and unilaterally imposed fishing bans in parts of the sea. China has also vehemently disputed claims to the outer continental shelf recently advanced by Vietnam and Malaysia through submissions to the United Nations Commission on the Limits of the Continental Shelf, and protested a renewal of the Philippine claim to part of the South China Sea. In addition, the Chinese ambassador to ASEAN has insisted that disputed claims are bilateral issues that should not be settled through multilateral mechanisms. Accordingly, China has launched a diplomatic campaign to keep the South China Sea off the regional agenda during Vietnam’s current chairmanship of ASEAN. In short, the scene is set for continuation of the downward spiral of actions and reactions on the part of all claimants in the South China Sea.

At the same time, China has constructed a major new naval base on Hainan fronting on the South China Sea. China’s desire to push the U.S. Navy as far away as possible from China’s coast, rather than overlapping claims in the South China Sea, provides the context for assessing the implications of this new base and of the harassment in March 2009 of an unarmed U.S. surveillance vessel by Chinese ships. The USNS *Impeccable*, a civilian manned ship of the U.S. Military Sealift Command, was involved in marine data collection for military purposes about 120 kilometers south of Hainan. Such data collection is not regulated by a coastal state under the United Nations Convention on the Law of the Sea. Nonetheless, though the legal case seems clear, China had apparently asked the USNS *Impeccable* to leave its exclusive economic zone (EEZ) and sees such data collection within its EEZ as insensitive. U.S. National Intelligence Director and former U.S. Pacific Command (PACOM) commander Admiral Dennis Blair called the harassment the most serious military dispute between China and the U.S. since 2001. China has not backed down.

Outlook

In the wake of China’s relative success in weathering the global economic crisis of 2009, American scholars increasingly perceive a nation that is both more assertive and less tolerant of perceived interference in China’s internal affairs. It is not clear whether this new mood and tone, usually noted in the context of Sino-U.S. relations, extends to Southeast Asia. If it does, and if it persists over the next few years, the bloom may come off the past decade’s Sino-Southeast Asian relationship. On the other hand, even during the height of China’s “charm offensive” in Southeast Asia, officials and experts often found it

difficult to determine whether Chinese policies reflected decisions on the part of central authorities in Beijing or competition within China between bureaucratic or provincial interests. But when Southeast Asia consistently attracted the attention of China's top political leaders, problems were quietly raised with senior Chinese leaders and solved. We will not know for some time whether Southeast Asian leaders retain the same access and influence in Beijing.

If China's increasingly assertive tactics in the South China Sea reflect a coordinated policy shift in Beijing, rather than a series of actions driven by the People's Liberation Army Navy (PLAN) and local authorities, at least some Southeast Asian elites will need to revise their security perceptions. They don't want to provoke Chinese nationalism by going public and their instincts are, in any case, to quietly raise concerns with Beijing. A fundamental problem for Southeast Asia is that increased Chinese pressure is likely to further divide the region and again reveal ASEAN's irrelevance when confronted by major security issues. Only a few Southeast Asian countries have a direct stake in the South China Sea; others resist attempts to drag them into a conflict with China, the predominant external influence in their countries.

Southeast Asians will naturally be reluctant to recognize a significant adjustment or even a reversal in China's accommodating approach to them. Nonetheless, in the unlikely event that China again turns its policy upside down, as it did in the late 1990s, those Southeast Asian states furthest from China – Indonesia, Malaysia, and the Philippines – may eventually be driven towards the United States and India.

Recommendations for the US

The U.S. is well balanced in Southeast Asia. It has consistently and repeatedly insisted that the “theme is not the U.S. versus China in Southeast Asia” and, even during the Bush administration, deferred to Southeast Asian leadership to successfully rid the region of international terrorism. Moreover, the Obama administration has now reversed popular anti-Americanism during the Bush administration and the widespread perception of U.S. neglect through several symbolic gestures, including signing ASEAN's Treaty of Amity and Cooperation (TAC). The US Pacific Command has built a dense network of military-to-military ties, particularly in maritime Southeast Asia. In Indonesia, President Obama is considered the hometown hero.

Nonetheless, while avoiding the impression that the U.S. seeks to contain China, Washington needs to shift its focus in Southeast Asia from humanitarian issues such as Burma to critical security issues such as the South China Sea. We don't know if Beijing is launched on a process of “nibbling imperialism” in the South China Sea but preventing Chinese domination of this Sea and maintaining free passage for U.S. armed forces and for energy supplies is critical for U.S. alliances in northeast Asia and, indeed, for the maintenance of the entire U.S. position in East Asia.

Officials from both the State and Defense departments testified before the Senate Foreign Relations Committee on the South China Sea in mid-2009, and U.S. concerns have been raised with Beijing. Nonetheless, despite the fact that the U.S. takes an agnostic position on the validity of the various states claims in the South China Sea, the U.S. needs to stay on top of this issue. Southeast Asian issues seldom make the agenda for U.S. officials' meetings with Asia's great powers and the South China Sea does not appear to be as prominent an issue as it was in mid-2009, but the Obama administration should:

- Consult with Beijing, Tokyo, and New Delhi to reach an understanding on the South China Sea.
- Discuss the South China Sea dispute with Jakarta when President Obama visits Indonesia in March.

- Support the integration and cohesion of the Southeast Asia region, including through ASEAN, in part as a way to constrain Chinese behavior.

VICE CHAIR BARTHOLOMEW: Great, Mr. Percival. Thanks.
Dr. Cronin.

**STATEMENT OF DR. RICHARD P. CRONIN, SENIOR
ASSOCIATE, HENRY L. STIMSON CENTER, WASHINGTON, DC**

DR. CRONIN: Thank you very much, again, for this invitation to testify before the Commission on obviously what is an important and timely topic.

In previous panels and even this afternoon already, my colleagues have addressed a number of the reasons why these issues have emerged as a problem for the region and for the United States.

We've also heard context, which I mainly subscribe to, about what does China want. And a lot of it is associated both with historical injury that China feels from the past, aggrandizement against China by the--I should say by imperial China--against imperial China by the colonial powers of Japan, et cetera, and also, of course, it's feeling its strength because of its fast rising growth.

But I would say that on the question of is China feeling its oats and its strength or is it feeling weaknesses, as well, I think that I tilt a little bit more towards the weakness side, just in this sense, internally, I think China has got a lot more problems than we recognize.

And particularly right now on the economic issues, they're not at all out of the woods in terms of trying to maintain politically acceptable growth through this particular global recession.

But in the case of the South China Sea, so many have already talked about most of the nuances and basic facts about what has been going on. So I'd just like to emphasize a couple of points. One is that China is not the only country with kind of dodgy ideas about their economic, exclusive economic zones, or EEZs, and other claims to, for instance, areas like the Gulf of Tonkin where a number of countries--China and Vietnam, in particular--both have a stake, or the Gulf of Thailand where Malaysia, Thailand, Cambodia, one other country, is also involved with conflicting claims.

The real issue with China is that this issue of a historical, a claim to the South China Sea, to most of it, as a sort of historical, as historical waters or historic waters, and in particular, China has advanced, using maps that show a kind of, it's so-called this "benign dotted line" or the U-shaped line, which pushes its claim to most of the South China Sea right down and into areas that would in other

circumstances obviously be the EEZs of other countries, and so long as China keeps promoting that particular justification, there is going to be no basic resolution to these issues.

So it's really not about how do we resolve these disputes. I think it's more about how can the region and even outside powers find a way to manage or have a productive relationship within the region and over how to protect things like marine fisheries, protect coral reefs, avoid conflict, and also the rights of free passage by American and other warships.

So, in that particular case, then, I think we have a lot of equities; we don't have a lot of influence. But there is one thing, and I'll jump to my conclusions in a way on this.

There is one thing that the United States could do, and it's show more leadership in pushing the notion that outside stakeholders, which includes maritime countries, shippers, maritime shipping companies, countries, and others, oil and gas companies, and other, fishing fleets, et cetera, all have a stake in this issue.

So there ought to be a way to bring together people in the region, maybe starting with one of these Track II or Track I and one-half type meetings, to talk about, in a way, internationalizing the area in terms of the practical day-to-day operations and activities of everyone who has a stake in the region.

Now, I'd like now to turn to the Mekong, and that is the issue of the moment for me right now, and I've been very involved and Stimson Center has been very involved in working on this issue and also working with relevant institutions and countries that also have a stake.

There are really two big issues about the Mekong, one of which is all about China, and another one of which is partly about China and has its own problems.

The first issue is China's development of a massive cascade of hydropowered dams in Yunnan Province. They've just completed the fourth dam, a place called Xiaowan. This dam is 292 meters high. It will hold 15 billion cubic meters of water when it's filled over the next five or ten years. And these four dams, particularly with Xiaowan, already will give China the ability to regulate the river.

That is to control the flows, in particular, to put more water in the river during the dry season for purposes of not only keeping their turbines running but also for facilitating navigation, and other purposes. The problem with this, this idea or this concept, is that it destroys the core hydrology of the river, which is based on extremes of wet and dry, for instance, and there's a part of the river system that this is very important to, the Great Lake of Cambodia, the Tonle Sap.

So every wet season, the flood season, the flood comes roaring

down the Mekong from the north fed both from China and by Laos and Thailand and adjacent countries, and the water is moving so rapidly and the flood is so high that the Tonle Sap River, a 100 kilometer river connecting the Mekong mainstream and the Great Lake, moves, pushes upstream, and the Great Lake and the river itself swell to become a giant seasonal wetland as large as Lake Superior.

It's an incredible phenomenon, and then when the rains are over, the Great Lake starts to drain for three months back into the Mekong, and it brings with it the fish that it essentially has nursed for some months since the flood. The fish and the water come out back into the mainstream and downstream then of Phnom Penh actually where the rivers intersect.

Vietnam and the Mekong Delta gets three more months of water, which is enough to maintain, to have a third rice crop, and that's one of the key things that makes Mekong Delta the rice basket, rice bowl of Vietnam and even other parts of Southeast Asia.

So, in the first instance, then, we have China changing the flow of the river in a way that will destroy the natural ecology of the river and also threaten the Mekong Delta itself because the Mekong Delta is at the end of the line and whatever happens upstream ends up in the Delta.

And, in this case, one of the problems with dams is they hold back silt, and the Mekong Delta needs silt every year to renew the fertility of the soil, and to keep the sea at bay. So no one knows exactly what the consequences will be of this and other dams that I'll talk about on the silt issue.

The second part of the problem, the issue, is what's happening in the Lower Mekong, and particularly in Thailand and Laos and Cambodia, the countries there are planning to build up to 13 dams on the Lower Mekong mainstream, mainstream dams, not tributaries, that any one of which will be a barrier to fish migration for spawning.

Two dams that are particularly disturbing are, one is a dam called Don Sahong at the Khone Falls between, in Laos but on the border, southern border with Cambodia. Cambodia plans to build a dam at Sambor Rapids between Phnom Penh and the Khone Falls area.

Either one of these dams will decimate fish that right now are the mainstay of protein and other parts of the diet and livelihoods of up to 60 million people. It's an incredible notion that you could dam the river, get in this case maybe less than 2,000 megawatts of power and decimate the world's most productive freshwater river basin investment after the Amazon.

Why do the countries want to do this? Well, one is the role of developers, particularly Chinese companies, although a Malaysian company and some Thai companies are also involved, but particularly

Chinese companies are pushing the idea of let us build a dam here, you'll get the power, we'll build, own, operate and transfer after 25 years, and it's free. But what the countries don't understand or at least don't want to understand is that it's a hugely uneven, unbalanced tradeoff.

And so one of the real concerns is that if they go ahead with these Lower Mekong dams, that no plans are being made either to coordinate the construction or to replace the lost livelihoods and food supplies.

VICE CHAIR BARTHOLOMEW: Dr. Cronin, I hate to interrupt, but if you could summarize your conclusion, and we'll move on to some questions?

DR. CRONIN: Okay. Great. Thank you.

I have some ideas about what the U.S. might do about these issues. We are actually getting involved already with new so-called Lower Mekong Initiative that Secretary Clinton brought to the ASEAN meeting last year in Phuket, and I just want to underscore that the real challenge right now is for the United States with very scarce resources to try put some meat on the bones of this proposal and play an important role with this problem.

I think it's not a done deal in terms of Lower Mekong yet, and so it's important that we get involved.

Thank you.

[The statement follows:]

**Prepared Statement of Dr. Richard P. Cronin, Senior Associate,
Henry L. Stimson Center, Washington, DC**

Thank you for the opportunity to testify before this hearing on China's activities in Southeast Asia and their implications for U.S. interests. I will address all of the questions that were posed in the invitation to testify, but I will preface my responses with some background and context to China's current activities in the region and their implications for U.S. policy as well as U.S. interests.

As in testimony that I gave on this issue at a hearing of the Senate Subcommittee on East Asia and the Pacific, we can better understand what is driving Chinese policy if we keep in mind at least two important factors that have influenced China's approach. First, China is feeling its strength while it still feels the humiliation of the past aggrandizement of Imperial China by the western colonial powers, Russia, and Japan, who occupied and alienated Chinese territory. Even some of its comparatively weak South China Sea neighbors encroached on China's position during the chaos of Mao's Cultural Revolution, when Chinese attention was focused inward. Thus, China remains determined to redress what it sees as past injuries and reclaim what it views, rightly or wrongly, as its own. This includes the position it once held as the dominant power in what the world still calls the South China Sea. Not incidentally, Taiwan also makes most of the same claims, and on the same basis.

Second, much of China's assertive behavior is a spillover effect of its rapid economic growth and increasing hunger for secure supplies of energy. China's anxiety to sustain growth through the current global recession – which ultimately will require wrenching policy changes to generate more domestic growth – also seems to be a factor. It would be better for China and its neighbors and other trading

partners if its leaders understood the working and ultimate efficiency of global markets and were not wedded to a mercantilist approach to locking up energy and other natural resources through long term contracts, but China is not alone in this competition.

China's desire for regional and global influence commensurate with its rising power is normal and to be expected, and need not necessarily conflict with U.S. interests. On the whole, successive U.S. administrations as well as China's neighbors have cautiously welcomed its economic rise and the bigger economies, including Japan especially, have promoted important ties of investment and trade. Also for context, during the Cold War the United States tacitly accepted a nuclear armed China as an important strategic counterweight to the then Soviet Union. Since the collapse of the U.S.S.R. in 1991 the United States has sought Chinese cooperation on a number of fronts, most notably nuclear proliferation – to which China had long contributed, for instance, by supplying nuclear materials, technology, missiles and even bomb designs to Pakistan. China seems to have stopped its proliferation activities and now recognizes that it has a mutual interest with the United States and other Asia-Pacific countries in seeking to moderate the actions of its client state, North Korea. China's reluctant agreement to host the 6-Party Talks greatly encouraged U.S. hopes that Beijing would become a "responsible stakeholder."

In the past several years, however, the mood in the Executive Branch, the Congress and the American public has begun to change, partly in response to trade and currency issues, but also in response to China's increasing assertiveness in pursuing its geopolitical interests. China also appears somewhat less helpful regarding North Korea, a maddeningly recalcitrant client but still valuable buffer state. And lately, China has cracked down on dissidents, provoked a dispute that could cause Google to abandon the Chinese market, and hacked into U.S. government and private sector computer networks, apparently to gain access to high technology related to national security and challenging U.S. companies' valuable technology and intellectual property.

Especially in the South China Sea, China has become increasingly assertive – even provocative -- towards its neighbors in regard to maritime boundary issues. China appears to have decided to abandon the conciliatory stance that it adapted in mid-1995, when it realized that its clumsy effort to re-enforce its maritime territorial claims by occupying Mischief Reef in the Spratly island chain, had backfired by generating an unusual show of ASEAN solidarity.

The State Department and Defense Department are concerned about reports of pressure by China on U.S. multinational oil and gas companies not to drill in blocks offered by Vietnam, as well as the March 2009 harassment of the US Navy ship "Impeccable" in waters 75 miles South of Hainan Island. The crudeness of Chinese challenges suggests a concerted effort to change the established rules to China's advantage.

At the time of the Spratlys incident in 1995 the United States took no stand on the disputed claims and only called for the peaceful resolution of maritime territorial disputes and non-interference in the rights of free passage of warships in straits and exclusive economic zones. Now, the State and Defense departments as well as the U.S. Navy, which has long had strong influence on U.S. policy regarding maritime boundary disputes and freedom of navigation, have shown more concern over the substance of China's claim to nearly the whole South China Sea as "historical waters." A major concern is that this approach is not in accordance with the principles of the UN Convention on the Law of the Sea (UNCLOS). In March 2009 the contested sovereignty of the Paracel island chain flared up when China sent a "fishery patrol ship," which the Beijing News said was a converted warship into the open sea between the Spratlys and the Paracel island chain. China's seized the Paracels from the disintegrating former South Vietnamese government in 1974 in a bloody engagement.

Finally, another factor that indirectly may be affecting U.S. concerns about China's activities in Southeast

Asia is the current strain in U.S.-Japan alliance relations over the Futenma base relocation plan, and the general shift in the Japanese political climate toward a more nationalistic and independent posture. What most if not all Southeast Asian governments want is for both the United States and Japan to pay more attention to the region and especially to increase their business investment and ODA.

Specific Responses to Questions

China's positions on sovereignty and maritime claims and how they impact regional and U.S. interests

Largely because China claims most of the South China Sea as “Historical Waters,” it has a maritime territorial dispute with nearly every other littoral country. Most of these disputes, the parties to the conflict, the issues and historical context are shown in the chart that accompanies my written testimony. The historical waters claim has some limited validity under the 1982 UN Commission on the Law of the Sea (UNCLOS), but only under very narrow circumstances which generally are not applicable when more than one country is a claimant. Otherwise, the UNCLOS has a very clear set of principles for determining territorial waters and Exclusive Economic Zones, or EEZs.

The historical seas claim is most troublesome in regard to the open sea and China's claim to small islets as in the Spratlys and Paracels which are much nearer to the coasts of other claimants. By some accounts, acceptance of a so-called “nine dashed line” on a Chinese map, also called “U-Shaped Line” – which pushes China's claim deep into what normally would be the EEZs of Vietnam, Indonesia, and the Philippines – would give it 80 percent of the area of the South China Sea. This was the basis for the Philippines' strong objection to China's seizure and occupation of Mischief Reef in the Spratlys, since the reef is well within the former's claimed EEZ.

In some other areas, such as the Gulf of Tonkin, which is bounded by Vietnam and China's Guangxi Province, Liuzhou Peninsula, and Hainan Island, China is not the only country asserting a historical waters claim. Vietnam, in fact bases its claim in the Gulf of Tonkin partly as historical waters, which would give it a much larger share of the Gulf than under the normal UNCLOS rules, and also on the basis of a vertical line drawn by the French colonial power in the Sino-French Treaty of 1887. The median line between Hainan Island and the Vietnamese coast, which would be the usual way of adjudicating a claim under UNCLOS, would favor China in the Gulf itself, but not in other parts of the Vietnamese coastline.

Also, all of the littoral countries of the Gulf of Thailand – Malaysia, Thailand, Cambodia and Vietnam have disputes with one or more of the others. Malaysia and Thailand signed a joint development agreement for part of the disputed area, but other claims between them remain in dispute.

The territorial issues have become much more acute in recent years as the result of rising prices for oil and gas and the rapid depletion of wild fish stocks throughout the region. Fisheries, which are an important source of protein in many Asian diets, are rapidly being degraded by overfishing, pollution and other causes, and prices are rising along with increasing scarcity.

The Chinese as well as their neighbors have increasingly used force or the threat of force to protect what they view as their own fishing grounds. This pattern also includes actions such as the seizure of fishing boats by countries other than China.

But in the end, China is much the more powerful country and its increasing muscle flexing over its maritime territorial disputes with Southeast Asian countries poses a growing problem for legitimate American and Southeast Asian interests, including freedom of navigation, access to rich undersea oil and gas deposits, and the cooperative and sustainable development of other seabed resources, fisheries, and

estuaries. The consequences of China's behavior in the South China Sea in particular include threats to regional peace and stability, economic development, traditional subsistence livelihoods, and food security.

The current state of China's maritime disputes with Southeast Asian nations in the South China Sea and Gulf of Tonkin

There has been no progress towards resolving any of these disputes between China and its neighbors, though a few settlements have been reached by other claimants with each other. China has objected to agreements that involve waters that it also claims.

In fact, most of the territorial disputes have become more heated at this moment because the UNCLOS required countries to submit formal claims by May 13, 2009. Several countries have already have lodged complaints about other countries' submissions. China, for instance, objected strongly to a joint submission by Malaysia (states on Borneo) and Vietnam and to a separate submission by Vietnam alone.

More important than the details of these disputes is China's increasing willingness to use force and threats to back up its claims. After the 1995 Spratlys incident ASEAN brokered an agreement by China and the other parties not to build any more structures on disputed reefs and atolls. In March 2002 ASEAN and China agreed not to use force to resolve the disputes and in November of that year the parties signed a Declaration on the Conduct of Parties in the South China Sea, which included not only an agreement not to use force but also to undertake confidence-building measures. Nothing much has come of these agreements. Beginning in 2005 the national oil companies of China, Vietnam and the Philippines have reportedly conducted jointly conducted seismic in waters that included the Spratlys, to what result I do not know.

China created further regional consternation in late 2007 when it established a new administrative center on Hainan with responsibility for managing the Paracels and Spratlys, and Macclessfield Bank. Also known as the Zhongsha Islands, its extensive atolls and shoals must be avoided by large ships but the area is a rich fishery. It is also claimed also claimed by the Philippines.

China's construction of hydropower dams on the mainstream of the Mekong River, their impact on Lower Mekong Countries, and potential nontraditional security threats (NTS) and their effect on the United States

There are few if any regions of the world where the adage "geography is destiny" is more apparent than in the Mekong River Basin. China, by far the largest and most powerful country in the region sits astride both the source and the part with the largest hydropower potential. China recently completed and has begun filling the fourth of a massive eight-dam at Xiaowan, southwest of Kunming, the provincial capital. The 292 meters-high Xiaowan Dam, the world's highest compound concrete arch dam, would tower 100 meters over the Hoover Dam, which is of a similar type.

Most importantly, the Xiaowan Dam's reservoir will hold 15 billion meters of water, enough to regulate the river for the benefit of China's hydropower production, water storage and to maintain navigation in the dry season, when the river is only inches deep in many places. China has begun to construct four other dams upstream of Xiaowan, including one with even larger storage capacity.

