

**CHINA'S RELATIONS WITH NORTHEAST  
ASIA AND CONTINENTAL SOUTHEAST ASIA**

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**HEARING**  
BEFORE THE  
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

**ONE HUNDRED FIFTEENTH CONGRESS  
FIRST SESSION**

THURSDAY, JUNE 8, 2017

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UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW  
COMMISSION

WASHINGTON: 2017

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The Commission’s full charter is available at [www.uscc.gov](http://www.uscc.gov).

August 17, 2017

The Honorable Orrin Hatch  
President Pro Tempore of the Senate, Washington, DC 20510  
The Honorable Paul Ryan  
Speaker of the House of Representatives, Washington, DC 20515

Dear Senator Hatch and Speaker Ryan:

We are pleased to transmit the record of our June 8, 2017 public hearing on “China’s Relations with Northeast and Continental Southeast Asia.” The Floyd D. Spence National Defense Authorization Act for 2001 § 1238, Pub. L. No. 106-398 (as amended by the Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015 § 1259b, Pub. L. No. 113-291) provides the basis for this hearing.


At the hearing, the Commissioners heard from the following witnesses: Abraham Denmark, Former Deputy Assistant Secretary of Defense for East Asia; Andrew Scobell, Senior Political Scientist, The Rand Corporation; Balbina Hwang, Professor, American University and Georgetown University; Sheila Smith, Senior Fellow for Japan Studies, Council on Foreign Relations; Murray Hiebert, Senior Advisor and Deputy Director for Southeast Asia, Center for Strategic and International Studies; Yun Sun, Senior Associate, Stimson Center; and Karl Jackson, Professor of Southeast Asia Studies, Johns Hopkins School of Advanced and International Studies. The hearing covered China’s economic and security relations with Thailand, Cambodia, Burma, and Laos as well as China’s relations with Northeast Asian countries in light of North Korea’s nuclearization. It specifically explored how China promotes its strategic objectives in Southeast Asia through economic and diplomatic engagement and how Japan, South Korea, and China have reacted to North Korea’s growing nuclear capabilities.

We note that the full transcript of the hearing is posted to the Commission’s website. The prepared statements and supporting documents submitted by the participants are now posted on the Commission’s website at [www.uscc.gov](http://www.uscc.gov). Members and the staff 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 2017 Annual Report that will be submitted to Congress in November 2017. Should you have any questions regarding this hearing or any other issue related to China, please do not hesitate to have your staff contact our Congressional Liaison, Leslie Tisdale, at 202-624-1496 or [ltisdale@uscc.gov](mailto:ltisdale@uscc.gov).

Sincerely yours,

  
Carolyn Bartholomew  
Chairman

  
Hon. Dennis C. Shea  
Vice Chairman

cc: Members of Congress and Congressional Staff

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THURSDAY, JUNE 8, 2017

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**CHINA'S RELATIONS WITH NORTHEAST  
ASIA AND CONTINENTAL SOUTHEAST ASIA**

THURSDAY, JUNE 8, 2017

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

*Washington, DC*

The Commission met in Room 485 of Russell Senate Office Building, Washington, DC at 9:57 a.m., Commissioners Robin Cleveland and Jonathan Stivers (Hearing Co-Chairs), presiding.

**OPENING STATEMENT OF COMMISSIONER ROBIN CLEVELAND  
HEARING CO-CHAIR**

HEARING CO-CHAIR CLEVELAND: Good morning, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission's 2017 annual reporting cycle. Appreciate you all joining us today.

Before I begin, I want to say a special thanks to Chris--yes--of course, he's outside the door so he doesn't hear his praise.

[Laughter.]

HEARING CO-CHAIR CLEVELAND: We could not function without him. So he rarely gets recognized, and--nope, not there--so as everybody walks out, please say "thank you, Chris."

Today's hearing will consider U.S. relations with Northeast Asia and a few select countries in Southeast Asia. Our first panel will discuss China and Northeast Asia.

North Korea is perhaps the most unpredictable and serious security threat the U.S. and its allies currently face. Since January 2016, North Korea has conducted two nuclear tests, 37 missile tests and appears to be on track to develop intercontinental ballistic missiles.

The stakes are high for the U.S., but they are also high for China. Although Beijing sees the risk of conflict from the perspective as a patron and ally of the DPRK, any confrontation not only would imperil American and Korean safety and security, there would be catastrophic consequences for China's citizens, sovereignty, stability and the Communist Party's ambitions to be seen as a global leader.