China has several goals in constructing a massive eight dam cascade in Yunnan. First, the Upper Mekong, which the Chinese call the Lancang, has nearly the energy potential of the Three Gorges Dam, heretofore China's largest construction project. China sees the exploitation of river's energy potential as the key to its "Go West" infrastructure development project, now Beijing's most expensive

and highest priority national endeavor. Second, China wants to maximize the navigation potential of the river as far south as the Khone Falls, the only really large geographic obstacle between Yunnan and the Mekong Delta, where it disappears into the South China Sea. Third, despite growing recognition of the human and environmental cost of past infrastructure projects, China continues to suffer from a mind-set that is strongly biased towards harnessing nature for development. Fourth, China is determined to incorporating the natural resources of the Mekong Basin into its manufacturing supply chain expanding its political and economic influence.

China's military, economic development and geopolitical objectives of China pose the most important but by no means the only threat to human security and regional stability in the Mekong Basin. In varying degrees the former warring countries of Cambodia, Laos, Thailand and Vietnam also are pursuing short sighted, environmentally unsustainable development policies, in the cases of Laos and Cambodia, in conjunction with Chinese ambitions for regional economic integration.

The plans of Thailand, Laos and Cambodia to build up to 13 dams on the mainstream of the lower half of the river are, if anything, even more immediately threatening to the human and food security and livelihoods of tens of millions of people. Two dams in particular – Laos' Don Sahong project at the Khone Falls on its border with Cambodia and Cambodia's plan to build a 35 or more kilometers-wide dam across the Sambor Rapids, roughly equidistant between the Khone Falls to the north and its capital, Phnom Penh to the south.

These two dams, either alone or together, threaten critical migratory paths for 70 percent of the most commercially valuable species of wild fish. At Don Sahong, a Malaysian company, Mega First Corporation Berhad, has contracted with the Lao government to build a 240-360 megawatt dam on the Hou Sahong, the only one of 18 channels that allows unimpeded year round spawning migration by hundreds of fish species that are worth as much as \$9 billion or more annually and which supply up to 80 percent of the animal protein of as many as 60 million people. A Chinese company has an agreement with the Government of Cambodia for the Sambor Dam project, which would create a total barrier to the spawning migration of many of the same fish species that transit the Hou Sahong channel at Khone Falls.

Time does not permit detailing the other dam projects in Laos and Cambodia, many of which are still on the drawing boards. Nor, is there time to walk you through the rather fascinating origin of these projects in an early Cold War Era scheme largely drawn up by the U.S. Army Corps of Engineers and the Bureau of Reclamation -- the folks who gave us the Tennessee Valley Authority (TVA), Hoover Dam, and the massive dams on the Columbia River. Much larger than the TVA, the massive Lower Mekong development scheme was the work of a U.S.-led multinational Mekong Committee organized loosely under UN auspices. The scheme even included a dam above the Sambor rapids that would completely cover the falls with locks to facilitate the navigation of Ocean going ships all the way from the South China Sea to the border of Laos and Yunnan. The project sought to protect the region against communism through development and also to enable the United States to extract important strategic minerals, which are there in abundance.

The main point of my mentioning this American led-scheme is to remind us that it isn't that long since the word environment was not part of our lexicon, and also to underscore China's continuing fascination with very large hydropower dams that have gone out of fashion in most of the world.

If completed as claimed, the mainstream dams in both the Upper Mekong in China and the Lower Mekong in Laos, Thailand and Cambodia will have an almost incalculable impact on human and food security and livelihoods in the whole Mekong Basin. These projects also pose a direct threat to the hard earned peace and stability of the Mekong Region and mainland Southeast Asia.

I would summarize these impacts as follows:

First, China's massive Yunnan cascade will allow China to regulate the river, mainly by holding enough water in reservoirs during the monsoon season floods to facilitate ship navigation and power generation by its own smaller dams through the dry season. It will also both facilitate and provide control over the viability of the Lower Mekong dams. In other words, the downstream countries dams cannot be operated during the several months when the river does not have enough water to turn the turbines. The downstream countries will have to depend on China to release a sufficient amount of water at the right time. China may never feel the need to turn off the tap, but it will operate the dams in accordance with its own power loads, water storage needs, and downstream navigation.

From an environmental and ecological perspective, putting 20 percent or more percent of water in the river during the dry season, as China intends, will create a major disruption of the river's ecology and its enormous productivity of aquatic life which is based on seasonal extremes of wet and dry.

Second, the Chinese scheme will likely seriously disrupt the finely balanced interaction of the flood and drought with Cambodia's Tonle Sap Great Lake and the river of the same name which connects the lake to the Mekong mainstream at Phnom Penh. Each year the raging flood waters – known as the “flood pulse” -- causing the Tonle Sap River to reverse course west-ward. The rising flood waters turn the river and the Great Lake into a vast temporary wetland the size of Lake Superior, which becomes the nursery of billions of fish that have spawned upstream during the dry season and been carried down by the flood. When the flood eases the Great Lake flows back in to the mainstream over a period of three months, bringing with it a new generation of fish and giving the Mekong Delta enough water for a third rice crop.

Third, both the Chinese and Lower Mekong dams will seriously threaten the viability of the Mekong Delta, Vietnam's most important source of fish and its “rice bowl.” The dams will hold back the silt that rebuilds the Delta each year and keeps the South China Sea at bay. Already, smaller alterations of the river's flow in the Delta have created a major problem of seawater infiltration and land submersion. The upstream dams will alter the river's flow in still unpredictable ways, threatening the rice fields that produce 40 percent of Vietnam's output and possibly making some population centers inhabitable.

Finally, two threats less talked about are an earthquake that would rupture a Chinese dam in Yunnan, a seismically active region, or a rains of such magnitude that the sluice gates would have to be opened to save one of these large to mega-sized dams. In either case, the consequences downstream would be catastrophic.

One might well ask if the consequences are so dire, why would governments – especially in the Lower Mekong – push forward with these plans.

In the Lower Mekong, governments appear to be beguiled by the proposals, mainly by Chinese, Thai, and other foreign private and state owned development companies to construct “free” projects that will produce tax revenues and be turned over to the governments in 25 years. These offers are especially attractive to the governments of Laos, which seeks to become the “battery of Southeast Asia and to Cambodia, which likewise wants to export electricity and also badly needs electricity for industrial development.

Another major factor is that the Lao and Cambodian governments are not capable of carrying out comprehensive full cost-benefit analysis that reflects the true costs to the environmental and human security.

Unfortunately, the projects are being financed by Chinese, Thai and other foreign developers who care little about the cost side of the equation to the countries and their people. Thailand's Electrical Generating Authority has been the main financier of dams in Laos to produce power for the Thai grid. Some Chinese companies want to buy power from Laos and Burma, but others see these projects as simple commercial "build-own-operate-transfer (BOOT)" opportunities.

Less clear are the motives of Chinese state-owned banks and aid-giving agencies. Some see this all as emanating from Beijing, while others – including some respected Chinese academics – feel that China's senior leaders are not aware of the huge potential for "blowback" if its state owned entities turn the Mekong into another version of the Yangtze or Yellow rivers.

The projects are so environmentally destructive that the World Bank and the Asian Development Bank could not finance them, and they will be extremely reluctant to put themselves in the position of being tainted by participation. Because the banks are not likely to stand by if fish stocks and livelihoods are devastated, they are at risk of ending up trying to help, thereby playing the role of the people who follow a parade of elephants with brooms and shovels!

So far, it would appear that the multilateral banks are reluctant to criticize the projects directly. Moreover, the ADB is building a regional power grid under its multibillion dollar Greater Mekong Subregion (GMS) cooperative development project. The grid is mainly oriented towards hydropower projects. The GMS, which includes China (Yunnan and Guangxi Zhuang Autonomous Region), Cambodia, Laos, Myanmar/Burma, Thailand, and Vietnam, is playing a major role in the physical integration of the region with Southwestern China. Because of opposition from China, which incidentally now holds the largest share of voting power on the ADB Board of Directors after Japan and the United States, the GMS does not include cooperation on the river that gives the region its name.

Southeast Asian Response?

It is difficult to identify any clear Southeast Asian response to either the South China Sea disputes or China's development plans for the Mekong River and those of some of its downstream neighbors. On the South China Sea, any collective response has been prevented by the fact that the involved countries also have disputes with each other –often over the same areas claimed by China – and because of the intimidating effect of China's superior military power and readiness to flex its muscles.

The Mekong situation is similar. Several countries have their own priority projects and ASEAN itself has shown almost no interest in the issue. On the other hand, Statements by Thailand's Prime Minister Abhisit Vejjajiva beginning last summer appear to presage a possible shift in Thai policy toward hydropower on the Mekong River. In a June 19, 2009 meeting with representatives of the Save the Mekong Coalition, a grouping of some twenty NGOs, Abhisit appeared to depart from Thailand's traditional policy of looking to the Mekong Basin for new sources of electrical power to meet growing demands for power and water. The prime minister told the delegation "that he will take up the issue of dam construction on the Mekong River for discussion at the bilateral, regional and international levels, whether with the Mekong River Commission, with Thailand's fellow ASEAN members, or with ASEAN's dialogue partners..." Significantly, while Prime Minister Abhisit emphasized that Thailand alone could not "agree or disagree" to projects proposed for an international river, he appeared to put down a marker that the construction of dams should take place only after "consultation ... based on data obtained from surveys that conform to international standards and are acceptable to all parties involved."

Prime Minister Abhisit brought this new perspective to a meeting in Hanoi with Vietnamese leaders on

July 12. In a joint statement, Abhisit and Vietnamese Prime Minister Nguyen Tan Dung pledged to work with each other and other countries in the Mekong basin to both tap and protect water resources of the Mekong River in order to protect legitimate and long-term rights of all downstream and upstream countries for the sake of common sustainable development in the sub-region". The meeting with the environmental advocates followed the initiation by Save the Mekong on June 18, 2009 of a world-wide campaign against hydropower dam construction on the Mekong mainstream, backed by thousands of supportive postcards from throughout the world.

The only institutional player is the Mekong River Commission (MRC) which was reconstituted in 1995 out of the long moribund Mekong Committee. The MRC is comprised of the four Lower Mekong countries, Cambodia, Laos, Thailand and Vietnam. China and Myanmar/Burma have accepted only observer status.

In theory the MRC exists to promote cooperative, sustainable and equitable water management, but it cannot really do that so long as the member countries are not willing to surrender even some of their sovereign rights.

That said, the MRC Secretariat does carry out important research on fisheries and other environmental and water management issues. Somewhat remarkably, given the record of his predecessors, the current CEO of the Commission, Jeremy Bird, has gained enough latitude from the member governments to take up the issue of mainstream dams and fisheries as part of the MRC's Basin Development Plan. Two well attended "regional stakeholder meetings" meetings in Vientiane, Laos, the MRC headquarters in September 2008 and in Chiang Rai, Thailand, this past October, have attempted to sensitize governmental decisionmakers and the public to the absolute incompatibility of mainstream dams and migratory fisheries. I attended both of these meetings as a member of a non-governmental organization.

One very interesting development was that China only sent a couple of officials to the 2008 meeting, who had no authority to engage in any give-and-take discussion of downstream complaints, but sent a sizeable delegation headed by a senior diplomat to the 2009 meeting. The delegation faced so much criticism from Lower Mekong and international NGOs, and representatives of civil society organizations that the leader acknowledged to the delegates at the end of the workshop that he had heard their message and would take it back to Beijing. What he reported and what may have registered remains unknown outside the Chinese government.

The air of secrecy surrounding China's Yunnan dams and most of the Lower Mekong dam proposals has created almost a complete absence of transparency. The Chinese provide little information on future construction and how the dams will be operated. On the Lower Mekong, Chinese, Thai and other countries' companies, both private and state-owned, are concluding deals with governments with a total absence even of simple coordination. Instead, the environment is one of uncoordinated and even chaotic competition. Also critically important, local communities remain woefully under informed as to projects that will have drastic impacts on their lives: from outright displacement and physical relocation to the decimation of fish populations.

How Should the U.S. Respond?

It has become increasingly obvious in recent months that policymakers in the Obama administration and many in Congress from both parties, as well as the Washington foreign and security policy community, have concluded that an unhealthy geopolitical shift is underway that seems to favor China, especially in Southeast Asia. On the one hand, the global economic and financial crisis still requires close engagement between Washington and Beijing, though narrower calculations than just the desire for harmonious

relations will likely drive economic and financial policies in both countries. Likewise, we will continue to seek China's cooperation on the North Korean nuclear threat because we must, even though the results thus far have been disappointing to say the least. On the other hand, increasing repression of freedom of speech as evidenced in recent widespread arrests and trials of Chinese dissidents and the Google controversy are negatively affecting American and other perceptions of China's readiness to fully integrate into the new information-based global economy.

In Southeast Asia in particular, China's deepening involvement in recklessly destructive infrastructure projects such as the construction of hydropower dams on the mainstream of the Mekong River are creating anxiety and drawing the United States back into the region again after years of comparative neglect. Secretary of State Clinton's statement "We're back" to the ASEAN leaders in Phuket last July was clearly a response to concern that China's involvement in the region was potentially destabilizing, especially in the Mekong Basin and the South China Sea. In the latter case, American officials at the State Department and the Pentagon are concerned about the increasing behind-the-scenes tensions in China-Vietnam relations, both over China's Yunnan dams and proposed dam projects in Laos and Cambodia, which they fear pose a dire threat to the physical viability of the Mekong Delta.

Two Proposals

What the United States could or should do about these issues is a complicated question with no easy answers, since U.S. leverage in either the South China Sea or the Mekong River Basin is very limited.

Still, with regard to the South China Sea disputes, I believe that the U.S. should support or lead an international initiative to give non-littoral user countries and other "stakeholders" like the shipping, fishing, and oil and gas industries a role in engaging with China and Southeast Asian countries to promote cooperation and accepted rules of the road *without* resolving the underlying disputes. Many in Japan and elsewhere call for in effect "internationalizing" highly transited straits and shipping routes. Many other nations and private entities have a legitimate interest in promoting cooperative fisheries management, protecting coral reefs and participating. The initiative would be welcomed by most countries, including U.S. allies including Japan, Thailand, Australia and the Philippines, as well as other littoral states with shared concerns like Vietnam, Indonesia, Malaysia and Singapore.

The initiative could begin with a Track II or Track I and one half (with government officials participating in their own capacity based on their expertise. The meeting should be held somewhere in the region. A side benefit could be to put a new and positive item for bilateral cooperation on the agenda of the U.S.-Japan alliance, which is struggling with a lot of negative issues at the moment. Both countries could interact with their respective regional constituencies.

With regard to the Mekong hydropower issue, the Obama administration has already undertaken some positive steps like the Initialing of a Letter of Intent with the CEO of the MRC for a Mississippi-Mekong sister river partnership. Secretary of State Hillary Clinton brought that proposal to the annual ASEAN foreign ministers' meeting in Phuket last July as prime evidence of the intent of the Administration to reengage with Southeast Asia. The State Department has now re-named the proposal the Lower Mekong Initiative (LMI), and set up a working small group within Bureau of East Asia and the Pacific.

Interestingly, while Thailand the host government of the ASEAN meeting played a very positive role in organizing a meeting between Secretary of State Clinton and her counterparts from the four MRC countries, the other governments appeared to welcome this indication of U.S. interest. The LMI covers a number of areas of cooperation including the environment and climate change adaptation, health, education, and infrastructure, the latter is the area where the United States could make a positive

contribution towards averting an environmental and socioeconomic disaster. Fortunately, the US has a lot to offer--especially in the areas of technology assistance, capacity-building and assistance to carrying out full-scope environmental and socioeconomic cost-benefit analysis.

I believe it is not too late to influence what happens on the Lower Mekong. If I may self-advertise a bit, Stimson recently completed a 9 minute video documentary that uses GIS data and software coupled with computer generated animation, along with more traditional documentary tools, to show the impacts on the environment, fisheries and people of the proposed Don Sahong and Sambor dam projects. These projects will also put more stress if not decimate endangered species like the Irrawaddy Fresh Water Dolphin and Giant Mekong Catfish, which are becoming import sources of environmental tourism dollars. A link to the video can be found on the Stimson Center's Southeast Asia Program website, at <http://www.stimson.org/pub.cfm?id=871>

If I may I would also like to mention for the record an article of mine in the December 2009-January 2010 issue of *Survival*, which is published by the International Institute of Strategic Studies (IISS) in London. The article, "Mekong Dams and the Perils of Peace" makes a fuller analysis than I can give here of the geostrategic consequences of China's Yunnan dam cascade.

Thank you very much for the opportunity to participate in this important hearing. I am prepared to answer any questions you may have and supply any follow-up information that would be helpful.

[The following charts are included in Dr. Cronin's testimony: Mekong Tipping Point; East Asia Maritime Territorial Disputes: Context and Parties]

Additional information available at: www.stimson.org/mekong

Mekong Tipping Point

Pragmatic Steps

1. Moratorium on New Mainstream Dams Until:

- **Agreed Basin-Wide Standard for Environmental and Socioeconomic Impact Studies**
 - **Full Cost Benefit Analysis (e.g. fisheries, agriculture, tourism, etc.)**
 - **Effective Planning for Alternative Livelihoods and Food Security**
- #### **2. Full Membership of China and Myanmar in the MRC**
- #### **3. Greater Regional "Ownership" and Support of MRC**
- #### **4. Empower MRC To:**
- **Integrate Chinese Data into Lower Mekong Studies and Planning**
 - **Public Release of All Impact Studies**
 - **Advance Best Practices through International**

Engagement

6. Increase Support for Climate Change Study and Adaptation

EAST ASIA MARITIME TERRITORIAL DISPUTES: CONTEXT AND PARTIES

Disputed Territory	Source of Conflict	Parties Involved	Historical Context
Chunxiao Oil Field	The estimated 1.6 trillion ft ³ natural gas field sits 3 miles west of the median line. Japan contends part of the resources originate from Japanese territory.	Japan, China	The dispute lies within the EEZ of China and Japan; however, the East China Sea is only 360 nautical miles wide, while the EEZ allows for 200 nautical miles of sovereignty for each country.
Senkaku/Diaoyutai Islands	Japan, China, and Taiwan claim that the island chain resides within their own territorial waters. The islands provide opportunities for natural resources exploration, as well as important international shipping lanes.	Japan, China, Taiwan	Taiwan and China contend the islands have been under Chinese sovereignty since the 15th Century. Japan claims the islands were allocated to Japan under treaties at the end of the first Sino-Japan war in 1895. China refutes the treaties as null and void and further claims any territory given to Japan was returned to China after WWII.

<p style="text-align: center;">Chinese Naval Base on Hainan Island</p>	<p>China constructed a naval base on Hainan Island. Southeast Asian countries fear the base will allow China to increase pressures on other territorial disputes. Japan is concerned about China's ability to dominate the busy shipping lanes. India fears China impeding Indian access to trade in Southeast Asia.</p>	<p style="text-align: center;">China, Japan, India, Southeast Asia</p>	<p>The South China Sea is surrounded by multiple countries. All have interests in the waterways as a passage for trade.</p>
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Disputed Territory	Source of Conflict	Parties Involved	Historical Context
<p>Dokdo Rocks (aka Liancourt Rocks) in the Sea of Japan</p>	<p>Both Korea and Japan lay territorial claim to the two rocky islets, their surrounding rocks, and water. Currently, it is internationally considered that of Korea, as their naval base is stationed there, but Japan still registers Dokdo under Goka Village, Oki-gun, Shimane Prefecture and allows Japanese to declare themselves residents.</p>	<p>Korea, Japan</p>	<p>Korea's claims on the islets go back to 512 AD with supporting evidence found in following centuries, including that of Japanese records. However, in 1905 Japan lay claim to the islets during the registration of the Shimane Prefecture of Japan, a time that Korea protests was during weakness with little opportunity for rebuttal. At the end of WWII the Allies renounced Japan's claim to the islets. Japan considers this null and void due to a 1952 Treaty but Korea's sovereignty is still recognized internationally.</p>
<p>Mischief Reef</p>	<p>Although only 130 miles away from Palawan, well inside the EEZ of the Philippines, China has built structures, claimed as shelter for fisherman, which actually more closely resemble military installations.</p>	<p>China, Philippines</p>	<p>In 1994 China built initial structures on stilts while the Philippines Navy was not patrolling due to monsoon season. The Philippines decision to avoid confrontation was partly based on previous Chinese infringements, including the Johnson South Reef Skirmish where 70 Vietnamese troops were killed despite the conflict taking place in Vietnamese territory.</p>

Paracel Islands	The islands are almost equidistant from Chinese and Vietnamese territorial borders, but China recognizes itself as sovereign of the islands despite both Vietnamese and Taiwanese territorial claims.	Primarily China, Vietnam, Taiwan	A conflict between China and Vietnam occurred in 1974. "The Battle of the Paracel Islands" resulted in casualties from both sides as well as sunk naval vessels. After the battle, China took responsibility for the islands; however, in 1976 Vietnam reclaimed the islands as a part of Vietnamese territory.
Spratly Islands	Oil reserves, commercial fishing, shipping lanes and extended continental shelf claims as to the United Nation Convention on the Laws of the Sea. Many nearby countries all have interests in making claims to the island's rich resources.	China, Taiwan, Philippines, Vietnam, Malaysia, Brunei	Although certain agreements and treaties have been made to quell conflict in the region, there are too many countries of interest to easily divide the spoils of the islands. Disputes have escalated and included fatalities. A 2002 declaration of conduct attempts to prevent open conflict between claimants.

In addition, Stimson has identified the following areas of interest that non-littoral parties have in the disputes:

EAST ASIAN MARITIME DISPUTES: INTERESTS OF NON-CLAIMANT STAKEHOLDERS

	Senkaku/Diaoyutai Islands	South China Sea
Free Passage	X	X
Shipping Lane Security	X	X
Oil and Gas Deposits	X	X
Fisheries		X
Coral Reefs and Carbon		X

VICE CHAIR BARTHOLOMEW: Thank you very much.
We'll start questions with Commissioner Wortzel.

Panel IV: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: I have actually related questions that address primarily the Strait of Malacca. To what extent do the three of you believe that the United States and Chinese interests coincide in keeping open these maritime chokepoints for the flow of energy and commerce?

And where are the points of departure in United States and Chinese interests, primarily toward these chokepoints. And then finally, but related, would Indian naval activity around the Strait of Malacca stimulate a Chinese response?

Mr. Percival, I'd start with you and then see if Dr. Scobell and Dr. Cronin have comments.

MR. PERCIVAL: Let me start with your last question. I was just in India--I'm sort of jet-lagged--at a conference between CNA and the National Maritime Foundation, with participants from the Indian Navy and the U.S. Navy. One of the interesting aspects of this conference was an attempt to place limits on rampant speculation that the Chinese are building a series of naval facilities/bases into the Indian Ocean. This speculation might better be called fantasy at least for the next decade.

The Indian Navy is keen to get involved in assuring maritime security in the Strait of Malacca. They argue that they are a neighboring state (the Andaman and Nicobar Islands sit at the mouth of the Strait of Malacca) and that they have the capability to be helpful.

The littoral countries of Southeast Asia, principally Malaysia but also Indonesia and Singapore, have kept India at arm's length. In part, Southeast Asians don't want any major power playing a dominant role in maritime security in the Strait of Malacca, though they are willing to accept help. The United States has been very helpful, as has Japan.

Part of the reluctance to give India a major role may also be related to China.

With regard to your question about whether U.S. and Chinese interests coincide, I would argue that all major external powers' interests coincide to a certain degree, whether it's Japan, the United States, India or China, in improving security in the Strait of Malacca.

The question is really who does it and who benefits? China has

shown restraint. It has offered in very general terms to help and backed off when asked to do so.

There has been speculation that Malaysia, which has been sympathetic toward a Chinese role, made comments on behalf of China about not wanting an Indian role. Malaysia criticized the Indian Navy's protection of American ships in 2002 in connection with the Operation of Enduring Freedom in Afghanistan. Malaysia was also most critical of the alleged American plan to patrol the Strait of Malacca unilaterally.

Generally China has stayed away from controversy. China participates in an International Maritime Organization safety project with the United States. China has held its hand on the Strait of Malacca.

DR. SCOBELL: I tend to agree with what's been said. I still think that China continues to see the U.S. Navy, in particular, as an important protector of the sea lines of communication, especially in this case, the Straits of Malacca.

But what you see in Chinese military writings is increased discussion of SLOC protection as an aspirational PLA Navy mission, as an appropriate mission, and I view that as not terribly shocking. But the question is, how long will it be until China switches from being essentially a free rider, on the U.S. Navy, in particular, and deciding to assume these responsibilities all by itself?

Of course, it requires a greater capability, naval capabilities, from the Chinese themselves, but is this probably ten years away, 15 years away, 20 years away, I'm not sure, but we ought to monitor this carefully.

In terms of China, thinking about a greater Indian role in this. I think Beijing would not be terribly enthusiastic about the prospect.

VICE CHAIR BARTHOLOMEW: Dr. Cronin, anything to add?

DR. CRONIN: I'll be very brief about this. I think, first of all, that China sees the South China Sea and the Strait of Malacca as a vulnerability more than an advantage by having its navy in those waters.

Second, there really is a serious issue here that goes beyond our speculation about what things mean or what will happen in the future, and that is that this incident with the USNS Impeccable calls our attention to the fact that, again, China's interpretation of the Law of the Sea, and particularly as regards what it calls its EEZ, exclusive economic zone, has a material impact on the U.S. Navy and other navies that might want to operate here because, for instance, the Impeccable was apparently carrying out some kind of seabed research, and China makes the argument, which has some, probably some validity, under national law that this more than free passage.

In other words, they were poking around. In any event, whether

it's right or wrong, China is going to use some muscle to try to keep us from doing that.

About India, I think India plays an important role in the Indian Ocean, but I agree with my colleagues, that it's not particularly welcome in Southeast Asia, and I think that India, personally I think that India overestimates the threat and overestimates its own importance in this regard.

VICE CHAIR BARTHOLOMEW: Thank you.
Commissioner Fiedler.

COMMISSIONER FIEDLER: Let me go back to the Mekong. At risk of some oversimplification, it sounds like China has an enormous amount of power and leverage over mainland Southeast Asia. And it is unfettered power, i.e., they're the source of the water.

DR. CRONIN: Yes.

COMMISSIONER FIEDLER: They control it at the source. It is strange to me that anyone would believe that those who need water cannot be influenced fairly dramatically is naive. You don't need military power; you've got the power of water. Without water, there is no life. Just drive through Wyoming during a drought.

What can the United States do to mitigate that threat?

DR. CRONIN: Very good comment and question. About the water issue of control of water, it is important to remember that you can't hold back the river forever. So once that 15 billion cubic meter dam is filled, China can put more water into the river, but it can't hold back any more water without collapsing a dam. So there is a point there.

But here's what's more important, and that is, yes, China will operate the dam to suit its own interests, and these interests mainly are generating power, navigation, et cetera, so there will normally be a certain amount of water that would come as long as China wants to produce power.

But what's really important in terms of its influence and stranglehold over Southeast Asia is the issue of whether the Southeast Asian countries in the Lower Mekong build these mainstream dams. Because these dams will not work without a reservoir in Yunnan big enough to put enough water in the river during the dry season to keep their turbines running.

I've been in Vientiane several times. I could have walked across the river to Thailand, and a lot of people, hundreds of people, were out on the river, on the dry riverbed.

So what we can do, and what I think we should be doing, is through this Lower Mekong Initiative and our other contacts with the four Lower Mekong countries, is saying, we can help you do serious cost/benefit analysis of these proposals. And then let's talk about the

total costs and benefits, including not only the socioeconomic benefits and livelihoods, but also the risks that you'll build these dams, you'll be hostage to however China wants to bring, however much, how much water China wants to put in the river and at what time. So that's a point of strategic vulnerability that we should be helping the Southeast Asian countries to avoid.

Now, the Vietnamese know this well. They don't have any dammable stretch of the Mekong mainstream. They've got a lot of dams up in the highlands, and they're very worried about this. They're very worried about China, and they're also increasingly worried about the issue of the Lower Mekong dams which they hadn't thought that much about until recently.

Thailand is a big player here, and Thailand under Prime Minister Abhisit seems to be shifting its posture a little bit. Whereas, Thailand's Electric Generating Authority, or EGAT, has been up until now the main financier of dams on tributaries, they're rethinking about how much power they actually need and whether they should be doing this. The main point, and then I'll stop, is that Prime Minister Abhisit in a meeting with a large environmental group, Save the Mekong Group, put out the suggestion that the Mekong countries themselves, and I think he's talking about the four Mekong River Commission countries, ought to get together and agree on what constitutes a satisfactory and acceptable environmental impact assessment and socioeconomic impact assessment.

That would be a major step forward and probably would reveal that these projects are not really smart projects.

COMMISSIONER FIEDLER: Thank you.

VICE CHAIR BARTHOLOMEW: Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Mr. Percival, I think you mentioned that the primary strategic objective for our military obviously is to have guaranteed passage from one ocean to the other.

I heard someone say that things have changed somewhat because of Chinese intervention and their more aggressive stance, that we no longer, it appears to me, have this unimpeded transit right or opportunity.

What are the positives and negatives for U.S. to accede to the treaty?

MR. PERCIVAL: The Chinese argue that in their EEZ, they should have an ability to limit what U.S. naval vessels can do. Essentially, the *Impeccable* was towing an array of sensors, and this array of sensors provides certain information about the seabed.

Under the Law of the Sea, there is no question that the United States is allowed to do this. Any country may in another country's EEZ.

The Chinese are not challenging the legality of U.S. actions, but stating that this is unfriendly and provocative. The Chinese are also harassing the U.S. Navy in a number of other places.

This is important because if the Chinese prevail in their claim in the South China Sea and if they then argue that they have the right to control free passage through EEZs, they would threaten fundamental U.S. strategic interests in Asia.

COMMISSIONER VIDENIEKS: Right. But it was my understanding that our Navy saw as a positive the right of passage, either subsurface or above surface or whatever the passage would be, if we were a party to the treaty. That's one.

MR. PERCIVAL: Yes, that's true.

COMMISSIONER VIDENIEKS: And two, who will resolve an impasse? Is there a body to resolve an impasse? Let's say bilateral negotiations take place. When would we as a non-territorial owner/claimant or simply as one that passes through, when would we have the right to engage in bilateral negotiations with a disagreeing party? And then who would resolve the impasse if there were an impasse?

MR. PERCIVAL: I'm not sure who would resolve the impasse. Even though we haven't signed UNCLOS, we certainly operate on the basis of UNCLOS. I would mention that after the Impeccable and another incident near the Philippines a couple months later, the U.S. reportedly sat down in late August with the Chinese to talk about these incidents. My impression is that the Chinese didn't budge.

COMMISSIONER VIDENIEKS: Is there a body that would resolve an impasse?

DR. CRONIN: No, I think that's also the case. I do think that there's no harm in the U.S. signing the treaty because if we want to make a case internationally, it looks kind of bad if you say, oh, well, won't you sign the treaty. But it's a political issue in this country. I understand that.

I would say there's no harm in that, but, yes, there's no gain either in terms of any way to resolve these issues through the treaty.

COMMISSIONER VIDENIEKS: All right. Thank you.

VICE CHAIR BARTHOLOMEW: All right. Chairman Slane.

CHAIRMAN SLANE: Dr. Cronin, thanks for taking your time to come. I wanted to get back to the Mekong. The Chinese are planning another four or five dams.

DR. CRONIN: Yes.

CHAIRMAN SLANE: It just seems to me more silt will get trapped, impacting on the Delta. Fifty percent of their food crop is raised in the Delta.

DR. CRONIN: Yes.

CHAIRMAN SLANE: This situation seems to be getting worse for Vietnam.

DR. CRONIN: Yes.

CHAIRMAN SLANE: Do you see it ultimately resulting in a conflict?

DR. CRONIN: Conflict? I would be surprised. But if you put what's happening in the South China Sea in terms of China's throwing their weight around in areas that Vietnam also claims as its EEZs, with this Mekong issue, we have a very worried Vietnam, and frankly I think the stars are in alignment for a much more cooperative relationship between the United States and Vietnam.

I'm glad to see that. I'm a Vietnam veteran, and it's really a good thing to see the world come full circle and for us to have a productive relationship with Vietnam.

But conflict, I think what's more likely is internal instability arising out of loss of jobs, income, et cetera, and people starting to get on the road to find other places to live and work. So that creates internal instabilities. It also could spill over across boundaries because it's, you know, it's a lot of people in Vietnam could end up in Bangkok or people from Laos could end up in Saigon, depending on how these things play out.

Also I think this issue of sort of scrabbling for the scraps so that these countries may not fight China, but they may, in theory, fight each other over what's left of the water.

VICE CHAIR BARTHOLOMEW: Thanks.

CHAIRMAN SLANE: Thank you.

VICE CHAIR BARTHOLOMEW: Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chairman. One, I want to thank you and Commissioner Wortzel for putting together this hearing. It's been really a good one, and I want to thank you all for being here and participating.

In Dr. Scobell's testimony on page ten, and if you can give me a quick response on this one because then I want to ask another one on which you can expound--he says: "China is engaged in unrelenting efforts to counter or at least check U.S. power and influence in the subregion," which I think he means Southeast Asia.

Do you agree with that?

MR. PERCIVAL: No, there's very little evidence to support that conclusion. There's very little evidence that China has taken, made statements or taken policy decisions that are anti-American. In fact, the opposite is the truth.

DR. SCOBELL: Very quickly, I would make a distinction

between anti-Americanism and countering U.S. influence. I think they're different things.

COMMISSIONER MULLOY: Yes.

DR. SCOBELL: As I think I tried to say in my written testimony, I'm not saying China doesn't want us there, is trying to oust us, at this point anyway, but they do not want to see the U.S. as the dominant external power in the subregion.

MR. PERCIVAL: Can I just add, it's very important to differentiate mainland Southeast Asia from maritime Southeast Asia. China is the predominant power in mainland Southeast Asia. The United States is the predominant power in maritime Southeast Asia. We both seem to be able to live with that situation.

DR. CRONIN: Yes, quickly, I don't agree with putting it badly, but I would say this, that it's not really the anti-American aspect. It's that China has a different mindset about geopolitics and about what should be in their sphere of influence, and they want to change the game. They want to change the balance of power, and Southeast Asian countries, particularly in the Mekong right now, welcome the fact that even rhetorically the U.S. has gotten back in and started talking about these Mekong issues.

COMMISSIONER MULLOY: Yes. I thought, Dr. Percival, you said earlier that it was in our national security interests that we have the right to get our forces and that China's growing influence makes that more complicated for us.

MR. PERCIVAL: Yes.

COMMISSIONER MULLOY: Yes. I think that fits in with what Dr. Scobell said.

MR. PERCIVAL: I'm trying to make a distinction. I don't think China's growing influence in mainland Southeast Asia has much effect on our ability to move our forces back and forth between the Indian Ocean and the Pacific Ocean. I am concerned about what China is doing in the South China Sea. Because that has a direct impact on our ability to do so. That's why I think the only real security issue in Southeast Asia that really counts, at least in my view, is the South China Sea.

COMMISSIONER MULLOY: Okay. So as I understand it, most of those land parts of Southeast Asia, they were all under Chinese kind of tributary states at one point in history, and so they had a lot of influence over these people, and now it's kind of, as they grow in strength and power, that's going back into that direction again; is that--

MR. PERCIVAL: That would be my argument. A big part of the book I wrote was differentiating between mainland and maritime Southeast Asia. I think Catharin Dalpino may have talked about distinction this morning as well. So I think that's important. China has

very different interests in mainland Southeast Asia. When you look at maritime Southeast Asia, it does have an interest in protecting its energy supplies, but it doesn't have much of a history in that part of Southeast Asia, and right now its major interest is trade.

COMMISSIONER MULLOY: Yes?

DR. CRONIN: Just a quick point also. It goes back to this issue of China as a historical empire and its mindset, and China, for the main, didn't rule physically over Southeast Asia. They were tributary states, in a sense. And Vietnam being the exception of so much warfare that went on between Vietnam and China, and so their notion of influence, I think, is getting countries to be integrated into their expanding, you know, greater China economic system, and in terms of supply chains and sources of raw materials, inputs and, of course, buffers against other outside influence on their borders, and that's, I think that's still the game.

It's just that the world has changed in the sense that normally big countries don't invade other countries and try to hold them anymore because nationalism is so strong that it gets pretty expensive and pretty costly.

COMMISSIONER MULLOY: Thank you.

VICE CHAIR BARTHOLOMEW: Commissioner Cleveland.

COMMISSIONER CLEVELAND: I'm not prepared to come to the defense of our witnesses, but in reading Dr. Scobell's testimony, I'm not entirely sure that the one fragment that you selected to speak to reflects the balance of his statement.

So, with that said, I have two different areas of questioning. In your very good book, Mr. Percival, you talk about soft power, and that it is, that we need to attempt to outline a Southeast Asian version of soft power to compete with, well, we need to attempt to outline a Southeast Asian version of soft power because the Chinese have growing influence in this area.

And, Dr. Scobell, you talk at the end of your testimony, right after the section that Commissioner Mulloy pointed out, that real steps, China's steps in multilateralism and their experimentation with soft power initiatives in Southeast Asia are of interest.

I wonder if the two of you could talk a little bit more about what that means and what the implications are of the Chinese soft power campaign since it seems a little ambiguous to me as to what the implications are.

DR. SCOBELL: Well, I've done some research on soft power and it's kind of ambiguous by its very nature, and there are different--

COMMISSIONER CLEVELAND: Be important in terms of everybody talking about it.

DR. SCOBELL: Yes. And there are different definitions of soft power, too, but at least for myself, I would include diplomacy as soft power, and so what China has been doing in Southeast Asia in terms of multilateralism, engaging, showing a kinder, gentler side of China, to a region, especially the continental part, or subregion, especially the continental mainland part of Southeast Asia, very leery of China because of the history.

So that's where I would highlight China's use of soft power. It's been very adept at talking the talk, and in some ways, in walking the walk, too. I used to be very dismissive of ASEAN and its role, because it just seemed to be a bunch of people sitting around talking and talking and talking and talking and talking, and accomplishing nothing.

Well, as Winston Churchill used to say, "Jaw, jaw is better than war, war." When you look at it, in retrospect, ASEAN's been a very significant development, and while it's not an alliance, it's definitely not meant to be an alliance, but it's actually served an important purpose, and I think China and Southeast Asians are on the same page in terms of what they tend to value in diplomacy and security arrangements.

But China and ASEAN tend to be kind of vague and amorphous and on agreements, you know, it's kind of like single men, they're afraid of commitment.

But that--

DR. CRONIN: Now wait a minute.

DR. SCOBELL: But anyway I would focus on, when we talk about soft power, I would tend to focus on the diplomatic dimension. It's not the only one, but I think that's an important one.

COMMISSIONER CLEVELAND: I guess what I'm trying to get at is what should we be looking for if indeed they are pursuing and intensifying their soft power efforts? What are the hallmarks of that kind of an initiative is what I'm really trying to understand, because it is ambiguous. What should we be looking for as they intensify this effort?

DR. CRONIN: Well, if I could weigh in on that, I think that one way to look at soft power is it's not hard power. In other words, soft power is a way to get countries to do what you want them to do without using force, and so that's where Andrew's diplomacy comes in, that's where government-to-government relations come in, ODA, building dams in your country and roads and all that stuff.

That's all a form of soft power, but if you think about soft power more as an amorphous cultural affinity, for instance, China has got none. The Chinese are hated in Southeast Asia essentially. So they may have power to get Southeast Asians to do what they want, but I wouldn't want--

COMMISSIONER CLEVELAND: From the soft.

DR. CRONIN: --I wouldn't want to be Chinese in Southeast Asia. Whereas, the U.S., even after the war, we're welcomed in Vietnam and other countries, and U.S. influence is welcomed, our open markets, our culture, so it's two different really distinctions of soft power, I think.

MR. PERCIVAL: Can I jump in on this?

COMMISSIONER CLEVELAND: Yes, please, since it was your book that prompted the question.

MR. PERCIVAL: The original idea of soft power was advanced by Joe Nye up at Harvard.

COMMISSIONER CLEVELAND: Yes.

MR. PERCIVAL: And the basic argument was that there are--certain things about countries that just attract people. You have a terrible problem dealing with soft power in the Sino-Southeast Asian relationship because, as Rich just said, there's nothing attractive about China to Southeast Asians.

But people start talking about soft power if you throw in everything except the military. All right.

COMMISSIONER CLEVELAND: Right.

MR. PERCIVAL: About China's soft power. If you take out the economics--so attractive to Southeast Asians because the economic growth implies political stability--you have an attractiveness of what China is doing in Southeast Asia for fairly clearly defined groups of people.

Political leaders in Southeast Asia tend to find growing economies and greater political stability attractive. They have more control of what's going on in their own country. The Chinese are wooing the political leaders. They are courting them constantly.

Everybody likes to be courted. I mean, you know, it's nice. So, there is something attractive about that. Ethnic Chinese, of course, do so as well. Their attraction is similar to that of say Italian-Americans to Florence.

So there's an attraction, I would argue, to parts of what China is doing, but it's not an attraction to China itself. Nobody in Southeast Asia wants to join the Chinese Communist Party. So it's a very mixed bag, and when you use the term, be very, very careful to define what you're talking about.

DR. SCOBELL: I just want to add one thing. Without hard power, you ain't got no soft power basically. I'd tend to agree that China's soft power is limited. So what does that mean for the U.S.? It means we don't give up, we keep our hard power dry, hard powder power dry; right?

COMMISSIONER CLEVELAND: That's a good expression.

DR. SCOBELL: All economists continue the projection of

Chinese economic growth, right? Now, at some point, laws of gravity, it can't go on forever. But if China, if for whatever reason, China's hard power, read economic power, starts to wane, then its soft power, whatever we mean by that exactly, will probably wane, too.

Similarly, the United States. If we ain't got no hard power, we ain't got much soft power, and so it's important to keep that in mind when we're discussing these things, and also be clear on our terms.

Thank you.

COMMISSIONER CLEVELAND: Can I also prevail on you for one more question--I know we're running out of time. We didn't get as much into the Mekong issue as I would have liked. If we could put Dr. Cronin's "Mekong Tipping Point" paper into the record because I think it captures some of the pragmatic steps we need to take, which we really didn't have time to develop.

DR. CRONIN: Thank you.

If I could also mention, the actual "Mekong Tipping Point" is also the title of this nine-minute DVD documentary.

COMMISSIONER CLEVELAND: That we can't put in the record.

VICE CHAIR BARTHOLOMEW: We're not technologically--

DR. CRONIN: You can put the link. There's a link on the Web site at Stimson.

HEARING CO-CHAIR WORTZEL: But Commissioner Cleveland will watch it.

COMMISSIONER CLEVELAND: I will watch it.

DR. CRONIN: Say again?

COMMISSIONER CLEVELAND: I said your very able assistant gave me the package.

DR. CRONIN: Oh, great. Yes, I know he did. He told me when I got here. My colleague Tim Hamlin has been a mainstay of this project here.

COMMISSIONER CLEVELAND: I'm just sorry I didn't have time to pursue it.

VICE CHAIR BARTHOLOMEW: Can I ask whether you all could indulge us with an extra five minutes? We have about three minutes left before the time. Dr. Scobell, do you have to leave?

DR. SCOBELL: I'm okay for five minutes.

VICE CHAIR BARTHOLOMEW: Okay. Dennis, your turn, and then I have a question.

COMMISSIONER SHEA: Mr. Percival, did I hear you correctly that what happens in the South China Sea is of utmost strategic importance to the United States? Is that correct?

MR. PERCIVAL: That's correct.

COMMISSIONER SHEA: It's also my understanding that U.S.

official policy with respect to these island disputes in the South China Sea is one of agnosticism. We don't judge the merits of the competing claims, but we hope the parties resolve them amicably; is that your understanding of the official position?

MR. PERCIVAL: Yes.

COMMISSIONER SHEA: I think I know the answer to this question, but should the United States be in the business of making judgments about the substantive merits of the competing claims, and should the United States be doing other things more robustly to advance its own security interests in the South China Sea or the East Sea?

MR. PERCIVAL: What you said was absolutely correct. Let me step back a second. Almost all the countries' claims in the South China Sea do not have a strong basis in international law, whether it's Malaysian or Filipino or Vietnamese or Chinese.

I do not think that the United States should change its position and be supportive of one particular claimant or the other. My concern is that if we don't move forward, and I think we're moving backward in the South China Sea. In fact, we're on a downward spiral, I would argue. If we don't move forward, China is getting relatively stronger, and at some point it will be more and more tempted to use force, and that would put us in a very difficult position.