This causes me to take seriously comments recently made by a Chinese historian who said perhaps it is time for China to abandon the stale myths of fraternity and reassess the relationship with North Korea.

Over many years of living in and studying Korean history and politics, I have made the assumption that Chinese authorities stand alone in their capacity to influence the DPRK's leadership's policies and decisions. As North Korea's principal ally, financier, public defender, and dominant trading partner, there is an assumption of both leverage and willingness to influence Kim Jong-un's calculus regarding the Korean nuclear and missile programs.

I hope this hearing will add to our understanding of just how much influence Beijing may have, if any, how and when they're willing to exercise it, and in pursuit of what goals?

This morning, we will also look more broadly at China's relationships with South Korea and Japan. With over 28,000 military personnel in Korea, 54,000 in Japan and nearly 200,000 Americans living in both countries, to say nothing of the deep and substantial economic ties, our national interests are closely bound together.

It is with the defense of our mutual and collective interests foremost in mind that I believe the decision was wisely taken to deploy THAAD batteries.

China's economic retaliatory response against Korea to the deployment was both predictable but also puzzling. Predictable in Beijing's traditional blunt use of economic clout is evermore in evidence but puzzling because there continues to be a reluctance by Beijing to acknowledge or address the escalating risk posed by the DPRK. I don't want to oversimplify, but if the Chinese do not want THAADs in theater, they have to do more to mitigate the overall risk.

And again there's tensions in the East China Sea which further complicate the region's stability and our national security interests.

There are no easy answers to any of these issues so I am grateful we have some of the foremost experts in the country to consult and help provide answers.

I want to thank you all for coming, and, as a reminder, testimonies and transcripts will be posted on our website. Do I have to say please mark your calendars as if it's exciting news?

[Laughter.]

HEARING CO-CHAIR CLEVELAND: There's going to be another hearing on June 22. I want to thank Senator Schumer and his staff for their assistance in securing this space for the hearing.

So Panel I. We're joined by a superb group of experts. We'll begin with Abraham Denmark, former Deputy Assistant Secretary for East Asia. Prior to this, Mr. Denmark was Senior Vice President for the National Bureau of Asian Research and the Country Director for China at the Department of Defense. He will provide testimony on China's approach to Northeast Asia as a whole.

We'll then hear from Dr. Andrew Scobell. Did I say that right? Scobell, Scobell? French or English? Scobell? Dr. Scobell is--pardon me?

DR. SCOBELL: Chinese.

[Laughter.]

HEARING CO-CHAIR CLEVELAND: So that would be--Dr. Scobell is a senior political scientist at the RAND Corporation and taught international affairs and directed the China Certificate Program at Texas A&M. Go Aggies. Dr. Scobell has also taught at the U.S. Army War College, and he will discuss developments in North Korea and China's relationship with North Korea.

We will then hear from Dr. Balbina Hwang, a visiting professor at Georgetown University and American University, a founding member of the National Committee on North Korea, and served as a special advisor to then Assistant Secretary for East Asian and Pacific Affairs, Ambassador Hill. Also a Fulbright Scholar to South Korea. And taught courses on Northeast Asian security at the NDU.

And you'll testify on South Korea's relations with China although anybody can speak to anything because you're all so smart. So--

And, then, finally, we'll hear from Dr. Sheila Smith, a senior fellow for Japan Studies at the Council on Foreign Relations. She also teaches at Georgetown--I'm wondering why none of you teach at GW--in the Asian Studies Department and directed research on the U.S.' military

presence in Japan and South Korea at the East-West Center.

Dr. Smith will provide testimony on Japan-China relations and Japan's approach to regional security.

I thank you all for your testimony. I'll remind you to keep your remarks to seven minutes because we all have lots of questions but understand that your comments are important. So we'll look forward to hearing from you.

Carolyn, do you have anything you want to add?

CHAIRMAN BARTHOLOMEW: No.

HEARING CO-CHAIR CLEVELAND: No. We're going to split up. He'll do--

CHAIRMAN BARTHOLOMEW: Welcome everybody. It's a distracting day and we appreciate your being here.

HEARING CO-CHAIR CLEVELAND: Indeed it is.

So Mr. Denmark, we'll begin with your testimony. And these microphones are awful so please pull forward and speak in clearly so the recording can pick it up.