So one of the things I said in my paper was that this is the kind of issue that we ought to be talking about seriously at very high levels with Beijing, Tokyo and New Delhi. We ought to be talking to Jakarta about it, too. Simply putting it off, simply putting it on the shelf, is counterproductive.

COMMISSIONER SHEA: Dr. Scobell or Dr. Cronin, do you have anything to add?

DR. CRONIN: Just briefly on that, I suggested in my paper also the idea of, in a way, doing an end run around the actual problem, and that is to promote the idea that we can do cooperative management of the resources as well as freedom of the use of the South China Sea, by creating a forum where other stakeholders outside the littoral have a voice and kind of internationalizing the management, not the solution, of the problem.

There is one other little thing that that could help us with right now if we took that course, is, we all know U.S.-Japan relations are a little rough right now, both for the Futenma issue and the political change more broadly.

It would help a whole lot, I think, if the United States and Japan actually got something positive going as part of the alliance, and that is together push for this idea of approaching these issues more from the interests of outside, as well as inside stakeholders and internationalizing

particularly important shipping lanes and that sort of thing.

COMMISSIONER SHEA: Dr. Scobell? Nothing?

DR. SCOBELL: I don't have anything to add. I think my colleagues made excellent points, and I do think that this needs to be addressed soon and at the highest levels because otherwise you're not going to get anywhere. Especially, in China, you've got to go to the top, and even then things may not always trickle down the way we would like.

Thank you.

COMMISSIONER SHEA: Thank you.

VICE CHAIR BARTHOLOMEW: Thank you, gentlemen.

I think the question I would have is a little bit too broad to do at the very end, so just a comment. And, Mr. Percival, I'm pleased at your caution about how we define soft power and also the inclusion of economics as part of hard power.

We were established to try to look at both the economic and security aspects of U.S.-China issues, and while I think the world ten years ago might have seen discrete economic issues and discrete national security issues, one of the things certainly we focused on is where those overlap.

It was difficult when we were in Vietnam to listen and think about some of these issues, but the very real national security implications of China taking action, national security, certainly, for Vietnam, and what it means for us, of China taking actions that have very serious economic consequences for Vietnam and its economic development, both the Mekong River and the South China Sea. We've spoken about both of those. But these things are so linked.

At one time I'm not sure that people would have seen water as the kind of national security issue that it is, as well as it is an economic issue.

Dr. Cronin, I wonder if we could follow up outside of the context of this? I was very interested in what you mentioned in passing about Chinese developers being involved in the dams in the Lower Mekong.

DR. CRONIN: Right.

VICE CHAIR BARTHOLOMEW: And I wondered what are they getting out of it? Why are they involved? And are they also the same companies, the developers, that are doing the dams up in China?

DR. CRONIN: Yes.

VICE CHAIR BARTHOLOMEW: Is there some sort of leverage point that's being done on both ends?

DR. CRONIN: Yes, thank you. That's a good question.

I think about why they're involved, it's primarily commercial opportunities, and they make money. They build the dam, they operate

it, and get the revenues from it, selling the power to Thailand or back to China, and by the time they turn it over to the local government, it's probably silted up anyway. So there's money to be made, and it's up-front money. They get loans from state banks, other international banks, et cetera, particularly Chinese banks, to finance these projects, and some ODA money from China as well.

What's really interesting and very difficult to understand, still, is that these state-owned companies are very powerful politically. The bigger ones, I guess, have the same status as ministries in the system.

What's the connection between the Lower Mekong proposals, Kunming, the provincial capital, which has a big interest, and the companies up there that have monopoly on developing that Upper Mekong cascade? They have interests downstream as well--electrical supply companies, et cetera.

So what's difficult to tell, though, is whether this is really consciously orchestrated from Beijing or how much of it is opportunism to make a buck, and that seems to drive a lot of the Chinese economy and a lot of Chinese policy.

What I would suggest in terms of these high-level dialogues that we have, and I agree, you have got to talk to the top leaders, is that I'm not sure that top Chinese leaders understand the potential for blowback.

If they turn the Mekong into the Yangtze or the Yellow River, this will be a disaster. And starting with fisheries, it could be a very near-term disaster, and the blowback potential is very large.

VICE CHAIR BARTHOLOMEW: All right, gentlemen. You've been very interesting and very generous with your time. Thank you. We look forward to working with you as we continue our focus on Southeast Asia. Thanks very much.

DR. CRONIN: Thank you. It's a pleasure.

VICE CHAIR BARTHOLOMEW: We're going to take a ten-minute break. We'll be back at 2:30 for our last panel.

[Whereupon, a short recess was taken.]

PANEL V: CHINA AND REGIONAL FORUMS

VICE CHAIR BARTHOLOMEW: We're going to go ahead and move on to our final panel of the day.

Our final panel today is going to explore Chinese activities in and interactions with Southeast Asia regional forums. We've heard a lot about them today, but we'll get real detail from Dr. Ellen Frost and Dr. Donald Weatherbee.

Dr. Frost is a Visiting Fellow at the Peterson Institute of International Economics and an Adjunct Research Fellow at the Institute

for National Security Studies at the National Defense University. She served in the government as Counselor to the U.S. Trade Representative, Deputy Assistant Secretary of Defense for International Economic and Technology Affairs, and positions in the Treasury Department and State Department. She's been a legislative assistant here in the U.S. Senate and is a member of the Council on Foreign Relations, the International Institute of Strategic Studies, the U.S. Committee of the Council on Security Cooperation in the Asia-Pacific, and the Public Diplomacy Council. She's the author of *Asia's New Regionalism*.

Dr. Donald Weatherbee is the Donald S. Russell Distinguished Professor Emeritus at the Walker Institute of International Studies at the University of South Carolina. He's taught at the University of Rhode Island, Wilson College, the U.S. Army War College, and at universities in Germany, Indonesia, Malaysia and Thailand. Previously, Professor Weatherbee has served as President of the Southeastern Conference of the Association for Asian Studies and editor for Southeast Asia of *Asian Affairs*. He's a member of the editorial board of *Asian Survey* and a member of the Contemporary Affairs Council of the Asia Society. Dr. Weatherbee is currently on the Board of Advisors of the United States-Indonesia Society, a director of the American-Indonesian Cultural and Economic Foundation, and a participant in the Columbia University Southeast Asia Seminar.

Dr. Frost, we'll let you start.

**STATEMENT OF DR. ELLEN L. FROST, VISITING FELLOW,
PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS
AND ADJUNCT RESEARCH FELLOW, INSS NATIONAL DEFENSE
UNIVERSITY, WASHINGTON, DC**

DR. FROST: Thank you, Mr. Chairman, Ms. Vice Chairman, and members of the Commission for inviting me to share my thoughts on China and regional organizations.

As someone who has worked on both economic and security issues in both the Congress and the executive branch, I'm particularly grateful to be here today because this is one of the very few forums where the relationship between economic and security issues is explicitly addressed.

As you know, Asian officials clearly understand that economic well-being and security are wrapped up together and are mutually reinforcing.. But in Washington, these connections are not often made so thank you for having me today.

Let me turn now to today's subject. Leading members of ASEAN

are spearheading a long-term drive to bring about closer regional integration in Asia, including China, at the same time they're seeking a more secure regional environment. Regional organizations centered on but transcending ASEAN are the focal point of these efforts, and that's what I'm going to talk about today.

My main focus is on China's involvement with three of these regional organizations: the 27-member ASEAN Regional Forum, which includes the European Union and Russia and several others; ASEAN + 3, which is ASEAN plus China, South Korea, and Japan; and the East Asia Summit Group, or ASEAN + 6, which combines the ASEAN Plus 3 countries and adds Australia, New Zealand and India.

Beijing prefers ASEAN+3 because its influence there is the strongest. Japan prefers plus ASEAN+6 where China's influence is muted.

The United States is a member of the ASEAN Regional Forum but is not a member of ASEAN Plus 6 or the East Asia Summit group. And China is active in all of these organizations, particularly ASEAN+3. So this dynamic raises some important policy questions. I will raise two of these and suggest my own answers.

To begin with, I want to put China's participation in regional organizations in a slightly broader context and list seven key observations that I draw from my analysis.

First, trade agreements and financial initiatives negotiated under the rubric of ASEAN-centered regional organizations are the most visible expression of Asian regionalism. Their significance is political and strategic as well as economic. They provide a field for subtle but intense rivalry between China and Japan, and increasingly between China and India.

ASEAN members are in a fortunate position. They have been able to position themselves to take full advantage of this rivalry. In my book, *Asia's New Regionalism*, I compare ASEAN to an attractive young woman who has a number of burly suitors competing for her attention. ASEAN has benefitted from this rivalry.

Second, China has become a very skilled practitioner of commercial diplomacy, which includes, trade, investment and infrastructure diplomacy. Southeast Asians are beginning to complain publicly about certain trade practices and China's undervalued currency, but China's openness to trade -- or perceived openness to trade -- remains a very powerful Chinese strength in the region.

Third, by the same token, the trade standstill here in Washington weakens America's strategic position in Asia. The failure to ratify pending trade agreements and the absence of trade negotiating authority seriously undermine the image of the United States as a leader.

Here I would like to associate myself very strongly with the testimony on trade offered by Walter Lohman of the Heritage Foundation earlier today. I think he makes the same point that I would like to make, only even more strongly.

America's weak economic recovery and high rate of unemployment at the present only make this leadership imbalance worse.

Fourth, Chinese leaders are not particularly enthusiastic about Asian regionalism. They participate constructively because they see an opportunity to pursue certain regional interests. In my view, these goals or interests include maintaining stability in the region and expanding trade and influence while gradually reducing U.S. influence, preserving sovereignty, marginalizing Japan, and keeping India at bay.

You wouldn't necessarily know this to read the sugary communiques issued by ASEAN+3 and ASEAN+6, but this is the sort of dynamic that goes on behind the scenes.

Fifth, Southeast Asian governments unanimously welcome Chinese participation in these organizations. Their strategy is to imbed China in a web of ASEAN-centered dialogues and meetings, while maintaining or strengthening military ties with the United States.

Sixth, most ASEAN governments are eager for deeper U.S. engagement, but with the major exception of the U.S. Pacific Command, which has a significant diplomatic role in the region, the United States is still a somewhat passive and low-level participant in Southeast Asia's regional affairs.

Southeast Asian governments are divided over the question of U.S. membership in the East Asia Summit. Many of them prefer to rely on their bilateral relationships with Washington, and they have other factors in their mind when it comes to judging this question.

Seventh and finally, despite the wasteful overlap and duplication that characterizes Asia's regional architecture, I would argue that ASEAN-centered regional organizations have proved to be both a force for peace and a catalyst for more open trade and economic reform. On balance, Chinese involvement, in my view, works in favor of these trends.

Let me turn now to two policy questions raised by China's involvement in these organizations, and offer five recommendations for Congress and the executive branch to work on together.

Question: does the combination of ASEAN Plus 3 and U.S. exclusion from the East Asia Summit threaten U.S. interests?

My answer: not seriously, although there are a few problem areas, including the possibility of discriminatory tariffs in certain so-called "sensitive" manufacturing sectors like autos and auto parts.

I would argue that the biggest problems that thwart the pursuit of

U.S. interests in Southeast Asia are self-inflicted. The trade standstill is, I think, chief among them.

Second question: as a non-member of both ASEAN Plus 3 and the East Asia Summit, how can the United States enhance its influence in the region and respond to Southeast Asian needs while simultaneously making room for a resurgent China?

My answer is that working together--and that's really important, working together--the Congress and the executive branch should do the following:

Number one, get back in the trade game. I can't state that emphatically enough. Unblock the current trade standstill and restore trade momentum.

- Achieve congressional ratification of pending trade agreements especially the Korea-U.S. FTA. Do whatever it takes to complete the Doha Round, which will work to offset the discrimination against U.S. products pursuant to the China-ASEAN FTA.
- Participate actively in the Trans-Pacific Partnership trade initiative that is developing within APEC. Support the idea of an eventual free trade area of the Asia-Pacific. Revive and publicize the idea of a U.S.-ASEAN Free Trade Agreement.
- Improve trade opportunities for ASEAN's poorer countries. This was mentioned by Catharin Dalpino.
- More generally, publicly and repeatedly reaffirm America's long-standing commitment to open trade as a historically proven key to global economic growth and hence to stability.
- Recognize that there are "losers" and support stronger social safety nets at home and abroad.

Number two, revive and strengthen the programs and tools that enhance America's soft power. I agree with what was said in the last panel, that "soft power" has many definitions. Putting that debate aside, let me address Commissioner Cleveland's call for examples.

In many countries China has set up so-called "Confucian Institutes." This is ironic, because Confucius was thoroughly reviled in China's Cultural Revolution. Confucius is back. These institutes teach Chinese language and Chinese culture. China has also offered scholarships for Asian students in large numbers to study in China.

These students realize that knowing Chinese and being familiar with Chinese business practices will help them in their own career. Whether you call that soft power or not, these institutes and exchanges are a very active part of China's external diplomacy.

We had, particularly in the 1950s and 1960s, extremely active public diplomacy programs, including cultural and educational diplomacy. They included so-called American Centers located inside U.S. embassies. Students could come in and see films and books about the United States. We also had the Fulbright Program and many scholarships and exchange programs. We still have those, but over the decades they have diminished in size.

There is now an upswing that began in the last administration. I hope that Congress does everything it can to keep those programs on an upward trend, because they have done so much to improve our image and our influence in Southeast Asia.

Number three, do not press for a seat at the East Asia Summit table. This is the comment in my written statement that Commissioner Mulloy picked up. The key words are "do not press for," do not demand, do not knock too hard on the door. Asians have a right to their own organizations. We have the North American Free Trade Agreement, NAFTA. The Europeans have the European Union. The South Americans have Mercosur and other Latin organizations. There is every reason why Asians can have their own organization.

I don't think we have to worry about a significant loss of influence whether we do or don't have a seat at that particular table. I think instead we need to revitalize APEC and other Asia-Pacific organizations. I want to note here that the Prime Minister of Australia has proposed an Asia-Pacific Community.

There are all kinds of proposals out there. As an earlier panel suggested, they call for rethinking, rationalizing and streamlining these organizations. But we don't have to be out front demanding a seat at the East Asia Summit.

I think that trade, maritime safety, health and energy are among the most promising areas where we have joint interests with China and with Southeast Asia in an Asia-Pacific context. In selecting new proposals and reinforcing some of the initiatives already in place, we should continue to listen, listen, listen, to Southeast Asians.

HEARING CO-CHAIR WORTZEL: Dr. Frost, I don't want to interrupt, but I wonder if I could get you to sum up, please?

DR. FROST: Yes, this is the very end of my statement.

Number four, approach Asian regionalism and China's involvement in a constructive spirit. As long as China's economy keeps growing, the growth of Chinese influence is inevitable. There are many opportunities to cooperate.

Finally, U.S. policy-makers avoid letting the urgent trump the important. They should send appropriately high level representatives to the ASEAN Regional Forum and other organizations of which we're a

member and respond, if possible, with generosity to Southeast Asian concerns and needs.

That's the end of my statement. Thank you.

[The statement follows:]

“China and Regional Organizations”

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on “China’s Activities in Southeast Asia and the Implications for U.S. Interests”

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Thank you for inviting me to share my thoughts on China’s involvement in regional organizations and their implications for the United States.

Leading members of the ten-member Association of Southeast Asian nations (ASEAN)² are spearheading a long-term drive to bring about closer regional integration in Asia, including China. At the same time, they are seeking to build a more secure regional environment. Regional organizations centered on but transcending ASEAN itself are the focal point of these efforts.

My main focus today will be on China’s involvement with three, and particularly two, of these regional organizations: the 27-member ASEAN Regional Forum, ASEAN + 3, and the East Asia Summit group (ASEAN + 6).³ These are the main regional arenas in which China’s growing influence in Asia plays out and where region-wide politics and strategy are mostly clearly in play.

¹ The views expressed are those of the author and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the U.S. government.

² The five founders of ASEAN in 1967 were Indonesia, Malaysia, the Philippines, Singapore, and Thailand, joined later by Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam.

³ ASEAN + 3 includes China, Japan, and South Korea. ASEAN + 6 adds India, Australia, and New Zealand.

The United States is a member of the ASEAN Regional Forum but not ASEAN + 3 or the East Asia Summit group. China's role within all three organizations, and particularly the two from which the United States is excluded, raises two sets of policy questions for the U.S. Congress and the Executive Branch:

(1) Does the combination of ASEAN + 3 and U.S. exclusion from the East Asia Summit threaten U.S. interests? Should Washington seek a seat at the East Asia Summit's table? If not, should the United States attempt to revitalize APEC and launch other Asia-Pacific initiatives?

(2) What is the nature of China's involvement in ASEAN + 3 and the East Asia Summit group? As a non-member, how can the United States enhance its influence in the region and respond to Southeast Asian needs while simultaneously making room for a resurgent China?

I suggest answers to these questions at the end of my testimony.

Key Observations:

- The coexistence of ASEAN + 3 and ASEAN + 6 (the East Asia Summit group) highlights disagreements about the geographic scope of Asian community-building. China prefers ASEAN + 3, where its influence is strongest; Japan favors ASEAN + 6, where China's influence is muted.
- Trade agreements and financial initiatives negotiated under the rubric of ASEAN-centered regional organizations are the most visible expressions of Asian regionalism. Their significance is political and strategic as well as economic. They provide a field for subtle but intense rivalry between China and Japan, and increasingly between China and India.
- ASEAN members have positioned themselves to take full advantage of this competition. China, Japan, and South Korea are the powerhouses of Asia, but they try to outdo each in offering favors to ASEAN like a trio of burly suitors. China clearly has the most to offer.
- China has become a skilled practitioner of commercial diplomacy. Southeast Asians are beginning to complain publicly about certain Chinese trade practices and China's undervalued currency. But China's perceived openness to trade remains a Chinese strength.
- By the same token, the trade standstill in Washington weakens America's strategic position in Asia. Protectionist rhetoric, failure to ratify pending agreements, and the absence of trade negotiating authority seriously undermine the image of the

United States as a leader. America's weak economic recovery and high rate of unemployment only make things worse.

- Chinese leaders are not enthusiastic about Asian regionalism, but they participate constructively in regional organizations because they see an opportunity to pursue certain regional goals. They calibrate their behavior in these organizations to their perceptions of the United States and its close ally, Japan.
- Southeast Asian governments unanimously welcome Chinese participation in regional organizations. But they are wary of China's growing military power and uncertain about China's long-term intentions. Their strategy is to embed China in a web of ASEAN-centered meetings and dialogues to encourage peaceful behavior while maintaining or strengthening their military ties with the United States.
- Most ASEAN governments are eager for deeper U.S. engagement. During the George W. Bush administration, there was a widespread perception that the United States only cared about fighting terrorism and was indifferent to other Southeast Asian needs. Visits from President Obama and Secretary Clinton have helped to dispel that impression. But with the major exception of the U.S. Pacific Command, the United States is still a somewhat passive and low-level participant in Southeast Asia's regional affairs.
- Southeast Asian governments are divided over the question of U.S. membership in the East Asian Summit. Some argue, for instance, that ASEAN cannot invite the United States to join without admitting Russia as well. Others feel that the U.S. voice is loud enough as it is. Many prefer to rely on their bilateral relationships with Washington.
- Southeast Asians and Americans alike bemoan the wasteful overlap and duplication that characterizes Asia's regional architecture. But despite their weakness, regional organizations have proved to be both a force for peace and a catalyst for more open trade and economic reform. The open-endedness of these structures mirrors Southeast Asia's fluid strategic environment.

The following sections provide background information on ASEAN-centered regional organizations, analyze ASEAN's motivations and strategies, describe the nature and extent of China's involvement in regional organizations, provide strategic and historical perspectives on long-term U.S. interests and U.S. policy, assess the implications of China's current involvement in regional organizations for U.S. interests, and make broad policy recommendations for Congress and the Executive Branch.

Background: ASEAN and the Construction of Regional Architecture

Despite its collective weakness and lack of coherence as an organization, ASEAN is both the prime mover and the hub of the ASEAN Regional Forum, ASEAN + 3, and the East Asia Summit group (ASEAN + 6). China is active in all three, particularly ASEAN + 3.

The ASEAN Regional Forum (ARF) met for the first time in 1994. Its stated goal is “to intensify ASEAN’s external dialogues in political and security matters as a means of building cooperative ties with states in the Asia-Pacific region.” Its 27 members include the ASEAN + 6 group plus the United States, Australia, the European Union, Russia, India, and several other countries, including North Korea.

The ARF owes its origins to both Cold War alignments and conflicts among various Southeast Asian nations themselves. It enshrines an exclusively political approach to regional security through multilateral dialogue among interested parties; delegations are headed by foreign ministers, not defense ministers. It has never sought to resolve a conflict under its own roof. Its members prevent any discussion of genuine military threats, notably those stemming from China-Taiwan relations and North Korean nuclear weapons. When Malaysia’s recent dispute with Thailand was still simmering, Malaysia’s foreign minister threatened to walk out if the ARF took up the subject. For these and similar reasons, the ARF has been declared dead or dying many times. In the last U.S. administration, Secretary of State Rice skipped several of its annual meetings, causing Southeast Asians to conclude that the United States was no longer interested in participating in a region-wide security dialogue unless such talks served America’s “war on terror.”

Nevertheless, both China and the United States find that the ARF is at least minimally useful. It exposes governments to region-wide security issues while safeguarding national sovereignty. It provides a safe “roof” under which quiet bilateral discussions can take place. The United States has taken advantage of these occasions to promote dialogue between Chinese and American military personnel. The peace-oriented ethos of the ARF may have helped to persuade China to exercise restraint with respect to its extensive territorial claims in the South China Sea. In recent years the ARF has taken up non-threatening, non-traditional issues such as maritime security and rescue at sea, in which China and the United States have shared interests.

China’s participation in the ARF reflects the tactical and diplomatic skills that characterize its relations with the rest of Asia more generally. Chinese diplomats use the ARF to emphasize its peaceful intentions and China’s commitment to regional stability. Nothing in China’s behavior in the ARF threatens U.S. interests; the only challenge is to build on the engagement and positive spirit that Secretary Clinton brought to Asia when she attended her first ARF meeting last year.

China also attends the annual Shangri-La Dialogue, sponsored by the London-based Institute for International Strategic Studies. This is the only Asia-Pacific forum that brings together high-level military officers, defense ministers or their immediate subordinates, and

defense intellectuals. Key bilateral meetings take place on the sidelines of formal sessions.

Separately, Australian prime minister Kevin Rudd has put forward a proposal to rationalize existing regional architecture and establish a single forum that combines economic and security issues. This “Asia Pacific Community,” as he calls it, would include the United States, India, Indonesia, and other unnamed “key countries.” Mr. Rudd has deliberately withheld detailed suggestions of his own. These ideas have fueled much talk but no action. It seems obvious that an Asia Pacific Community would function as a constructive balance-weight to China’s rising influence in pan-Asian organizations, but no one in authority is talking publicly about that. Meanwhile, there is talk of forging the eight Asia-Pacific members of the G-20 into a united group to deal with global economic issues, supplanting the obsolescent G-7.⁴ Such a move would partly compensate for the failure thus far to boost Asia’s representation and voting shares in the IMF and World Bank.

ASEAN + 3 includes China, Japan, and South Korea (the “+ 3” countries). Of the three organizations discussed here, ASEAN + 3 is the most institutionalized, the most active in different fields and at different levels, and the most effective. It had begun to coalesce in preparation for top-level meetings between Asians and Europeans in the mid-1990s, but the 1997-98 Asian financial crisis crystallized it.

ASEAN + 3’s most visible achievement is a currency swap arrangement originally known as the Chiang Mai Initiative. In 2009 finance ministers agreed to multilateralize the CMI in a common framework of earmarked reserves and increase their total pool of reserves from \$80 billion to \$120 billion. Still under discussion are some form of surveillance mechanism, voting arrangements, and location. Other ASEAN + 3 financial initiatives include greater transparency, preliminary studies leading toward an Asian bond market, and discussions of a possible “Asian Currency Unit,” that is, an Asian currency basket as a reference or peg for individual currencies.

All in all, ASEAN + 3 has spawned at least four dozen committees, working groups, study groups, and a research institution headquartered in China’s Foreign Affairs University and headed by a government-approved retired ambassador (and therefore less than fully independent). All three of the “+ 3” countries have negotiated free-trade agreements with ASEAN. China proposes combining them into a single East Asia Free Trade Agreement.

ASEAN + 6, known as the East Asia Summit group, combines ASEAN + 3 countries with India, Australia, and New Zealand. Heads of state began meeting in 2005 and have met annually thereafter. Chinese leaders are less enthusiastic about this grouping because the presence of India and Australia dilutes Beijing’s influence. Predictably, Japan has

⁴ The Asia-Pacific members of the G-20 are Australia, Canada, China, India, Indonesia, Japan, South Korea, and the United States.

countered China's proposal for an ASEAN + 3 free-trade agreement by advocating a similar but more extensive and in-depth "economic partnership agreement" covering all 16 members of the East Asia Summit.

The East Asia Summit group is far less institutionalized than ASEAN + 3. An associated research network headquartered in Jakarta, the Economic Research Institute for ASEAN and East Asia (ERIA), conducts independent research and advises East Asian Summit members. Like Japan's free-trade proposal, the creation of this body is partly a reaction to China's "capture" of what was supposed to be an independent network of ASEAN + 3 think tanks.

ASEAN's Motivations and Strategies

At least five catalysts spurred Southeast Asians to accelerate the Asian integration movement. They were:

- (1) the acceleration of economic regionalism in Europe and the Americas,
- (2) growing economic interdependence in East Asia triggered by the rise of region-wide production networks,
- (3) the loss of trade momentum in the Asia Pacific Economic Cooperation Forum (APEC) and the World Trade Organization (WTO),
- (4) U.S. behavior during the Asian financial crisis of 1997-98, discussed in the following section, and
- (5) the upsurge of trans-national threats such as illegal trafficking, terrorism, piracy, cross-border pollution, and HIV/AIDS.

Overarching all these ASEAN motivations was – and is – the need to react to the combination of China's economic transformation and resurgence and its growing military power.

Southeast Asian governments keep a watchful eye on China's growing power. They have been greatly reassured by China's behavior but are still unsure of China's ultimate goals. Older leaders remember the time when China was actively supporting insurgencies in their countries. Rather than seeking to build a coalition against China, Southeast Asian statesmen have opted to "embed" China in organizations whose location and agenda are in their control. They calculate that enmeshing China in a plethora of agreements and committees encourages peaceful and cooperative behavior and bolsters regional stability. But just to be safe, many ASEAN governments are reaffirming or strengthening their military ties with the United States.

Like everyone else, Southeast Asians want to expand their exports and find a profitable niche in China's domestic market and China-centered manufacturing networks. Although they feel the burning breath of Chinese competition and complain about certain Chinese

practices, China's mushrooming growth has been, on balance, a bonanza. Together with Australia, ASEAN countries continue to supply China with energy, raw materials, and agricultural products, but a growing share of ASEAN's exports to China consist of manufactured goods, especially components destined for office equipment and telecommunications products. Between 1990 and 2004, for example, ASEAN's share of China's imports of manufactures grew from 31 percent to almost 56 percent.

Meanwhile, China jump-started free-trade negotiations by opening its market to certain agricultural imports from Southeast Asia when the financial crisis was still working havoc on the region's economies. Since both Japan and South Korea maintain far more restrictions on agricultural imports than China does, Beijing enjoys a diplomatic advantage here. Southeast Asian visions of more extensive opportunities blossomed into a full-blown China-ASEAN Free Trade Agreement, much of which came into effect on January 1 of this year.

Finally, ASEAN leaders want to maximize their collective voice in the region and in the world. They calculate that giving China a leading role in regional organizations makes it more likely that other powers will pay more attention to the region and engage with ASEAN countries on even more attractive terms.

The Nature and Extent of China's Involvement in Regional Organizations

China's historic swing towards market-oriented economic policies took place mainly in the 1980s. But before the Asian financial crisis of 1997-98, China was a wary and suspicious outsider, mistrustful of regional organizations and preferring to deal bilaterally with other Asian governments. Just before the crisis, China had conducted provocative missile tests near Taiwan and seized a reef in the South China Sea. Chinese diplomats also trotted out the argument that Southeast Asian alliances with the United States were Cold War relics and ought to be discarded. These combined actions provoked a strongly critical reaction from Southeast Asians.

Meanwhile, a broad strategic review conducted in Beijing crystallized economic modernization as China's number-one priority and highlighted the corresponding need for a peaceful regional environment. As a consequence, Beijing settled almost all of its land-based border disputes and put its maritime claims on hold. This orientation led to, or was at least consistent with, a more supportive approach to pan-Asian integration.

The Asian financial crisis of 1997-98 was a diplomatic windfall for Beijing. The crisis flattened several Asian economies, especially Indonesia, tarnished the "Asian Miracle," and drove several heads of state out of office. The hardship that swept the region during the crisis left a lingering sense of disillusionment with the United States and the IMF. This outcome offered Beijing a highly visible opportunity to put its new "good neighbor" policy into action and to implicitly contrast its reaction with Washington's.

ASEAN leaders were dismayed by Washington's failure to offer assistance to Thailand following the collapse of the baht in July 1997, which started the financial fireball rolling. Southeast Asians contrasted this passivity with U.S. assistance to Mexico after the collapse of the peso only three and a half years earlier. Compounding this negative perception was the fact the US-backed IMF conditions associated with financial rescue packages were widely believed to be too severe, especially in Indonesia. The number of Indonesians living in absolute poverty temporarily doubled, to a quarter of the population. Since the US Treasury Department exerts a strong influence on IMF policy, the United States came to be associated with widespread suffering and harsh austerity measures. Japan and Australia participated in the IMF's loan packages for the most affected countries, but Washington did not. In Asian eyes, the United States claimed to be a regional leader but could not be counted on. The memory of an unresponsive America persists to this day.

As the crisis unfolded, Japan proposed the establishment of an Asian Monetary Fund. When objections from the IMF, the United States, and others crushed that idea, ASEAN + 3 finance ministers established a network of bilateral currency swap agreements known as the Chiang Mai Initiative. Chinese officials participate in these financial discussions but make no effort to wrest leadership from Japan. (One minor snag arose when the Chinese refused to allow Taiwan's currency to be included in the proposed currency basket.)

Although the Chinese were latecomers to the regional integration movement, they have caught up fast. The Chinese foreign ministry sends some of its best diplomats to Asia. These officials take advantage of region-wide meetings to pursue China's regional goals. These goals include gradually reducing U.S. influence, marginalizing Japan, and keeping India at bay. They pursue these aims in a friendly and low-key manner, avoiding any behavior that smacks of hegemony or aggressiveness. Since China has a large stake in the peace and prosperity of the region and supports an ongoing U.S. military presence, this game plan plays out in subtle and generally constructive ways.

The only exceptions to this low-key and benign behavior arise in cases where Chinese leaders perceive a threat to national unity and national autonomy. The usual targets are visits from the Dalai Lama and other perceived "splittists" or measures that bring into question the status of Taiwan. Southeast Asian governments generally go along with Beijing's demands; when they do not, they may receive a public reprimand (as Singapore did on one occasion). Taiwan is a "member economy" of APEC, where it is listed as "Chinese Taipei." But at Beijing's insistence, Taiwan is excluded from all three ASEAN-centered organizations – the ARF, ASEAN + 3, and the East Asia Summit group -- not to mention a host of other groupings.

To a certain extent, China's gain is Japan's loss. Except when the topic is finance, Tokyo's voice in regional organizations is less influential than Beijing's. Japan's influence in these

organizations adds up to less than the sum of its assets. Its economic stagnation and bureaucratic in-fighting compound this calculus. The new Japanese government wants to strengthen its ties with Asia, but whisper campaigns – supported if not initiated by the Chinese and their friends -- portray Japan as too rich, too close to the United States, too unrepentant about its wartime atrocities, and insufficiently “Asian.” (Recall that during the Cold War, Japan was counted as a full member of “the West.”)

Chinese leaders repeatedly proclaim that they have no intention of telling other governments what to do or not do. Unlike Americans and other Westerners, they do not offer advice on what political system Southeast Asians should adopt, how they should run their economies, and how they should treat their people. This is a welcome change from the Mao era, when China preached revolution and supported insurgent movements in neighboring countries. But one consequence of this rhetorical non-interference is that no one knows what China’s long-term goals in the region are. This uncertainty about China’s ultimate intentions is a key element in Southeast Asia’s strategic environment and helps to explain ASEAN’s commitment to regional organizations.

Perspectives on Long-Term U.S. Interests and U.S. Policy

A. U.S. Interests

During the Cold War, Southeast Asia was seen as a pawn in the competition between the United States and the Soviet Union. But once the Cold War sputtered out, Americans maintained a strong military presence but appeared to lose interest in the region. As China’s influence has grown, some fear that Beijing will eventually dominate regional organizations and use its influence in ways that undercut U.S. strategic interests. What are these interests, and how important are they?

Broadly speaking, America’s strategic interests in Southeast Asia are the same as they are anywhere else. They include peace and stability, an economic climate that favors trade and investment, and freedom of navigation. It is U.S. policy to oppose overt attempts by a hostile power to dominate the region or to control or interdict sea lanes.

The United States has a strategic interest in Southeast Asia because the region possesses collective strategic weight. Although it commands fewer resources than its northern neighbors, it houses 580 million people, including more Muslims than all Middle Eastern countries combined. Southeast Asia lies at the intersection of two of the world’s most heavily traveled ocean routes. ASEAN members sit astride the strategically vital Strait of Malacca, traversed by 50-60,000 ships per year. These ships carry more than a third of the world’s shipping trade and half of its crude oil shipments, including roughly 70 percent of Japan’s oil imports.

Moreover, Southeast Asia is relevant to just about any global challenge that a concerned

citizen of the twenty-first century can dream up. The region matters because of its size, population (580 million), economy (roughly \$2 trillion), supply of and demand for energy and raw materials, unresolved maritime disputes, potential for democracy and human rights, and a variety of nontraditional threats ranging from separatist movements and religious agitation to piracy, illegal trafficking, environmental pollution, and disease. Regional organizations, particularly ASEAN + 3, have taken tiny but nonetheless meaningful steps towards addressing some of these challenges, in the first instance by fostering communication and trust among relevant officials. Such personal bonds are the necessary “glue” of sustainable Asian integration.

Finally, Southeast Asia is a large market for American goods and services and an important target of U.S. investment. For all of these reasons, Southeast Asia deserves an important place in America’s global strategic priorities. China is the only power with the potential to challenge America’s strategic position.

B. U.S. Policy

The U.S. Government has a long-standing policy toward regional integration movements that exclude the United States. Its general stance is supportive, provided that such movements and the organizations that embody them are –

(1) Not designed to undermine global and regional institutions of which the United States is a member, such as the IMF, the WTO, and APEC. Thus far ASEAN-centered regional organizations have not sought to establish an alternative to the IMF, and they express strong support for the WTO and APEC;

(2) Not intended as an alternative to security ties between the United States and a U.S. ally (in this case, Japan, South Korea, Thailand, the Philippines, or Australia). China no longer tries to persuade Asian governments to dissolve their alliances with the United States;

(3) Not dominated by a power unfriendly to the United States. This would be a concern if a future Chinese government were strongly anti-American and muscled into a position similar to the former Soviet Union in Eastern Europe. Given how far China has evolved since the days of the Cultural Revolution, and in light of the U.S. presence in Asia, this scenario seems highly unlikely;

(4) Consistent with market-oriented trade and investment policies, with a goal of creating more trade and investment rather than diverting them. Market-based reforms in both China and Southeast Asia have made steady but uneven progress. The goal of trade creation is explicit, but whether it is fulfilled remains to be seen; and

(5) Accompanied by compensation for lost U.S. exports, if any. This criterion is

premature, but any future U.S. losses could be addressed through the World Trade Organization's dispute settlement process.

Thus far, at least, ASEAN + 3 and ASEAN + 6 appear to satisfy at least the first four criteria and thus justify U.S. support.

Implications of China's Involvement in Regional Organizations for U.S. Interests

Members of ASEAN + 3 and the East Asian Summit group discuss a wide range of issues, such as aviation, tourism, environmental protection, public health, and cultural exchanges. I will confine my comments, however, to trade, finance, and security, listing reasons why members of Congress and the Executive Branch should feel confident or concerned about U.S. interests in each area.

1. Trade

Reasons for confidence:

There will be no "Fortress Asia." All participants in ASEAN-centered regional organizations know that their well-being is closely bound up with engagement in the global economy and global institutions. They have all pledged to support global trade liberalization.

The dynamic effects of intra-Asian trade liberalization will stimulate economic growth, creating a larger market for U.S. exports. Damage to U.S. exports resulting from preferential trade agreements may not amount to nearly as much as static models would predict.

With the exception of certain sensitive sectors, most tariffs in Asia are low and falling. The market for services has huge potential.

Intra-Asian trade agreements, and particularly the Chinese-ASEAN Free Trade Agreement, provide a strong incentive for Taiwan to conclude the proposed Economic Cooperation Framework Agreement with the mainland. Taiwan maintains significant barriers to imports and investment from China. Dismantling these barriers would stimulate needed reforms and enhance Taiwan's competitiveness.

Asia-centered trade liberalization should have the effect of stimulating liberalization elsewhere. It adds another reason to conclude the Doha Round of global trade negotiations.

Reasons for concern:

As long as global trade liberalization remains stalled, preferential trade agreements among

the members of ASEAN + 3 and/or ASEAN + 6 could inflict serious damage on U.S. manufactured exports in certain major product areas, such as autos and auto parts. One modeling exercise (using static assumptions) estimates that such losses could amount to \$25 billion annually.

China's aid, trade, and investment deals with ASEAN come without any political or economic conditions attached to them. This feature stands in contrast to similar offers from the United States, the European Union, and international financial institutions. This outcome reduces pressure to adopt needed reforms and thus weakens the hand of reformers.

Trade preferences extended to ASEAN countries are eroding two of Taiwan's key advantages – linguistic and geographic proximity to China and a wide range of *guanxi* (connections). It remains to be seen whether China will eventually agree to some diplomatic formula that would enable Taiwan to participate in regional economic accords.

2. Finance

Reasons for confidence:

On balance, ASEAN + 3's financial initiatives are a good thing. The availability of currency swaps boosts regional confidence. Discussions on other topics promote greater financial transparency and provide a means of sharing "best practices."

Finance is the one arena where Japan is clearly the leader. The Chinese are cooperative; financial discussions have been relatively free of the tensions and bickering between China and Japan that have stalled progress on other fronts.

Asian finance ministers are unlikely to agree to any arrangement that bypasses the IMF. Major lenders have no appetite for extending major swaps and loans without conditions. Since Asian lenders will likely be unwilling to impose political or economic conditions on their fellow Asians, they need the IMF to function as a "bad cop."

Despite the badmouthing of the dollar, Asian finance ministers see no alternative, at least not as long as China's RMB is not convertible. They have no wish to see the dollar fall even further.

Reasons for concern:

There is a small risk that ASEAN + 3's financial initiatives will undermine the role of the IMF, whose demands, particularly those imposed during the Asian financial crisis of 1997-98, are still resented. Some participants favor substantially reducing the role of the IMF; others do not.

Thus far, Asians have not succeeded in gaining representation and voting shares in international institutions at a level that is commensurate with their economic strength. The longer this injustice continues, the greater the risk that Asians will try to transform existing ASEAN + 3 arrangements into a separate Asian Monetary Fund with little or no conditionality and weaker links to the IMF.

3. Security

Reasons for confidence:

ASEAN has used ASEAN-centered regional organizations to promote peaceful norms. These are embodied in ASEAN's signature agreement, the Treaty of Amity and Cooperation (TAC), signed by ASEAN members in 1976 and subsequently by all major powers. (The United States finally signed it in 2009.) Peer pressure exerted in the spirit of the TAC has lubricated the settlement of bilateral disputes and eased tensions in the South China Sea.

Far from weakening the U.S. role in Southeast Asia, China's rising influence enhances the value of the U.S. military presence in Southeast Asian eyes. The United States is the least distrusted country in the region. Both Chinese and Southeast Asian leaders value the stabilizing role of the U.S. military presence. Many Southeast Asian governments have strengthened their security ties with the United States as a hedging strategy.

Southeast Asians have no intention of neglecting trans-Pacific ties. They have little faith in the future of the Asia Pacific Economic Cooperation forum (APEC), but they see it as a way to keep the United States engaged in Asia. They have mixed views of Australian prime minister Kevin Rudd's proposal to establish an Asia Pacific Community. Smaller countries such as Singapore understandably oppose their evident exclusion.

Non-traditional threats such as piracy, illegal trafficking, terrorism, environmental pollution, and pandemic disease have promoted cross-border security cooperation. The United States remains a highly desirable partner. No other country can remotely match its resources. The search for common solutions to shared regional threats has already breathed life and energy into the ASEAN Regional Forum.

Reasons for concern:

The risk is not that China will push the United States out of Asia, now or in the future. The main risk is that over time, the U.S. voice in the region will be gradually drained of influence relative to China's. This challenge stems from the contrast between China's galloping economic performance and America's current domestic and international headaches.

Over time, other things being equal, the current, outward-looking form of Asian regionalism could acquire a more exclusive and even xenophobic character. Nationalist politicians could whittle down U.S. military footholds and harass U.S. companies in the name of “Asia for Asians.”

Even if the current Okinawa imbroglio is settled to Japan’s satisfaction, a future Japanese government may feel compelled to loosen its ties with Washington to a greater extent than the current government seems to favor. Chinese spokesmen already complain about Japan’s current military posture.

On balance, reasons for confidence greatly outweigh reasons for concern. But although the United States is indeed a “resident power,” as Secretary Gates says, it must never take its presence in Asia for granted. Cooperating and competing with China in Southeast Asia calls for a more active policy backed by adequate resources, high-level attention, and Congressional support.

Policy Recommendations for Congress and the Executive Branch

Working together, Congress and the Executive Branch should pursue the following agenda:

- Get back in the trade game: Achieve Congressional ratification of pending free-trade agreements, especially the Korea-US FTA. Agree to mutual agricultural concessions in order to complete the Doha Round. Engage actively in the Trans-Pacific Partnership (TPP) trade initiative within APEC.⁵ Revive and publicize the idea of a U.S.-ASEAN free trade agreement. Publicly reaffirm America’s long-standing commitment to open trade as an historically proven key to global economic growth. Recognize that there are “losers” and support stronger social safety nets at home and abroad.
- Revive and strengthen the tools that enhance America’s “soft power.” Accelerate the long-overdue upswing in funding for programs that served the United States so well in the past: student fellowships, scholarly exchanges, visitors’ programs,

⁵The TPP was initiated by Singapore, Brunei, Chile, and New Zealand and now includes Australia, Peru, Vietnam, and the United States. Its goal is to create the framework for a comprehensive Asia-Pacific trade agreement that exceeds current World Trade Organization standards (“WTO-plus”). The United States announced its intention to engage with the TPP in November 2009.

military and non-military education and training, and public diplomacy, including American Centers.

- Do not press for a seat at the East Asian Summit table. Doing so would smack of bullying and arrogance. Americans have NAFTA and the Europeans have the European Union. There is no reason why Asians should not have their own organization. The presence of Australia, Japan, and India ensures that U.S. interests will be recognized.
- Approach both Asian regionalism and China's involvement in a constructive spirit. As long as China's economy keeps growing, the growth of Chinese influence in the region is inevitable. China's participation in the regional integration movement opens up many opportunities for cooperative approaches to shared trans-national challenges. Indeed, presenting such ideas in a regional context may stir up less sensitivity in Beijing than purely bilateral initiatives.
- Avoid letting the urgent trump the important. Send appropriately high-level representatives to the ASEAN Regional Forum and trans-Pacific meetings. Continue the process of listening and engaging and try to understand Southeast Asian concerns. Never try to persuade ASEAN members to take sides against China.

Summary and Concluding Comments:

Many observers of Asian regionalism deride ASEAN's lack of coherence and dismiss ASEAN-sponsored regional meetings as mere "talk shops." They point to their molasses-like pace, their waste of resources, their paucity of tangible results, and their lack of enforcement mechanisms.

This perspective is certainly valid, but it overlooks the regional context. Many Asian countries are former colonies and achieved full independence only after World War II. Some governments are still struggling to achieve legitimacy and consolidate national unity. They are in no mood to surrender sovereignty in the name of Asian solidarity. They believe that the process of dialogue is the goal, not the "deliverables."