Thank you.



**PREPARED STATEMENT COMMISSIONER ROBIN CLEVELAND  
HEARING CO-CHAIR**

**CHINA'S RELATIONS WITH NORTHEAST ASIA AND CONTINENTAL  
SOUTHEAST ASIA**

**Opening Statement of Robin Cleveland  
June 8, 2017  
Washington, DC**

Good morning, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission's 2017 Annual Report cycle. Thank you all for joining us today.

Today's hearing will consider China's relations with Northeast Asia and a select few countries in Southeast Asia. Our first panel will discuss China and Northeast Asia.

North Korea is perhaps the most unpredictable and serious security threat the US and its allies currently face. Since January 2016, North Korea has conducted two nuclear tests, 37 missile tests and appears to be on track to develop intercontinental ballistic missiles. The stakes are high for the US, but they are also extremely high for China. Although Beijing sees the risk of conflict from the perspective as a patron and ally of the DPRK, any confrontation not only would imperil American and Korean safety and security, there would be catastrophic consequences for China's citizens, sovereignty, stability, and the Communist Party's ambitions to be seen as a global leader.

Over many years of living in and studying Korean history and politics, I have made the assumption that Chinese authorities stand alone in their capacity to influence the DPRK leadership's policies and decisions. As North Korea's principal ally, financier, public defender, and dominant trading partner, there is an assumption of both leverage and willingness to influence Kim Jong-un's calculus regarding its nuclear and missile programs. I hope the hearing will add to our understanding of just how much influence Beijing may have, how and when they are willing to exercise it, and in pursuit of what goals?

This morning, we will also look more broadly at China's relationships with South Korea and Japan. With over 28,000 military personnel in Korea, 54,000 in Japan and nearly 200,000 Americans living permanently in both countries, our national interests are closely bound together. It is with the defense of our mutual and collective interests foremost in mind that the decision was taken to deploy THAAD batteries.

China's economic retaliatory response against Korea to the deployment was both predictable yet puzzling. Predictable in Beijing's blunt use of economic clout is ever more in evidence, but puzzling because there continues to be a reluctance by Beijing to acknowledge or address the escalating risk posed by the DPRK. I do not want to over-simplify, but if the Chinese do not want THAADs in theater, they must do more to mitigate the risk we all face. Tensions in the East China Sea further complicate the region's stability and our national security interests.

There are no easy answers to any of these issues, so I am grateful we have some of our best national experts to consult.

I would like to thank you all for coming. As a reminder, the testimonies and transcript from today's hearing will be posted on our website, [www.uscc.gov](http://www.uscc.gov). And please mark your calendars for the Commission's next hearing, "U.S. Access to China's Consumer Market," which will take place on June 22.

I would also like to thank Senator Schumer and his staff for their assistance in securing this space for the hearing.

For our first panel we are joined by a great group of experts.

We will begin with Abraham Denmark, former Deputy Assistant Secretary of Defense for East Asia. Prior to this position, Mr. Denmark was senior vice president at the National Bureau of Asian Research and the country director for China at the Department of Defense. Mr. Denmark will provide testimony on China's approach to Northeast Asia as a whole.

Next we will hear from Dr. Andrew Scobell. Dr. Scobell is a senior political scientist at the RAND Corporation. Previously he taught international affairs and directed the China certificate program at Texas A&M University. Dr. Scobell has also taught at the U.S. Army War College. Dr. Scobell will discuss developments in North Korea and China's relationship with North Korea.

We will then hear from Dr. Balbina Hwang. Dr. Hwang is a visiting professor at Georgetown University and American University. She is a founding member of the National Committee on North Korea and served as a senior special advisor to Assistant Secretary for East Asian and Pacific Affairs, Ambassador Christopher Hill. She was also a Fulbright Scholar to South Korea and taught courses on Northeast Asian security at the National Defense University. Dr. Hwang will testify on South Korea's relations with China.

Finally, we will hear from Dr. Sheila Smith. Dr. Smith is senior fellow for Japan Studies at the Council on Foreign Relations. She also teaches at Georgetown University's Asian Studies Department and directed research on the United States' military presence in Japan and South Korea at the East-West Center. Dr. Smith will provide testimony on China-Japan relations and Japan's approach to regional security issues.