Moreover, Southeast Asian leaders view both overlapping regional groupings and parallel trans-Pacific organizations as safety valves. The consensus-oriented and open-ended nature of these dialogues suits the region's fluid and uncertain strategic environment. The norms enshrined in ASEAN's non-binding Treaty of Amity and Cooperation encourage the peaceful resolution of disputes. They play at least some part in Beijing's decision to shelve or play down grievances and territorial claims.

My answers to the questions posed at the beginning of this statement are as follows:

Q: Does the combination of ASEAN + 3 and U.S. exclusion from the East Asia Summit threaten U.S. interests?

A: Not seriously, although there are a few problem areas. On balance, the opportunities to promote broad U.S. interests outweigh the risks. The biggest problems thwarting the pursuit of U.S. interests in Southeast Asia are self-inflicted. The trade standstill in the Congress is chief among them.

Q: Should Washington seek a seat at the East Asia Summit's table?

A: No. Asians deserve their own organizations, and there are better ways to signal U.S. interest and commitment.

Q: Should Washington attempt to revitalize APEC and launch other Asia-Pacific initiatives instead?

A: Yes. Trade, maritime safety, health, and energy initiatives seem to be the most promising, but Washington should solicit Southeast Asian suggestions.

Q: What is the nature of China's involvement in regional organizations?

A: Constructive, diplomatically skillful, but not very enthusiastic about regional integration. Chinese representatives make subtle efforts to marginalize Japan, especially within ASEAN + 3, and to minimize India's role in the East Asian Summit group. ASEAN takes advantage of this jostling.

Q: As a non-member of both ASEAN + 3 and the East Asia Summit, how can the United States enhance its influence in the region and respond to Southeast Asian needs while simultaneously making room for a resurgent China?

A: Unblock the current trade standstill and restore free-trade momentum, greatly expand "soft power" tools, show up for high-level meetings, avoid arrogant behavior, and be responsive to Southeast Asian concerns and needs.

In sum, despite their manifest weaknesses, ASEAN-centered regional organizations are fully compatible with U.S. interests. They have embedded China in a web of dialogues and channeled diplomatic rivalry among the three Asian powers – China, Japan, and India -- in constructive directions. China's behavior bears watching but does not threaten the regional order and is often helpful. China's commercial diplomacy puts pressure on others to open their markets; conversely, Southeast Asians are beginning to put pressure on China to eliminate trade-inhibiting practices and to rectify global imbalances. This constellation gives rise to both opportunities and risks for the United States. It should motivate both Congress and the Executive Branch to jointly pursue an active and constructive policy towards regional organizations in Asia.

HEARING CO-CHAIR WORTZEL: Thank you.
Professor Weatherbee.

**STATEMENT OF DR. DONALD E. WEATHERBEE, PROFESSOR
EMERITUS, UNIVERSITY OF SOUTH CAROLINA, COLUMBIA,
SOUTH CAROLINA**

DR. WEATHERBEE: Thank you, Mr. Chairman, Madam Chairman.

I appreciate the opportunity to be here this afternoon to meet with the Commission to talk about Southeast Asia in terms other than the War on Terror or any other kind of war, and to recognize the broader array of American national interests in an important region of the world.

I would begin by pointing out that, as I'm sure you all know, in the past decade there's been a perception in Southeast Asia that the United States had abandoned its historical role as a crucial player, or the dominant player, in the Southeast Asian balance of power, and that we had neglected Southeast Asia in terms of focuses on conflicts.

The perception of an American loss of interest in the region was in part sharpened by the real perception of the rise of China in the region, and in particular, in Southeast Asia, the growing economic presence of China.

Some analysts and commentators have placed the relative positions of the United States and China and their relations in the region in terms of a competition or a race for influence and have in a sense

thought of it as a kind of zero-sum game: China wins in Southeast Asia; the U.S. loses in Southeast Asia.

Of course, to make the case that the U.S. was behind or losing to China in Southeast Asia and has to catch up or win, it's necessary to inquire what the policy content of behind, losing, racing and win is?

There are three intertwined narratives at work. For China, it is to be recognized by all parties, including the United States, that it is a great power with legitimate great power interests in Southeast Asia.

For ASEAN, it's a question of hedging against the uncertainties of the constancy of U.S. commitment to the region, and for the United States, it is its insistence that it is a resident East Asian power and no political or economic lines should be driven down the mid-Pacific.

Therefore, I think most of us who testified here today are gratified by the steps the United States has taken in the past year to heighten its political visibility and closer relations with Southeast Asia, in particular, the willingness of the United States to reengage ASEAN on ASEAN's terms.

Most important, as far as I am concerned, for this reengagement, which I have discussed in cataloguing detail in my written submission, is the American accession to ASEAN's Treaty of Amity and Cooperation in Southeast Asia, the TAC.

ASEAN has pressed us for decades to accede to the TAC, and we've always said no. Former President Bush said, well, we accept the spirit of TAC, and in the last years of the Bush administration the question of accession was under study.

Now, we have cut the Gordian knot--I'm not sure what the knot was. It had little to do with alliances since all of our Pacific alliances were members that had signed off on TAC--South Korea, Japan, Australia and so on. But we have done it.

It's more than a symbolic gesture to me. It's very important because it is a necessary ticket of admission to full political equality with ASEAN, which ASEAN's other major dialogue partners have had for years, including China. Furthermore, it is a ticket of admission to the East Asian Summit.

Ellen and I disagree on this. I think it's very important that the United States associate itself with the East Asian Summit. A couple of weeks ago, Assistant Secretary of State Campbell testified before the Senate Foreign Relations Committee, that, I quote, "We need to ensure that the United States be a resident power in the area."

As a resident power, we would then be involved in the shaping of the region's future, in particular, the overarching multilateral structures which are now being floated around like so many leaves in a windstorm.

To do this, however, we have to demonstrate our regional

credentials. I would suggest that it is very important that one part of our credentials will be to be an equal partner in the existing East Asian community process, which is not the ASEAN Plus 3, but is the ASEAN Plus 6, the EAS.

Now, we don't have to demand; we have to be invited. I would suggest that if we look at the history of the EAS, we will see that it had a very important political function, which Dr. Frost has already mentioned, to dilute China's influence.

Who are the proponents of expanding or resisting the idea of creating a new institutional structure for ASEAN Plus 3 into some kind of East Asian closed community? The two Southeast nations of Singapore and Indonesia, in particular, working with Japan want inclusive regionalism. I feel it is very important not to allow an opportunity to pass for the United States to be with China in the East Asia Summit process, no matter, as one Deputy Assistant Secretary of State said a few years ago, it's a black hole for policy. To be there with China and the other major players in the region is important.

I would assume that negotiations are already in progress. I would assume that this will be on the agenda of the Obama-Yudhoyono summit meeting. I would assume that an invitation to the East Asia Summit will be forthcoming.

Now, do we accept it? I would hope that we would. There is no structural reason why not. If you're not familiar with the process, the East Asia Summit takes place at the same time as the ASEAN Summit, and the East Asian Summit takes place at the same time that ASEAN's dialogue partners have their own single summits with ASEAN's leadership. So there's the ASEAN Plus China, the ASEAN Plus Japan, the ASEAN Plus Australia and New Zealand, the ASEAN Plus India, and so forth. Then there is the East Asia Summit.

I would suggest that if summitry is going to be part of a continued American process with ASEAN, that an American-ASEAN summit, which we assume we're going to have, would take place at the same time as the East Asia Summit. It's not going to add that much to the President's travel schedule.

Anyway, we disagree.

DR. FROST: Not as much as you think.

DR. WEATHERBEE: Okay. Good.

Let me turn my attention to a second subject, which a member of your panel had earlier asked me if I was going to address, and that's the China ASEAN Free Trade Agreement, CAFTA.

I am not dazzled by CAFTA, although a lot of people seem to be if you read some of the popular press in Asia. CAFTA has been eight years in the making. The implementation began in 2005 so it's been

since 2005 that the tariffs are being lowered, and the adjustments are being made.

Obviously, and the statistics are there, we do not have the same size, two-way trade with ASEAN that China does. That's not surprising. We don't have the same two-way trade with ASEAN that Japan does. We don't have the same two-way trade with ASEAN that the European Union does.

I'd like to put it in perspective. This sometimes gets lost. China's trade with ASEAN is 11 percent of ASEAN's total trade. That means that 89 percent of ASEAN's trade is not with China. People talk about ASEAN's trade with China. Let's talk about ASEAN's trade not with China.

A third of ASEAN's trade, that's three times as much as with China, is with Japan, the United States and the European Union. ASEAN is not going to jeopardize its trade relations with its major trading partners and its global trade relations by somehow falling into some kind of sinkhole of Chinese trade and economic imperialism.

I think it's nonsensical to think of ASEAN and its economic future simply to become an appendage of a greater economic China. ASEAN seeks to maximize its economic opportunities regionally and globally.

I would argue that those who look at China and ASEAN as somehow China being at the center of web into which ASEAN is being drawn in, some kind of concentric concentration of ASEAN on China, just misreads the entire structure of ASEAN's international relations. I have suggested in my paper that rather than look at a China-centric view of Southeast Asia, let us look at an ASEAN-centric view of Southeast Asia with ASEAN at the hub, with its various spokes. China is on a spoke. We are on a spoke.

This, I think, gives a better perspective and certainly one that is not an alarmist perspective about the future of ASEAN and the United States and China in their mutual relations with Southeast Asia.

I think my time has expired; hasn't it?

[The statement follows:]

**Prepared Statement of Dr. Donald E. Weatherbee, Professor
Emeritus, University of South Carolina, Columbia, South Carolina**

The China – ASEAN – U.S Triangle

In the first year of the administration of President Barack Obama, the United States has made a significant effort to broaden and deepen its engagement with the Association of Southeast Asian Nations (ASEAN). This is the multilateral grouping of ten Southeast Asian countries, which is coming up on its 43rd birthday. It is likely that candidate member East Timor will be added to the grouping by at least 2015, the aspirational date for an ASEAN Community. For economic purposes, ASEAN is subdivided into the

ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and the less developed CLMV countries (Cambodia, Laos, Myanmar, and Vietnam). Politically, ASEAN speaks on regional issues with a single voice, which for decision-making purposes reflects a lowest common denominator consensus.

When Secretary of State Clinton arrived in Bangkok in July 2009 for her first encounter with her ASEAN counterparts, she announced, “We’re back.” It is not, however, that the U.S. really ever left. The new administration inherited a solid foundation on which U.S. regional interests can be furthered. Since 2005, the framework for cooperation has been the “Joint Vision Statement on the ASEAN – United States Enhanced Partnership” and its 2006 “Plan of Action,” which led in 2008 to the “Comprehensive Development Assistance Program for ASEAN.” All of these initiatives, however, had a low political profile and could not overcome the growing perception in Southeast Asia that the Bush administration’s focus on the “war on terror” had led to an American neglect of its broader array of political, economic, and social interests in Southeast Asia. The perception of a decline of American interest and influence in Southeast Asia was accompanied by ASEAN leaders’ critical awareness of the rise of China, in particular its heightened role in the Southeast Asian international political economy. ASEAN’s most eminent diplomat, Tommy Koh, warned that the United States “is losing the competition for influence in Southeast Asia. The winner, at least for the time being, is the People’s Republic of China.” For more than half a century, the United States had been the predominant extra-regional great power, a posture which now seems challenged while the U.S. is preoccupied elsewhere.

It was to redress the perception that the U.S. was abandoning its historic role as a crucial player in the regional balance of power that Secretary Clinton’s “we’re back” exclamation was addressed. Her words were followed in rapid order by a number of actions. Perhaps the politically most important for ASEAN was the August 2009 American accession to ASEAN’s “Treaty of Amity and Cooperation in Southeast Asia” (TAC), a decision for which ASEAN had long pressed the United States. American security allies in ASEAN (Thailand and the Philippines) and the wider Asian region (Australia, Japan, New Zealand, and South Korea) had long been signatories. Although the Bush administration in the “Enhanced Partnership” had assured ASEAN that the U.S. respected the spirit and principles of the TAC as a code of conduct governing regional relations, it had never formally acceded to it. Accession has now put the United States on the same political platform as China and ASEAN’s other dialogue partners. Importantly, accession is a necessary ticket of admission to the East Asian Summit (EAS) with ASEAN plus Australia, China, India, Japan, New Zealand, and South Korea. This is also known as the ASEAN plus 6. President Obama has stated the U.S. wants to participate in the EAS. It also would be necessary for a possible expansion of the ASEAN plus 3 (China, Japan, and South Korea) to an ASEAN plus 4.

Other initiatives included Secretary Clinton’s call on the ASEAN Secretariat during her February visit to Indonesia, the first by an American Secretary of State. She has announced that the United States will be the first ASEAN dialogue partner to establish a resident mission to ASEAN with a resident ambassador. Presently the Deputy Assistant Secretary of State for Southeast Asia is concurrently Ambassador for ASEAN Affairs. The U.S. and ASEAN have agreed to establish an Eminent Persons Group (EPG) to examine areas for greater collaboration and cooperation. President Obama’s “Leadership Meeting” with his ASEAN counterparts on the sidelines of the November Singapore Asia-Pacific Economic Cooperation (APEC) summit was another significant move towards a closer ASEAN – U.S. relationship. Although President Bush had earlier met with the leaders of the seven ASEAN states that were members of APEC, this was the first meeting of an American president with all of the ASEAN heads of government. Although not officially titled a summit, it is expected that it will lead to real summitry as an ongoing element of the official U.S. – ASEAN partnership. China had its 12th annual summit with ASEAN in October 2009.

The willingness of the American president to sit down in an ASEAN setting with Myanmar (in U.S. official parlance, Burma) represented a departure from the previous policy of attempting to isolate the Burmese junta. The review of policy towards Myanmar that began in February 2009 resulted in the beginnings of a dialogue officially signaled by Assistant Secretary of State Kurt Campbell and his deputy Scot Marciel's visit to Myanmar in November. While to date no concrete political results can be demonstrated in terms of democratizing the junta or guaranteeing free and fair elections – let alone freeing Daw Aung San Suu Kyi – it diplomatically signals a pragmatic step away from the failed policy of sanctions without engagement.. Beginning with Secretary of State Madeleine Albright's denunciation of ASEAN for including Myanmar in its 1998 expansion to ten members, ASEAN and the United States have been out of step with each other as to how to approach Myanmar. To the ASEAN 6, the American preoccupation with its democracy agenda in Myanmar was outweighed by the fear that an isolated Myanmar would enlarge China's geostrategic window into Southeast Asia. ASEAN refused to allow the United States to deal with it on an ASEAN minus 1 basis. By decoupling the Myanmar problem from Washington's appreciation of ASEAN, a major irritant in the relationship has been treated. This, of course, does not allay ASEAN's and Washington's concerns about the tight China – Myanmar connection. Myanmar has become a vital link in China's search for energy security. Oil and natural gas pipelines originating from Myanmar's Andaman Sea coast will fuel South China development. The oil pipeline, on which construction has begun, will carry the 80 percent of China's crude oil imports that now go via the Malacca Strait and South China Sea.

The Obama administration's demonstration of a higher level and greater intensity of American political engagement with ASEAN has been welcomed by leaders in Southeast Asia. Although to this point the policy acts are largely symbolic, ASEAN leaders see the U.S. as beginning to adapt to a changing great-power environment in Southeast Asia in which the two major variables are China's ultimate ambitions and the U.S. commitment to a sufficient balance. The latter is a matter of policy choices made in Washington, not Beijing. While the U.S. raises its political visibility in ASEAN and continues to wield a robust military/security presence, it will have to accept China's growing economic role in the region, which the United States cannot realistically expect to match. The question is whether China will be able to translate its economic strength into a political clout that would be damaging to America's broader interests in the region.

There can be no question but that China's strategies towards ASEAN are led by trade, aid, and investment. It has been argued that American interests are endangered by a new pattern of economic transactions centered on China. In addition to economic cooperation agreements, China and ASEAN states have signed a number of strategic partnership agreements in other areas of their relations. One view is that the evolving pattern of state-to-state engagements between China and Southeast Asia – both bilateral and ASEAN – is leading to a China-centric web of mutual interdependencies. In testimony five years ago before this Commission, Prof. Marvin Ott of the National War College argued that China's focus was on establishing a preeminent sphere of influence designed to bind Southeast Asia to China. The analogy has even been drawn to Chinese traditional suzerain-vassal statecraft, with Southeast Asian states once again paying tribute to the imperial throne. While much of the recent commentary and literature about China's new economic role in Southeast Asia has been exaggeratedly alarmist, it cannot be gainsaid that since the crash of 1997-1998 in Southeast Asia and especially since the most recent global downturn, China has been viewed from Southeast Asia as an important, willing, sympathetic, and generous economic partner. China is seen as an alternative to a weakened U.S. economy as the engine of recovery and growth. China has promoted the Chiang Mai Initiative Multilateralization (CMIM) agreement, signed by the ASEAN plus 3 finance ministers in December 2009, as a regional riposte to the IMF. The CMIM transactions will have no strings attached or conditionality (and we would add no real oversight or accountability). Behind the economic and commercial goals of the growing ASEAN and China transactional nexus, there is a political narrative. For China, it is recognition of its regional great-power

status. For ASEAN, it is a hedging strategy in relation to future U.S. policies. It is not ASEAN bandwagoning towards China.

China's growing economic presence in Southeast Asia has recently been spotlighted by the coming into force on 1 January 2010 of the China – ASEAN Free Trade Area (CAFTA). While perhaps to some observers outside the region the CAFTA seems to introduce a new element in regional economic relations, it has been years in the making. Pushed hard by China, which wanted to open Southeast Asian markets to competitive Chinese agricultural products and manufactures, ASEAN agreed in 2002 to an ASEAN – China Comprehensive Economic Cooperation Framework Agreement. This led in 2004 to a merchandise agreement that was implemented in 2005. It provided for an “early harvest” group of items for immediate tariff reductions and “normal” and “sensitive” tracks for liberalization of trade to zero tariffs for the ASEAN 6 by 2010 and the CLMV countries by 2015. An Agreement on Trade in Services was signed in 2007, and a China –ASEAN Investment Agreement was signed in August 2009, completing the FTA. As the 2010 date approached, negotiations of the details went slowly as each ASEAN country sought to cushion vulnerable domestic interests. With CAFTA in place, more than 7,000 product categories making up more than 90 percent of traded items between ASEAN countries and China now have zero tariffs. The protected sensitive items are to have their tariffs reduced to 50 percent by 2015. In its provisions, the CAFTA is WTO-lite, without environmental safeguards, labor standards, and other non-directly-trade-related items that are part of American WTO-plus FTAs.

In terms of market size, the CAFTA ranks only behind the European Community and NAFTA. Its inclusion of 1.9 billion people makes it the world's largest trade agreement in terms of population. In 2008, two-way trade between China and ASEAN was either \$231 billion (China's number) or \$192 billion (ASEAN's number), depending on who was counting. This made China ASEAN's third largest trading partner after Japan and the EU. The United States now ranks fourth, with two-way trade with ASEAN in 2008 at \$181 billion. As late as 2006, the U.S. was ASEAN's largest trading partner. From 2003 to 2008, China – ASEAN trade grew at a rate of 24.2 percent annually. From a 4 percent share of ASEAN trade in 2000, China's share in 2008 was 11.3 percent. In the same period, the U.S. share of ASEAN trade dropped from 15 percent to 10.6 percent. With CAFTA fully in place, it can be expected that China's trade will continue to grow at a faster rate than that of ASEAN's other trading partners and its market share will increase. It could possibly displace Japan as number two in 2010. In ASEAN, China is already the largest trade partner of Malaysia and Vietnam and the second largest trade partner of the Philippines, Thailand, Singapore, and Myanmar.

With CAFTA has come a Chinese push for ASEAN countries to use the Renminbi (RMB) as the settlement currency unit, rather than the U.S. dollar. The regional internationalization of the RMB (although not convertibility) is already seen in the CMIM. Banks in Malaysia have created RMB trade settlement facilities. It is not just Chinese influence that would make RMB settlement attractive. There is growing concern that the worth of dollar reserves held by ASEAN countries is dropping because of excessive American deficit financing. The RMB question cuts both ways for ASEAN, however. The undervalued RMB and China's unwillingness to revalue have made ASEAN exports less competitive in global markets and Chinese imports – which will increase with CAFTA – more competitive in ASEAN domestic markets. Vietnam has already found it necessary to devalue its currency and other ASEAN countries, especially Thailand, may have to follow suit.

It is too early tell what the long-term impact of the CAFTA will be. From the Chinese side, the claim is win-win. On the ASEAN side, the jury is out. The indicators are that if it is in fact a win-win outcome, it will be China wins more – ASEAN wins less. There is an expectation that ASEAN's balance of trade, which already is slightly in China's favor, will become less balanced as the small trade deficits run by some of the ASEAN states become greater. The fear, however, that ASEAN suddenly will be flooded by

cheap Chinese goods seems exaggerated since the tide of China's imports has been steadily increasing as tariffs have been progressively reduced in the last half-decade. The devastating impact that the "early harvest" had, for example, on small agriculture in ASEAN's border regions with Yunnan is not an ASEAN-wide predictor for the future. The low-hanging fruit has already been plucked. There may be an upward statistical spike once smuggled goods become accounted for, but those goods had already been in the market. Nevertheless, the ASEAN countries will have more adjustment and adaptation issues in their domestic production bases than China. Already, expression of concerns about the domestic impact of the CAFTA has been loudly voiced in Indonesia, ASEAN's largest market. Industrial, agricultural, and fishery sectors that might lose in a domestic competition with cheaper Chinese imports warn of job losses, with figures bandied about of 1.8 million, 2.5 million, and even as high as 7.5 million workers. The Indonesian government has "informally" told its ASEAN partners that it wants to renegotiate 280 items, asking for a delay in implementing CAFTA zero tariffs. The problem is that if Indonesia wins some respite for particular domestic interests, other ASEAN countries may seek to unravel parts of the agreement. Business interests in Malaysia, the Philippines, and Thailand have also raised objections to parts of the CAFTA. Although no official ASEAN representation on the subject has been made, China has informed ASEAN that it understands that ASEAN needs a period of transition and cooperation in the full implementation of the CAFTA, and that it is ready to accommodate and cooperate in this.