Thank you all very much for your testimony. I'd like to remind you to keep your remarks to seven minutes so we'll have enough time for the question and answer session.

Mr. Denmark, we'll begin with you.

**OPENING STATEMENT OF MR. ABRAHAM DENMARK, FORMER DEPUTY  
ASSISTANT SECRETARY OF DEFENSE FOR EAST ASIA**

MR. DENMARK: Madam Chair, commissioners, thank you for inviting me here today to speak about China's relations with Northeast Asia. It's an honor to testify here again and to share the table with such a distinguished panel of friends and scholars.

Your staff requested that I focus on the role of North Korea and regional dynamics, but before I begin, I would like to note that these views are mine alone and do not represent those of the U.S. government.

First is my view of China's broader national strategy, which I first publicly formulated when testifying before the Subcommittee on Asia and the Pacific of the U.S. House of Representatives Foreign Affairs Committee in February of 2015.

I said that Beijing's vision for a revised global order is centered on "a revitalized China that is stable, prosperous at home, is the dominant power in the Asia-Pacific, and is able to shape events around the world through a kind of neo-tributary system."

I further stated that "Chinese leaders do not appear to see this vision as a coercive arrangement; rather, they paint this system as founded upon tight economic integration and the eventual recognition of China as the dominant regional power on which other states depend."

In more than two years since I offered this analysis, China has continued to demonstrate an approach focused on placing itself at the geopolitical center of the Asia-Pacific, increasing its global influence, and adjusting the established liberal international order in ways it believes will support its long-term national interests.

North Korea is highly relevant to China's broader strategy because of its proximity to China itself, the threat it poses to regional stability and prosperity that China has relied upon since the late 1970s, and it speaks directly to the future role and relative power of the United States in the Asia-Pacific.

China's views on North Korea are highly complicated and informed by the founding of North Korea as a political entity and, more directly, the Korean War. China paid a heavy price for its involvement in the Korean War or, as they term it, "the War to Resist U.S. Aggression and Aid Korea," and many in China continue to see it as a demonstration of China's reemergence as a great power under the Chinese Communist Party and a demonstration of its will and ability to reject supposed Western attempts at hegemony and domination.

I emphasize this point to explain one reason why many in China are unwilling to give up North Korea--China paid a heavy price for it, and it continues to represent an important demonstration of the power and legitimacy of the Chinese Communist Party.

Matters of history and honor aside, there are several other reasons why many among China's foreign policy elite argue for China's continued support of North Korea. They point to North Korea as an important strategic buffer against the United States and worry that a unified Korean peninsula, which would presumably remain a U.S. ally, would extend American power and influence to China's border.

This should not be construed, however, as a statement of support or comfort in China for North Korea's leaders. Indeed, few in China have sympathy for North Korea's system. Nevertheless, China's support for North Korea is born out of an assessment of China's interests.

China's strategy toward North Korea, therefore, seems focused on managing the issue. China's objectives are threefold: one, prevent instability on the Korean peninsula, including a

war; two, prevent North Korea from becoming a nuclear power, if possible; and three, prevent the United States from starting a war on the peninsula, the result of which, be it unification or instability, they see as inimical to China's interests.

I would note that China's preferences on the Korean peninsula are more reactive than proactive: they seem to prefer to manage the issue over solving it.

Over the years, China has employed a range of tools--including military, diplomatic, and economic--to assert its interests. While China has at times demonstrated a willingness to exert economic pressure, it has not done so to a severity or duration that would threaten the stability of the regime in Pyongyang.

Moreover, China's leaders continue to advance their strong opinion that China has done its part, and the issue is for the U.S. and North Korea to ultimately solve.

It's therefore my assessment that China is unlikely to change its broad approach toward North Korea. Doing so would require a substantial revision in Beijing of how they identify their interests and to accept a great deal more strategic risk than they have done to date.

While China certainly is an important player on this issue, the view of American allies are also critical for the United States to consider.

For U.S. allies in South Korea and Japan, North Korea represents the preeminent threat to their national security and to regional stability. While this is not a new challenge, especially for South Korea, the changing nature of the North Korean threat and the changing perception of the United States have greatly increased concern in Seoul and Tokyo that North Korea is trending in a decidedly negative direction.