The attention given to CAFTA has obscured the fact that it is only one of ASEAN's multilateral FTAs. The same day that the CAFTA came into force, the ASEAN – India FTA became effective, after six years of negotiation. Three days after the CAFTA went into force, so did the ASEAN – Australia – New Zealand FTA. A Japan – ASEAN FTA has been in effect since 2008 (officially called a Comprehensive Economic Partnership). In May 2009, the ASEAN – Republic of Korea FTA was implemented. A proposed EU – ASEAN FTA has stalled on issues of getting the 26 EU countries and the 10 ASEAN countries to a common position, including human rights. The EU has adopted a new strategy of negotiating with willing individual ASEAN states. Besides the overarching regional FTAs, there are multiple bilateral FTAs in force or being negotiated between ASEAN countries and external partners, what has been called a "noodle bowl" of FTAs. ASEAN has had a tougher post-CAFTA approach to trade negotiations. In part, this is because it had the CAFTA leverage on negotiating partners who did not want to be in a less favorable position than China. This was particularly true of the India negotiations. Secondly, the fashioning of the CAFTA was an ASEAN learning experience.

ASEAN's participation in external multilateral FTAs is paralleled by its own internal economic integration that saw the ASEAN Free Trade Area (AFTA) come fully into force for the ASEAN 6 on 1 January 2010 with the elimination of all intra-ASEAN import duties for the ASEAN 6 (2015 for the CLMV countries). With the progressive lowering over the preceding decade of intra-ASEAN trade barriers, intra-ASEAN trade in 2008 was more than 25 percent of all ASEAN trade. The AFTA and its attendant investment and services agreements are key steps towards the achievement of an ASEAN Economic Community (AEC) by 2015. From ASEAN's vantage, the AEC will strengthen the grouping's position and voice in regional economic affairs.

The United States bilateral FTA with Singapore is the only one it has with an ASEAN country. This is a WTO-plus arrangement unique to the region. There have been failed American negotiations with Malaysia and Thailand. The United States has bilateral Trade and Investment Framework Agreements (TIFA) with every ASEAN country except Laos and Myanmar (the Singapore – U.S. FTA was preceded by a TIFA). A TIFA is a consultative mechanism to facilitate and liberalize trade and investment. It is a necessary first step towards an FTA. As part of the "Enhanced Vision" framework, in 2006 the United States and ASEAN signed a TIFA. Although there have been talks about moving towards an ASEAN – U.S. FTA, no progress has been made. One stumbling block has been Myanmar, since the U.S. sanctions regime makes it impossible to include Myanmar and ASEAN is not going to exclude Myanmar. Even if

the problem of Myanmar could be finally resolved, there would remain the issue of U.S. insistence on a WTO-plus instrument. Also, in the absence of the American president's fast track authority, it is likely that Congress would pick the provisions apart and require renegotiations that ASEAN would probably reject. Nevertheless, the idea of a U.S – ASEAN FTA is alive. It has been reported that it was tabled from the ASEAN side at the Singapore "Leadership Meeting," and Senator Lugar, the ranking Republican on the Senate Foreign Relations Committee, has introduced legislation encouraging United States officials (the U.S. Trade Representative) to initiate FTA negotiations with ASEAN.

China's trade policy toward ASEAN is to integrate ASEAN into its regional market. China's assistance and investment strategy is to gain access to resources through infrastructure development with loans and grants tied to Chinese state-owned companies. A major new assistance blueprint to enhance China – ASEAN cooperation was rolled out at the April 2009 ASEAN – China foreign ministers meeting in Beijing. China will establish a China – ASEAN Investment Cooperation Fund totaling U.S. \$10 billion for cooperation on infrastructure construction, energy, resources, information, and communications. In addition, China will offer a credit to ASEAN countries amounting to \$15 billion. When first announced, it was stated that \$1.7 billion of the credit would be on preferential terms. The preferential terms were increased to \$6.7 billion by the October ASEAN – China summit. It was agreed that these initiatives would promote the furtherance of Mekong Basin development including more road connections to the ASEAN Highway and double-tracking the Singapore – Kunming railway line. This will give China greater access to Southeast Asian markets and resources. China's emergence as a major financial and contracting partner with ASEAN in the Mekong development schemes has alarmed Japan. In some respects, the northern tier of ASEAN is part of "greater Yunnan." At a November 2009 Mekong summit in Tokyo of Japan's prime minister and his Thailand and CLMV countries' counterparts, Japan offered a "Hayotama initiative" of ¥ 500 billion (\$5.5 billion) in fresh development assistance for ASEAN's Mekong basin countries. In mid-2009, the United States launched its own Lower Mekong initiative that has not yet gone beyond workshop exploration of areas of cooperation.

China's foreign direct investment in ASEAN is state directed to secure state ends and largely deployed through state companies. In the 2006-2008 period, China was ASEAN's fifth largest source of FDI. Its total FDI figure of \$3.6 billion is dwarfed by Japan's \$25.7 billion or even the U.S.'s \$12.7 billion over the same period. For China, however, it is not how much, but how it is targeted. It can be expected that, with the new China – ASEAN Investment Agreement and new programmatic funds backed by China's abundance of financial reserves, the pattern of China's strategically and politically important investment will be accelerated. For example, on 11 January 2010, Malaysia announced plans for a joint venture with the State Grid Corporation of China (SGCC) for a massive investment in hydropower projects on rivers in the East Malaysian state of Sarawak. The announcement can be seen as follow-up to China's President Hu Jintao's state visit to Malaysia in November 2009, when Malaysia's Prime Minister Najib expressed his government's desire for greater Chinese involvement in Malaysia's infrastructure development. The plan calls for a complex of dams on Sarawak's rivers and associated industrial development including an aluminum smelter. It is estimated that the SGCC's investment spread out over the years will be \$11 billion. The project will raise the same kinds of protests over environmental destruction and forced displacement of indigenous people that plagued the building of Sarawak's Bakun dam, begun in the 1990s, but only coming on line this year. The Malaysian government will turn a deaf ear to the environmental and human concerns of dam building, like the governments in Laos and Cambodia where Chinese hydropower projects exist and are building.

Cambodia is a prime example of "RMB diplomacy." As well as being Cambodia's second largest trading partner (Vietnam the largest), China is Cambodia's largest source of economic assistance and investment. In 2008, Chinese direct investment was \$4.3 billion, or nearly 40 percent of the total FDI received by Cambodia. South Korea was the next largest investor. Of course it is hard to separate out investment from assistance since aid in the form of concessional loans is often tied to Chinese state-owned companies for

project implementation. With Chinese assistance and investment comes an ever larger Chinese presence and influence. The major projects have focused on infrastructure and electrical generating capacity. Road projects give China access to resources including its interest in oil and mineral exploration and exploitation. It remains to be seen whether the lifting in June 2009 of the prohibition of U.S. Export-Import Bank-backed loans to Cambodia will spur American FDI.

The pace of China's economic penetration of Cambodia is accelerating. In December 2009, China's Vice President Xi Jinping was in Phnom Penh for the signing of 14 new economic assistance agreements between China and Cambodia. The package was valued at an unprecedented U.S. \$1.2 billion, exceeding by far the \$880 million in loans and grants that China has provided Cambodia since 2006. As a member of the Cambodia Development Cooperation Forum (CDCF), the international assistance consortium that meets every 18 months, China since 2007 has become the largest aid source. At the December 2008 CDCF pledging session, China pledged \$257 million of the total \$951.5 million, followed by the EU's \$214 million and Japan's \$113 million. Caught in the presidential transition, the U.S. did not pledge, but the 2009 USAID figure for Cambodia was \$62 million. Vice President Xi's Phnom Penh visit followed by two days Cambodia's forcible deportation, at China's insistence, of 20 ethnic Uighur refugees who had been under UNHCR protection. Although both countries deny any connection between the signing of the economic package and the extradition of the Uighurs, it is clear that Cambodia was not going to allow its obligations under the United Nations Refugee Convention – to which it is a signatory – to put a shadow over the signing ceremony for the new agreements. In China, the government of Hun Sen has an enabler, not concerned with issues of human rights, corruption, environmental degradation, the rule of law and the other kinds of non-traditional and human security issues with which Cambodia's U.S. and other Western CDCF partners are concerned. The Chinese economic embrace of Cambodia is unconditional. Opening a Chinese-built bridge in October 2009, Prime Minister Hun Sen praised China for strengthening Cambodia's "political independence." By placing no conditions on projects, he said, "China respects Cambodian decisions . . . they talk less, but do more."

It is wrong to think of the relative positions of the United States and China across their multidimensional relations with ASEAN and its member states as a race. Editorial comments about "catching up" with China mistakenly tend to view the U.S. and China as being in a zero-sum competition and are narrowly based on data that can be quantified, like trade statistics. The developing U.S. – Indonesia "Comprehensive Partnership," which has ASEAN implications, is not trade based. Clearly, the Chinese are outdistancing the U.S. in trade with ASEAN. As a state trader having a murky market pricing system China has certain advantages over the U.S. However, U.S. trade has steadily increased, but not as fast as China's. But what does that mean for ASEAN? To put it in perspective, 89 percent of ASEAN's trade is not with China. More than a third of ASEAN trade is with the EU, Japan, and the United States. China is an important trading partner for ASEAN, but not the only trading partner. ASEAN international economic strategy is to maximize its access to the global economy. Rather than seeing ASEAN being passively drawn into a China-centric web of economic entanglements, it is perhaps more accurate to view ASEAN as being at the hub of its own expanding global network. China is one of the spokes, not the hub.

In Southeast Asia's multilateral setting, the direction that evolving wider regionalist structures and institutions takes will be more important to U.S. long-run interests than how ASEAN views the relative positions of the U.S. and China. The new proposals are designed to be integrative, whereas the U.S.-driven APEC is a consultative mechanism which may have reached a dead end. The 2008-2009 global downturn has given new impetus to rethinking the appropriate regional multilateral architecture for cooperation and integration to strengthen East Asia's place in the global economy. There are essentially two competing visions: an East Asia vision and an Asia-Pacific vision. These two visions have been iterated in different proposals, with a major difference being how exclusive or inclusive any new

multilateral architecture might be. For the United States, the difference is critical. Both Secretary of State Clinton and Assistant Secretary of State for East Asia and the Pacific Kurt Campbell emphasized in January 2010 that Asia-Pacific institutions must include all key stakeholders such as the United States.

First off the block, so to speak, has been the proposal for developing the current ASEAN plus 3 process into a more integrated and structured East Asian Community constructed around an East Asia Free Trade Area (EAFTA). While the current discussion has been officially undertaken since 2003, its roots go back to former Malaysian Prime Minister Mahathir's anti-EU, anti-NAFTA East Asian Economic Group (EAEG) proposal nearly two decades ago. It was strongly opposed by the United States. The ASEAN plus 3 grouping, however, has taken on some of the EAEG's trappings. A next move would be to begin with harmonizing the existing ASEAN plus 1 FTAs with China, Japan, and South Korea. ASEAN plus 3-sponsored studies have shown that the economic benefits of such an EAFTA would be greater than the existing system of regional FTAs. ASEAN still is concerned that if the current ASEAN plus 3 should lead to a broader integrative regional institution, ASEAN's own stand-alone significance would be diminished. This appears to be what led Indonesia's Foreign Minister Marty, in his first policy speech, to call for urgent action to create ASEAN's own community by 2015. "For Indonesia," he said, "there cannot be an East Asia Community or an Asia-Pacific without an ASEAN Community as its core constituent." It was thought that a fatal political flaw in the proposal was the political hostility between China and Japan. Recent developments, such as the emergence of a China – Japan – South Korea summit process and the East Asia orientation of Japan's Prime Minister Hayotama, now suggest otherwise. One of the external influences on the ASEAN plus 3 processes will be the quality of the Japan – U.S. relationship.

Both Japan and Australia have put on the table different visions for a more inclusive process of East Asian community building, which would dilute Chinese influence. They both were sounded out at the October 2009 EAS. Japan's new initiative goes back to the 2007 ASEAN plus 3 summit which approved Tokyo's appeal for a feasibility study for a Comprehensive Partnership in East Asia that would include the members of the EAS. It is this notion of building on the ASEAN plus 6 that is at the heart of Japanese Prime Minister Hayotama's East Asia Community project. Although Prime Minister Hayotama agrees that the U.S. should be associated with the construction of the new regional architecture, he has been vague as to how. In 2008, Australian Prime Minister Kevin Rudd advanced a rival vision for an Asia-Pacific Community by 2020 that would include the United States and have a broad agenda to deal collectively with political, economic, and security challenges. The difference between Rudd's concept and APEC is that it would explicitly address political and security issues and it would provide a focused East Asia forum including the United States. China views both the Japanese and Australian proposals coolly. China has always been lukewarm towards the EAS and has not encouraged American participation in East Asian affairs. It has made it clear that whatever other frameworks develop, the core of its regionalist relations will remain the ASEAN plus 3.

The United States objects to any closed regionalism. Drawing a line down the middle of the Pacific Ocean, whether ASEAN plus 3 or plus 6, could jeopardize American traditional ties with friends and allies in East Asia and distort trans-Pacific economic relations. In response to the regionalizing economic forces at work in East Asia, the United States has advanced a new trade agenda for APEC. At the urging of the Bush administration, since 2006 APEC has had a possible Free Trade Area of the Asia-Pacific (FTAAP) on its agenda. At the 2009 APEC summit, the leaders said they were continuing to explore building blocks towards an FTAAP. More immediately, the United States has given new energy to regional free trade by the Obama administration's decision to join the Trans-Pacific Strategic Economic Partnership. This was originally an FTA linking Brunei, Chile, New Zealand and Singapore – the P-4. Negotiations in 2010 with Australia, Peru, the United States, and Vietnam hope to make it the P-8. Its trans-Pacific reach may breathe life into the FTAAP. Furthermore, the lure of an FTA that includes the U.S. may bring other ASEAN countries into an arrangement outside ASEAN, the ASEAN plus 3, or the ASEAN plus 6. The

U.S. in a P-8 is, if you will, a kind of shot across the bow of exclusive regionalism. Realistically, however, as the integrative lines grow tighter and more complex, it will be Congress that will have the last word as to policy limits on the U.S. desire to be part of an inclusive Asian economic regionalism.

Neither the Hayotama or Rudd proposals for an East Asian or Asia-Pacific Community appear to have the kind of support necessary to move them in the near future beyond the “discussion” stage. ASEAN, institutionally unable to give its own leadership in directing Asia-Pacific regionalism, certainly does not want to have its claimed “centrality” disappear in structures it cannot shape.

An ASEAN plus 3 based East Asian Community is different. The new engagement by the United States with ASEAN and an emerging special relationship with Indonesia (which has an implicit veto in ASEAN) are important in that regard as demonstrations that exclusive regionalism has its costs as well as benefits. This will require more than symbolic gestures by the United States. It will require active participation of the U.S. in East Asian regionalism through structurally tightening its bonds to ASEAN and winning a seat at the East Asian Summit.

What I have called the China – ASEAN– United States triangle is embedded in the growing network of bilateral and multilateral interdependencies with ASEAN in which both China and the U.S. seek to maintain and consolidate their regional interests. ASEAN hopes that the growing region-wide interdependencies will mediate China – U.S. regional relations through the joint interest of all in a peaceful and economically growing strategic environment. Regardless of what overarching future multilateral East Asia or Asia-Pacific regionalist architecture might evolve, for Southeast Asia, ASEAN will be the core of Southeast Asian external relations.

Panel V: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: Thank you very much. I appreciate that.

The first question will be from Commissioner Fiedler.

COMMISSIONER FIEDLER: First, a comment, Dr. Frost. It sounded a bit like a plaintiff plea, the negotiation of these trade agreements that you were talking about. Do you actually believe there's a snowball's chance--actually, that's appropriate coming--

VICE CHAIR BARTHOLOMEW: Tomorrow.

COMMISSIONER FIEDLER: There's a lot of chance of any of them getting done?

DR. FROST: Well, of course not in the current political circumstances, but I think the President himself has an opportunity over the next year or two to exert his vision and rhetorical skill in trying to reverse what is a long slide in American support for trade.

When President Clinton came into office, he made a speech about globalization within a month of his inauguration, and then he dropped the subject, basically. And after the conclusion of NAFTA and the Uruguay Round in 1993, there was an erosion in support for trade liberalism within the administration and within the country.

I think that erosion can be reversed. I think there are a lot of

misconceptions about trade. If people who are opposed to trade wanted to stop buying clothes from China and Southeast Asia, they would be naked! But seriously, to say that something isn't politically feasible now it doesn't mean we shouldn't try to begin changing perceptions.

COMMISSIONER FIEDLER: I notice that you used the term "open trade" versus "free trade."

DR. FROST: Nobody in the trade game is totally clean. Even the United States, which has negotiated so-called "gold standard" trade agreements with Singapore and Australia, has exempted certain things, like sugar in the case of Australia. "Free trade" is an ideal.

COMMISSIONER FIEDLER: Actually a real open or free trade agreement would be about one page or actually maybe even one sentence: you buy our stuff; we'll buy your stuff.

DR. FROST: In addition, it would say that we will erect no barriers to services and investment. We will not discriminate against foreign firms.

COMMISSIONER FIEDLER: And a longer one than that is a managed trade agreement, right, essentially?

DR. FROST: Well, yes.

COMMISSIONER FIEDLER: Okay.

DR. FROST: But what you're overlooking, I think, is the fact that as economies have become more interdependent, subsidies and taxes and other domestic practices also affect trade. So I think a free trade agreement of the sort you anticipate would be a little longer than a page.

COMMISSIONER FIEDLER: In light of hindsight and if the President were to engage you to renegotiate a trade agreement with China, would you do the same thing that we did in the last decade?

DR. FROST: Yes, I would. I think the most important step was China's accession to the World Trade Organization. We and our trade partners imposed very significant conditions on China, and I would do that again.

COMMISSIONER FIEDLER: In the net loser category that you referred to earlier, you believed that the creation of losers there in that agreement and in that relationship has nothing to do with the inability to negotiate trade agreements now?

DR. FROST: Oh, of course, it does. Of course it does. But imagine a United States in which workers affected by import competition had portable pensions, portable health care, and perhaps wage insurance. Unions in Europe supported trade for years, and for all I know still do.

There's a reason why the public has lost faith in free trade, and that has to do with the erosion of our social safety net. I'm just saying

that a long-term effort to restore the role of trade in American foreign policy helps us not only in Southeast Asia but also acknowledges the contributions that trade has made generally to our own country.

COMMISSIONER FIEDLER: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Reinsch.

COMMISSIONER REINSCH: Well, a valiant defense, Ellen.

DR. FROST: "But"...

COMMISSIONER REINSCH: Well said. I also can't help but note Secretary Geithner's comments, I think, the day before yesterday, in testimony, where he referred to the three outstanding trade agreements as an integral part of our export expansion program.

So that gives me hope, not a lot of hope, but it gives me some hope.

COMMISSIONER FIEDLER: It means I should believe him as well as we believe the Clinton administration on NAFTA; right?

VICE CHAIR BARTHOLOMEW: All right.

HEARING CO-CHAIR WORTZEL: All right.

VICE CHAIR BARTHOLOMEW: All right, you guys.

HEARING CO-CHAIR WORTZEL: There we go.

COMMISSIONER REINSCH: I believe everything my President tells me or at least this President.

Anyway, let's return to a couple questions. I think Dr. Weatherbee addressed this, but, Ellen, perhaps you could comment, first of all, on what you think the impact of the China-ASEAN Free Trade Agreement will be on the United States?

If there's already substantial trade between those parties already, as Dr. Weatherbee suggested, maybe the impact on us is going to be minimal, or is that wrong?

DR. FROST: I think you have to distinguish between sectors where trade barriers are high and where they are low. Trade barriers in Asia have been coming down steadily, and average tariffs are, in fact, quite low.

Exceptions occur in so-called "sensitive industries," some of which are major industries in the United States. So if you look at Ernest Preeg's work in the Manufacturers Alliance, you'll see a lot of concern about U.S. manufactured exports made in the United States and sold abroad. But, my conclusion is that we should not overreact to the agreement. I tend to agree with what Professor Weatherbee has said in general.

There will be some problem areas that we'll have to address. Your question gives me a chance to raise the subject of production networks. ASEAN's trade with China is part of a Asia-wide, China-centered, pattern of production networks in which ASEAN has exported

parts and components to China, as has Japan and Korea and Taiwan, for assembly in and shipment from China. So "Made in China" is a misleading label.

By the same token, American companies who have already invested overseas are participating in this same kind of network. Many of them choose to bypass rules of origin and complex features of intraregional trade agreements because tariffs are low and they don't want to bother.

So from the point of view of a U.S. company that's already overseas, this agreement will not have that much impact, I think, and will, in fact, have a positive impact because it grows the size of the market.

Let's not forget: this isn't a static situation. This is a situation where all these regional trade agreements, especially the China-ASEAN FTA, should lead to higher standards of living and therefore more demand for all kinds of products and services, including ours.

So if you ask me what kind of impact the China-ASEAN FTA will it have, I'd say: with some exceptions, it will be very positive.

COMMISSIONER REINSCH: Let me then ask you the same question I asked the others about architecture on TPP. Do you think that that is the right structural approach for a negotiation? Would it have been better to try to do it within APEC or within other organizations?

DR. FROST: I support TPP as one of several initiatives. It's not an APEC initiative as such, but the members are APEC members, and the original four initiators of TPP started this within APEC. I don't think it would be possible to have an APEC-wide Free Trade Agreement that would satisfy the standards of the TPP members.

So it's a little bit like what Fred Bergsten calls "competitive liberalization." When you have an agreement that seems to benefit a small number of countries, other countries say, gee, maybe we should get in, too, whereupon the TPP members are going to turn around and say, well, fine, you have to raise your standards and then we'll maybe let you in. So it could have a very good effect over time, and I do support it.

COMMISSIONER REINSCH: I thought Bob Zoellick invented competitive liberalization. You're telling me that Fred invented it?

DR. FROST: Sorry?

COMMISSIONER REINSCH: I thought that Bob Zoellick invented it.

DR. FROST: Fred Bergsten claims that he did many years ago.

COMMISSIONER REINSCH: All right.

DR. FROST: I won't try to get into the middle of that one.

COMMISSIONER REINSCH: The implication of that, though, is that you see opportunities for growth in this negotiation through additional members at a later point? Yes?

DR. FROST: Yes. All of the four original signatories, Singapore, Chile, Brunei, and New Zealand, are committed to a very high standard are committed to a very high standard of trade agreement, and so the three others that come in are going to have to match that.

I don't think that TPP is the be-all and end-all, but everything else is stuck. I had a question from Commissioner Fiedler, namely, are you out of your mind supporting such an agreement?