South Korea has seen North Korea as an existential threat since 1950. Ever since, South Korea has seen its alliance with the United States as essential to its survival. In recent decades, South Korean leaders have also sought to build the ROK's own military capability in order to play a greater role in contributing to its own defense. This trend has increased, intensified in recent years as the North Korean threat has intensified and as concerns in Seoul about the credibility of the United States' extended deterrence guarantees have deepened.

South Korean leaders have adopted a wide variety of strategies vis-a-vis North Korea, and the new administration in Seoul seeks to employ a new approach to North Korea that emphasizes engagement over confrontation.

Japan's views on the North Korean threat have also evolved over time. While Japan mostly saw the North Korean threat as contained to the Korean peninsula, North Korea's development of ballistic missiles brought Japan in range of a potential strike, either conventional or with WMD.

Today, like South Korea, Japan also sees North Korea as its most immediate security threat. As a result, Japan has increased investments in its self-defense capabilities and has enhanced its ability to contribute to U.S.-Japan alliance operations. Japan has also focused on enhancing its bilateral relationship with South Korea in order to enable enhanced trilateral security cooperation.

I would note one unique aspect of Japan's approach to North Korea is its focus on the status of Japanese citizens who were abducted by the North. While the U.S. and Japan have in the past had difficulty resolving these differing priorities, such differences have more recently been managed by deft diplomacy and because of the intensifying threat from North Korea.

And I'll stop there and look forward to our conversation. Thank you.

**PREPARED STATEMENT OF MR. ABRAHAM DENMARK, FORMER DEPUTY  
ASSISTANT SECRETARY OF DEFENSE FOR EAST ASIA**

**Hearing on “China's Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

The Asia-Pacific has emerged in recent years as the primary setting upon which American power will be tested, the liberal international order will be contested, and the peace and prosperity of the past seventy years will be challenged. Driving these issues to the forefront are two simultaneous geopolitical developments – the rise of an increasingly aggressive China and the persistent belligerence of an increasingly capable North Korea – both of which threaten to undermine long-standing American interests in the region.

For today’s hearing, I have been asked to focus on how China and the region at large view North Korea’s steps toward developing deployable nuclear weapons, and China’s interests in Northeast Asia as a whole. My testimony today will therefore start with an examination of China’s overall foreign policy how U.S. allies are reacting. I will then focus on regional perceptions of the North Korea nuclear issue, and will conclude with a set of recommendations for related congressional actions.

**China’s Approach to Northeast Asia**

Testifying before the Subcommittee on Asia and the Pacific of the U.S. House of Representatives Foreign Affairs Committee in February 2015, I offered my assessment that Beijing’s vision for a revised global order is centered on “a revitalized China that is stable and prosperous at home, is the dominant power in the Asia-Pacific, and is able to shape events around the world through a kind of neo-tributary system.” I further stated that “Chinese leaders do not appear to see this vision as a coercive arrangement; rather, they paint this system as founded upon tight economic integration and the eventual recognition of China as the dominant regional power on which other states depend.”<sup>1</sup>

In the 28 months since I offered this analysis, China has continued to demonstrate an approach focused on placing itself at the geopolitical center of the Asia-Pacific, increasing its global influence, and adjusting the established liberal international order in ways it believes will support its long-term national interests. This can best be seen through China’s One Belt, One Road initiative, which has become central to China’s efforts to establish itself as a leading power driving economic integration across the Asia-Pacific.

*Views of the United States*

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<sup>1</sup> Abraham M. Denmark, Prepared Testimony to the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific, <http://docs.house.gov/meetings/FA/FA05/20150226/103064/HHRG-114-FA05-Wstate-DenmarkA-20150226.pdf>.

While China's strategy does not seem to be focused on circumscribing American power per se, many in Beijing view the United States as fundamentally hostile to China's rise and, therefore, an inherent adversary whose geopolitical influence in the Asia-Pacific should be gradually reduced.<sup>2</sup>

While there exists in China's strategic circles an ongoing debate about the role of the United States and its relative position in the world, there is a general consensus amongst China's foreign policy elite that the United States is in the midst of a relative decline in geopolitical power in comparison to China's rising influence. While most in China continue to see the United States as far more powerful than China in absolute terms, Chinese foreign policy elites generally believe that American power in the Asia-Pacific is gradually declining.<sup>3</sup>