VICE CHAIR BARTHOLOMEW: You thought you were being subtle, Jeff.

DR. FROST: And, as long as we're in this position, let's do something.

COMMISSIONER REINSCH: Well, I don't think you're out of your mind. But my time is up.

HEARING CO-CHAIR WORTZEL: I saw you moving your finger a couple of times Don, so I'm going to give you a minute.

DR. WEATHERBEE: I'd like to say a couple of things about this. One, I don't think that Southeast Asia is terribly interested in APEC and never has been interested in APEC.

So that somehow the idea that APEC can be an alternative to what is being viewed there as an East Asian identity is I won't say a pipedream, but it certainly is not in the cards in the near future.

Secondly, I would point out very quickly that we can talk as much as we want about free trade areas and multilateral structures, but bilateral structures are just as important and perhaps more important for the United States.

I don't see CAFTA, for example, really affecting our bilateral trading arrangements in Southeast Asia. ASEAN itself is the premier multilateral organization in the region. The great majority of the transactions that take place between ASEAN states and the external states are bilateral. That's where significant political, economic, and security transitions are being done, not in the framework of ASEAN.

ASEAN is important. It's important for them, and it will be more important, of course, if they reach their community in 2015, which, in my opinion, is problematic, but it is not Southeast Asia.

Southeast Asia is ten nations, and what's important for the United States is really, singly important, is our relations bilaterally, burnished by our willingness to accept on a basis of equality, in terms of the game that is being played, their collective organization.

HEARING CO-CHAIR WORTZEL: Thank you very much.
Commissioner Cleveland.

COMMISSIONER CLEVELAND: Dr. Frost, I think you make a good point, that the balance of power in the region is stable, but the balance of influence may be tipping, and tipping in China's favor.

I'm interested in, you've identified in your testimony that China is interested in a whole number of objectives, including isolating Taiwan and maximizing access to resources, and to some extent marginalizing Japan's influence in the region, and I wonder if you could talk a little bit about Japan's roles in these forums and whether or not there's a competition for leadership, for lack of a better word? Is there a dynamic there that is active or quietly underway? How would you characterize what's happening?

DR. FROST: The dynamic is very active. Japan's influence in Southeast Asia adds up to less than the sum of its assets, and that's true within regional organizations as well. Japan has enormous assets: a huge economy, leading-edge technology, business networks, a highly educated population, culture, fashion, anime, you name it, and yet Japan's influence is way below what these assets would suggest.

This lag is partly due to Japan's long-running economic stagnation. Perhaps it has to do also with Japan's internal politics, its bureaucratic infighting and the rapid change of prime ministers.

I think that the moves that the new Prime Minister, Mr. Hatoyama, have suggested, becoming closer to Asia, are long overdue and very welcome. I think Southeast Asians also want a healthy role for Japan, precisely so they can play China and Japan off. Southeast Asians don't want tensions to get out of hand, but they definitely see a role for Japan.

The one area where Japan has the clear lead within ASEAN-centered regional organizations is finance. The so-called "Chiang Mai Initiative," set up in the wake of the Asian financial crisis of '97-'98, has broadened and become multilateralized, and there are studies underway of a regional bond market and other initiatives.

Japan is extremely active, and the role of the Asian Development Bank, which is traditionally headed by a Japanese, is also in play. So that's an exception to what I said earlier, but in general, I think it's a good thing that Japan is going to try to restore some of its voice in these organizations.

COMMISSIONER CLEVELAND: Thank you.

Would you care to comment before I have a question for you, Dr. Weatherbee?

DR. WEATHERBEE: Yes. I agree, that Japan is not only low profile, it's almost no political profile in terms of shaping events in the region. The Hatoyama Initiative--really there's a background to this, and it goes back to 2002 when it was first floated, and then again in

2003, when ASEAN within the framework of the APT decided to study it, and it studied and studied and studied.

I'm sure in briefing papers that have been floating around in the Japanese Foreign Ministry for a long time, it is vague. It is apparently built on the notion of somehow converting the ASEAN Plus 6 into a tighter structural organization. He has said at one point that the United States should be associated. Elsewhere, he's been lukewarm--his position on--and my feeling is that it has more to do with American-Japanese bilateral relations than it has to do with a higher kind of vision of an East Asian future.

DR. FROST: If I could add one more point. The tool that Japan has developed that corresponds to China's free trade agreements is called an "Economic Partnership Agreement." Japan is unable to open its market for agriculture. That's a significant weakness.

Japan's agreements actually go further than the typical free trade agreement in that they include investment, services, intellectual property protection, and several other things, and so the Japanese are touting these as actually better in the long run. And they have negotiated them with just about everybody, including ASEAN as a group.

DR. WEATHERBEE: Let me add one thing to that. Let's talk about the APT, the ASEAN Plus 3, and turning into an East Asian Community. Its foundation would be a free trade area. It's very difficult to see how China, Japan and Korea are going to somehow harmonize and consolidate their independently standing free-trade arrangements with ASEAN so that you would have then a 13 nation free trade area in which the asymmetries would be so great. In other words, they're talking about it, but I don't see it as going to be any kind of reality in any kind of foreseeable future that this Commission might be dealing with.

There's a difference between building a free trade area than having a multilateral forum in which all kinds of issues can be discussed. One is treaty-based and the other is not.

COMMISSIONER CLEVELAND: I have another question, but I'll hold to the second round.

HEARING CO-CHAIR WORTZEL: Thank you.

I have two short ones. One, almost rhetorical, but first of all, Dr. Frost, I infer from your comments that you would suggest reviving not just the public diplomacy type programs but active library and cultural programs such as those that were run by U.S. Information Service and U.S. Information Agency?

DR. FROST: That's correct.

HEARING CO-CHAIR WORTZEL: Yes, and you think that would be of great benefit to the United States?

DR. FROST: I do. Actually, the last administration, and this one as well, are trying to revive "American Centers" now. American embassies are like fortresses, very hard to get into, so these American Centers are somewhere else, but it's very much a welcome initiative. I do support that..

HEARING CO-CHAIR WORTZEL: You have the same position on that, Dr. Weatherbee?

DR. WEATHERBEE: Yes, well, I'd like to make a footnote to Dr. Frost's comment about the Confucius Institutes, which are very interesting. There are 18 of them at 18 universities in Thailand. There are more than 60 in universities in the United States. This is not Chinese--this is China deploying its soft power globally. Southeast is not a special target in this regard.

DR. FROST: That's right. Thank you.

HEARING CO-CHAIR WORTZEL: My second question: why can the ASEAN states operate as a body in CAFTA, and the Chinese accept that, but yet the ASEAN states accede to China's demands to treat the South China Sea on only a bilateral basis? Why can't they get themselves together on that one?

DR. WEATHERBEE: I'll go first on this one. Because they're two separate issues, and that they don't want to commingle the South China Sea issue with their other relational issues with China.

They've been working now since 1997 to get a formal agreement on a code of conduct in the South China Sea. They have a tacit agreement that they will work for an agreement and will not disturb the status quo except that doesn't work either.

ASEAN has been unable within itself to really present a single face to China on the South China Sea issue. For ASEAN itself, it really still is a bilateral issue for the states, the states involved.

Now, on the China issue, one of the reasons that they were able to get the kind of CAFTA they have is it is so "WTO-lite." It truly is a very light kind of agreement. The sensitive items have been excluded. Supposedly, the sensitive items will have their tariffs reduced to zero by 2015. Don't count on it.

Furthermore, it's only the ASEAN 6 that have had the full implementation of the CAFTA. The CLMV countries are excluded till 2015.

We already know that the Chinese have agreed or have said they would agree to begin a discussion on modifications and adjustments to the treaty as it has been implemented. It is still, let us say, in dynamic process.

HEARING CO-CHAIR WORTZEL: Thank you.

Vice Chairman Bartholomew.

VICE CHAIR BARTHOLOMEW: Did you want Dr. Frost to respond to that question, too?

DR. FROST: You go ahead?

VICE CHAIR BARTHOLOMEW: Okay. Actually, it's a variation on what Larry just asked. He stole a small piece of the thunder.

Dr. Weatherbee, I am perhaps a little bit more cynical than you are that perhaps the reason that China doesn't want the South China Sea taken up in the ASEAN context is that it believes that it might not be able to control the outcome to its advantage as well as it can by dividing and conquering.

DR. WEATHERBEE: I'm sorry, Madam Chairman. I don't think that's exactly what I said. I said it is ASEAN that--I don't think I said China--

VICE CHAIR BARTHOLOMEW: No, no. I'm saying what I think.

DR. WEATHERBEE: Oh, you're saying that. Oh, oh, oh.

VICE CHAIR BARTHOLOMEW: That that's why I think I'm more cynical than you.

DR. WEATHERBEE: Okay. I'm sorry. Excuse me. Yes.

VICE CHAIR BARTHOLOMEW: But my question really for both of you gets to multilateral versus bilateral structures, and we have talked some about the advantage to the United States of participating in these.

I wondered if there was any insight you could provide on how China chooses which, whether it wants to deal with an issue, a regional issue, through a multilateral forum or whether it wants to do it through a bilateral? And the South China Sea is a good example of that. But any insight that you might have on the choices that China is making as which of these to employ?

DR. FROST: I think you have to distinguish between traditional and nontraditional security threats. We're talking about traditional military issues in the first instance. By contrast, the so-called nontraditional security threats that have really mushroomed, some new, some old, include piracy, disease, international crime, trafficking, and so on.

All of the nations in the region understand there's a need to cooperate on nontraditional threats, and they more or less do, not necessarily as a whole group, but more commonly as two or three countries acting together on a given issue at a particular time.

So I think that whether to choose a bilateral or a multilateral approach isn't just China's choice. That's just the logic of things. When it comes to traditional security issues, virtually all the Southeast Asians, with the possible exception of Singapore (and I'm ready to stand

corrected on that), prefer bilateral arrangements, partly because they don't necessarily want other countries to see the weaknesses in their own military posture.

Some of these governments may even have defense systems programmed against their neighbors, which is not quite the AASEAN way.” And they all want access to American training and American technology and weaponry and so on. So there is a strong preference for bilateral security arrangements with the United States on their part.

So what can China do? China can't compete in this area, but they've begun inviting military officers to China and making port calls and that sort of thing. But it's the structure of the system that more or less determines Chinese options.

On the economic side, ASEAN has made a point of trying to stay together despite their great diversity between, for example, Singapore on one extreme and Laos on the other. They really try to hang together because they think their voice is louder and they have more collective weight than if they were negotiating only bilaterally. Again, Singapore is the exception.

The weaker countries, Cambodia, Laos, Myanmar, in particular, have been able to go along because they have more time to implement economic commitments.

So on the question you're asking about China, on the economic side, I think it's as much ASEAN as China that determines the bilateral or multilateral nature of a given initiative. That's my impression anyway.

VICE CHAIR BARTHOLOMEW: Dr. Weatherbee.

DR. WEATHERBEE: Well, Madam Chairman, I will be cynical.

VICE CHAIR BARTHOLOMEW: No, no, no, you don't need to be.

DR. WEATHERBEE: I prefer to call it realist, but with respect to the military arrangements within ASEAN and their preference of bilateral, we have to remember, if we look at the way which ASEAN buys its weapons and what kind of weapons they buy, they're preparing, I would argue, for contingencies involving each other, whether it's Malaysia and Singapore, or whether it's Indonesia and Malaysia out in the Sulawesi Sea, or as we sit here, Thailand and Cambodia up in the border province, that war is not excluded simply because there's a Treaty of Amity and Cooperation, and certainly not firefights. I would add that to what Dr. Frost said.

With respect to multilateralism and economic affairs, again, a part of it is I don't believe the ASEAN states, particularly the six, want China cutting deals separately with each of them, disadvantaging those who might not have such a deal.

I would suggest historically, and I'll let Ellen correct me if I'm wrong, that one of the spurs to ASEAN's willingness with the CAFTA was talks and a separate bilateral agreement with China, the Thai-Chinese trade agreement.

HEARING CO-CHAIR WORTZEL: Thank you.

Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman. Thank you both for being here with very helpful testimony that you've both given to help us get a better understanding of Chinese in Southeast Asia and American interests in Southeast Asia.

The question, I want to make a comment first. Dr. Frost, you talk about getting back in the trade game, and note that there is a reluctance in America politically to do that. I would posit that part of the problem is, I think since China entered the WTO, we have about \$1.5 trillion worth of trade deficits with China, which has a deleterious impact on our economy, and so the American people don't think trade necessarily is serving their interest.

But the question I have —is this. I remember Sandy Berger then the Clinton Administration's National Security Advisor, when China was going to join the WTO, and he made the argument that Congress should pass the law that would permit them to do so because it was in our, quote, "national security interests" to get China into the WTO.

And in this way, this Commission came out of that debate because there were a number of Senators who thought that certainly is an unexamined assumption. And that's part of the reason this Commission was set up, to examine these kinds of issues.

Do you both think that the reason we're looking at Southeast Asia now and China's growing influence there is directly attributable to the fact that there's been such a tremendous transfer of wealth and technology and know-how and manufacturing capabilities from here to China, and that that has strengthened their whole capability and influence in Southeast Asia. That's my take on it.

So I would ask just Dr. Weatherbee and then Dr. Frost, is my way of looking at this correct or do you think that's somehow mistaken?

DR. WEATHERBEE: I would first begin, Mr. Mulloy, by asking what would the alternative have been, to start a Cold War with China? Our policy, as I understood at the time, was to integrate China into a global system in which it would be win-win for everyone in the system.

I cannot think, I cannot think of an alternative that would not have been a worst case outcome than what you've suggested.

DR. FROST: Let me make a couple of responses to your point. First of all, I associate myself with what Professor Weatherbee said. We now have a system of rules and dispute settlement mechanisms and

multilateral disciplines. A number of countries have made use of this. China itself has been taking steps to implement its WTO obligations, unevenly to be sure.

But let me first make a point that Americans don't talk much about. And that is the role of imports. When I was working for Mickey Kantor in the Office of the U.S. Trade Representative, he went to Seattle and made a speech, the thrust of which was President Clinton's trade mantra: exports create jobs.

Finally someone in the audience raised her hand and said, Mr. Kantor, this is the port of Seattle. We have stevedores. We have insurance companies. We have cargo handlers. We have trucking companies. We have all kinds of jobs, before we even get to retail and distribution, that depend on imports.

So there's a significant job element associated with imports. The number of jobs is difficult to measure, much more difficult compared to jobs allegedly or actually lost as a result of imports. Jobs gained from rising import levels are very hard to measure.

But beyond that, imports have played a significant role in keeping U.S. inflation down. They have also provided a wide range of goods to poor people who would not otherwise be able to afford a lot of things.

But that's going to elicit another comment from Commissioner Fiedler about my mental stability.

COMMISSIONER FIEDLER: It would if we had more time.

DR. FROST: Yes. One of the things I'd like to see coming out of the Commission, and of the whole community in Washington that's concerned with strategy and national security, is the argument that there's a very important strategic element in engaging with Southeast Asia and competing peacefully and constructively for influence. Our trade agreements could be used as a flagship, so to speak. I think that image of America's economic openness is very much bound up with our image as a leader.

I think there's a national security element in U.S. economic engagement with Southeast Asia that is not being articulated in our trade policy debates. Those debates tend to focus exclusively on economic issues.

That's not to say that we don't have major "rebalancing" issues to be corrected between the United States and China. These include China's undervalued the currency; the prior U.S. tendency to spend too much, now rather dramatically reversed; and China's dependence on exports as a major element in its growth strategy. These are major restructuring issues that are at the heart of this shift that you're talking about, and nothing that I say detracts from the importance of addressing them.

COMMISSIONER MULLOY: Thank you very much.

DR. WEATHERBEE: Let me just add a little footnote, an ironic footnote. In the weeks leading up to the coming into force of CAFTA on January 1 and the two weeks immediately after, Chinese ambassadors were scrambling around the ASEAN capitals because all of these voices were being raised by different sectors that thought they were going to be really hurt by the CAFTA.

The Chinese everywhere were saying, look, we thought the same thing about the WTO; you'll get over it.

DR. FROST: They had several hundred million people that lost their jobs.

HEARING CO-CHAIR WORTZEL: We were due to close at 3:30.

Commissioner Cleveland has a final question if both of you can give us another minute or two.

DR. FROST: Certainly.

COMMISSIONER CLEVELAND: Dr. Weatherbee, in your testimony, I appreciate the fact that you imbed the importance of CAFTA in the context of the India FTA and the Australian-New Zealand-ASEAN FTA, but you also point out that CAFTA has been a vehicle for the Chinese to push ASEAN countries to use the renminbi. I asked the earlier panel based on your testimony their view of whether or not that is a significant issue we should be watching.

Could you characterize that in a way that it's an immediate problem, or it's one that we should just keep our eye on?

DR. WEATHERBEE: A very brief answer. I think it would become an issue to be considered if ASEAN in the building of the ASEAN Economic Community should move to an ASEAN currency.

I think that at the present time, they're going to deal with it on a case-by-case, balance-of-payments problem issue, and in their own relative value of their currencies as opposed to the Chinese currency. But I don't see an ASEAN currency in the near term.

COMMISSIONER CLEVELAND: Thank you.

VICE CHAIR BARTHOLOMEW: Great.

HEARING CO-CHAIR WORTZEL: Both of you have done a great job and educated us on the issues, and we appreciate very much the time that you devoted to it.

Thank you.

VICE CHAIR BARTHOLOMEW: Thank you very much.

COMMISSIONER MULLOY: Thank you both.

DR. WEATHERBEE: Thank you.

VICE CHAIR BARTHOLOMEW: All right. Thank you, everybody.

[Whereupon, at 3:35 p.m., the hearing was adjourned.]

ADDITIONAL STATEMENTS SUBMITTED FOR THE RECORD

Statement of Jim Webb, a U.S. Senator from the State of Virginia

Chairman Slane, Vice Chairman Bartholomew, hearing co-chair Commissioner Wortzel and other distinguished Commissioners, I regret that I could not be at the hearing with you today. However, I commend you for holding this important hearing to examine the implications of China's activities in Southeast Asia. During my trip last year to five countries in mainland Southeast Asia, I was struck by the presence of Chinese interests in every location visited. This presence, and the corresponding influence it enables, presents a strategic and diplomatic challenge for the United States.

Southeast Asia remains a region of vital importance to U.S. strategic interests—economic, military and diplomatic. The countries of Southeast Asia cannot ignore the growing influence of their neighbor to the north. Understandably, they also seek assurance that the United States will continue to remain engaged with the region. However, as a recent SFRC subcommittee hearing I chaired made clear, the often contradictory standards we use in defining the underlying parameters of our relationships with different countries, particularly in Asia, have served to enhance China's role. American sanctions and other policy restrictions have actually increased Chinese political and economic influence in

Southeast Asia by allowing Chinese interactions where we have declined to engage, and in the process decreasing the incentive of those same countries to change the internal political conduct which prompted our disengagement in the first place.

China historically has had mixed relations with many of its Southeast Asian neighbors. But, beginning with the change in economic policies and the export-led development of the 1980s, and continuing through the more recent strategy of “soft diplomacy,” the Chinese government has engaged Southeast Asia in order to enhance its strategic access to sea lanes and natural resources, fuel its industrial growth, improve energy security, and open new markets for exported goods. Over a period of decades, but accelerating in recent years, China has developed influence and gained ground in a concerted manner throughout Southeast Asia.

A key part of this approach is the Chinese government’s encouragement of outward investment in the region, providing low cost loans and foreign assistance to facilitate financing. Critically, in contrast to American assistance, Chinese investment and aid is typically viewed as coming with “no strings attached”—i.e., without requiring any accompanying political or human rights standards. Chinese entities have become major investors in the region’s energy, transportation, agriculture, and mining industries. The development of this fundamental economic infrastructure is, without question, needed in Southeast Asia. At the same time, it brings cause for great concern, since investments in many of these projects—by design—feed China’s strategic interests. Furthermore, in larger projects, local labor is often prevented from benefiting from the new economic opportunities because these projects are supplied with Chinese laborers.

A case in point is China’s investment in a 1,200-mile oil and gas pipeline from the Bay of Bengal in Burma to China’s Yunnan Province. In addition to locally tapped gas from Burma, China intends to use these pipelines to allow land transport of imported oil that would have normally transited the Malacca Strait, a critical shipping lane perceived by the entire world as a strategic “choke point.” In return for these resources and strategic access, China is reportedly paying \$30 billion over 30 years to the government of Burma.

China’s investment in hydropower provides another example. According to the World Wildlife Fund, China is an investor or developer in roughly 21 hydropower projects across the region. Most of these projects are designed and implemented by Chinese companies and backed by Chinese government guarantees. Last August during a visit to Laos I met with the Mekong River Commission, a multilateral organization seeking to promote river management along the Lower Mekong. This organization is concerned that the rapid, uncoordinated development of dams may affect water flows far into the region’s south. Drastic changes in dry or wet season flows could dramatically shape the river’s vitality and impact the livelihoods of those farmers and fishermen who depend upon the river. In turn, this could significantly affect food security for the countries of Southeast Asia.

Through the financial capital that China brings to the region, it seeks not only to extract resources, but also to extract political and diplomatic behavior favorable to China. For example, China insisted upon the deportation of 18 Uighurs from Cambodia to China in December, and sweetened this decision with the offer of \$1.2 billion in additional aid to Cambodia. Following their arrival in China, the welfare of these Uighurs cannot be ascertained, but harsh punishment and possibly death is expected.

As the U.S. government engages Cambodia regarding its decision in this case, we should also remember that China has breached the spirit of its commitment to the United Nations Convention Related to the Status of Refugees, which affirms “the principle that human beings shall enjoy fundamental rights and freedoms without discrimination.” Rather than merely condemning the Cambodia government for deporting these refugees, we should call on China to act as a mature, responsible country, and follow through on its international commitments for protecting individual rights, particularly those respecting political asylum. Moreover, we should engage with smaller countries in Asia to help develop their technical capacity to address international challenges, such as the arrival of political asylum seekers, and encourage their adherence to international rights guarantees in the face of political pressure.

Again, I commend the Commission for investigating these issues and reporting to the Congress its recommendations for improving U.S. security and diplomacy in Southeast Asia. As the U.S. government reinvigorates its approach toward Asia, and maintains its engagement with China, we should do so with a consistent message advancing economic development, promoting democratic reform, and respecting individual rights. Thank you, and I look forward to examining the findings of this hearing.