These views are certainly not new, but they reached the mainstream in China after the 2008 financial crisis, which saw the U.S. economy severely damaged but China's economy emerge relatively unscathed. Many in China (and the United States, for that matter) predicted the gradual decline of American power in Asia, driven by financial weakness and a strategic focus on the instability of the Middle East and Southwest Asia.<sup>4</sup> While the Obama administration's "rebalance" to the Asia-Pacific initially quieted a lot of these voices (as did the U.S. economic recovery and China's burgeoning economic challenges), continued U.S. commitments in Iraq and Afghanistan, and the spread of instability across the Middle East and into Africa, convinced many in China that the United States did not have the ability nor the resources to devote significant attention to the Asia-Pacific. For example, an editorial in the state-run newspaper *Xinhua* argued that the decision to deploy the Terminal High Altitude Area Defense (THAAD) to the Korean peninsula was a symptom of U.S. strategic malaise: "The controversial deployment of [THAAD] system on the Korean Peninsula yet again betrayed Washington's deep-rooted Cold War mentality and its petty anxiety over the United States' declining global hegemony."<sup>5</sup>

The first months of the Trump administration have further fueled Chinese perceptions of American distraction and decline, in four ways.<sup>6</sup> First was the Trump administration's decision to withdraw from the Trans-Pacific Partnership (TPP), which has opened the door for Beijing to attempt to assert leadership over regional economic dynamics with its One Belt One Road initiative and the Regional Comprehensive Economic Partnership.<sup>7</sup> Second was the multiple statements by President-elect, then President Trump that have criticized U.S. allies and partners

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<sup>2</sup> For a review of the roots and contours of Chinese distrust of the United States, see Kenneth Lieberthal and Wang Jisi, "Addressing U.S.-China Strategic Distrust," Brookings (2012),

<sup>3</sup> See Lyle J. Goldstein, "Does China Think America is in Decline?" *The National Interest*, January 28, 2016, <http://nationalinterest.org/feature/does-china-think-america-decline-15042>.

<sup>4</sup> See Bonnie S. Glaser and Lyle Morris, "Chinese Perceptions of U.S. Decline and Power," *China Brief* Volume: 9 Issue: 14, July 9, 2009.

<sup>5</sup> *Xinhua*, "China Voice: Washington's THAAD muscle flexing unmask anxiety over declining hegemony," August 4, 2016, [http://news.xinhuanet.com/english/2016-08/04/c\\_135563542.htm](http://news.xinhuanet.com/english/2016-08/04/c_135563542.htm)

<sup>6</sup> "Opinion: Trump's rise is fall of U.S. democracy," *Xinhua*, March 4, 2016.

<sup>7</sup> See, for example, Jane Wardell and Jonathan Barrett, "Analysis: Silk roads and chilled beef: how China is trying to fill a Trump vacuum in Australia," *CNBC*, March 29, 2017.

in the region, which China regards as a critical element of American regional power.<sup>8</sup>

The third issue convincing Chinese foreign policy elites of America's ongoing strategic distraction has been President Trump's transactional approach to relationship with China, in which he expressed the willingness of the United States to explicitly set aside important issues related to Taiwan and currency (for example) in order to gain Chinese assistance in dealing with North Korea.<sup>9</sup> Fourth is the belief in Beijing that the Trump administration's penchant for creating multiple domestic scandals, such as those surrounding the President and his advisor's ties to Russia, as fomenting domestic political instability that many in China expect will hamstring the ability of the United States to act strategically and decisively in Asia.<sup>10</sup>

These broader Chinese views of the United States – all of which are infused a deep sense of suspicion and geopolitical competition – directly influence China's approach to North Korea. This is the primary issue, greater even than Taiwan, which threatens to upend the peace and stability that China requires to further its domestic economic and political agenda.

### *Views on North Korea*

China's views on North Korea are highly complicated, and informed by the founding of North Korea as a political entity and, more directly, the Korean War. Despite its close proximity to China, Chinese authorities did not play a major role in determining the disposition of the Korean peninsula as World War II drew to a close. Indeed, it was the Soviet Union and the United States that agreed to divide the peninsula along the 38<sup>th</sup> parallel and establish their respective zones of occupation in the North and South. Indeed, it was the Soviet Union that chose Kim Il-sung as leader of North Korea, equipped and trained the newly established Korean People's Army,<sup>11</sup> and eventually approved Kim's proposal for an invasion of the South. China's primary role in this story came toward the end, when Chairman Mao's offer to send troops and other support to Kim proved decisive for Stalin's approval of initiation of hostilities.<sup>12</sup>

China entered the Korean War on roughly the one-year anniversary of the founding of the People's Republic of China. After some initial success with the retaking of Pyongyang in December 1950 and of Seoul in January 1951, the conflict soon settled into two years of a bloody stalemate. China paid a heavy price for its involvement in the Korean War, though casualty estimates differ widely. Officially, China states that roughly 115,400 were killed, there were 25,600 MIA or POW, and 260,000 more wounded. However, other sources estimate that about 400,000 Chinese soldiers were killed and around 486,000 wounded.

Yet China generally continues to view the Korean War (or, as they term it, the War to Resist U.S. Aggression and Aid Korea) as a strategic victory. This was the first conflict in which the

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<sup>8</sup> Elise Hu, "Japan and South Korea Rattled by Trump's Talk of Closing U.S. Bases," NPR, November 10, 2016.

<sup>9</sup> Jeff Mason, Stephen J. Adler and Steve Holland, "Exclusive: Trump spurns Taiwan president's suggestion of another phone call," *Reuters*, April 28, 2017; Ros Kransy, "Trump Ties China Currency Decision to Help With North Korea," *Bloomberg*, April 16, 2017.

<sup>10</sup> Euan McKirdy, "Trump says he would consult with China's Xi before speaking to Taiwan," *CNN*, April 28, 2017.

<sup>11</sup> Indeed, many of these soldiers had gained combat experience fighting the Japanese and the Nationalist Chinese in the 1930s and 40s.

<sup>12</sup> Martin, Bradley K. (2007). *Under the Loving Care of the Fatherly Leader: North Korea and the Kim Dynasty*. Macmillan. pp. 66–67.

Chinese military was able to withstand, and in certain battles defeat, the military of a major Western power. Thus, the Korean War is still seen in China as a demonstration of its reemergence as a great power under the Chinese Communist Party, and its will and ability to reject supposed Western attempts at hegemony and domination.

I emphasize this point to explain why many in China are unwilling to give up on North Korea – China paid a heavy price for it, and it continues to represent an important demonstration of the power and effectiveness of the Chinese Communist Party.

Matters of history and honor aside, there are several other reasons that many among China's foreign policy elite argue for China's continued support for North Korea. They point to North Korea as an important strategic buffer against the United States, and worry that a unified Korean peninsula (which would presumably remain a U.S. ally) would extend American power and influence to China's border.

Others in China's foreign policy circles speak about the dangers of a collapsed North Korean state. They point to the likely inflow of millions of North Korean refugees into Northeast China, which would threaten to destabilize an already economically underperforming region of China. They also point to the possibility of uncontrolled nuclear weapons and a persistent insurgency in North Korea after the fall of Pyongyang – both of which would pose significant security challenges to China. It is for these reasons that many in China, including apparently China's leaders, argue that China should ensure that the North Korean regime does not collapse.

This should not be construed, however, as a statement of support or comfort in China for North Korea's leaders. Indeed, relations between North Korea and China have been chilly since North Korea tested its first nuclear device in 2006, and few in China have any sympathy for North Korea's political or economic system.<sup>13</sup> Nevertheless, China's support for North Korea is born out of an assessment of China's interests, not out of any normative or political sympathy for the regime in Pyongyang.

China's strategy toward North Korea, therefore, seems focused on managing the issue. China's objectives are threefold: prevent instability on the Korean peninsula (including a war), prevent North Korea from becoming a nuclear power (if possible), and prevent the United States from starting a war on the peninsula (the result of which, be it unification or instability, they see as inimical to China's interests). I would note that China's preferences on the Korean peninsula are more reactive than proactive; they seem to prefer to manage the issue over solving anything.

Over the years, China has employed a range of tools – including military, diplomatic, and economic – to assert its interests. While China has at times demonstrated a willingness to exert economic pressure on Pyongyang, it has not done so to a severity or duration that would threaten the stability of the regime. Moreover, while China has at times acted diplomatically to manage the issue, Chinese leaders continue to advance their strong opinion that China has done its part,

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<sup>13</sup> For a review of China-North Korea relations, see Eleanor Albert, "The China-North Korea Relationship," Council on Foreign Relations, April 26, 2017, <https://www.cfr.org/backgrounder/china-north-korea-relationship>.



and the issue is for the United States and North Korea to ultimately solve.<sup>14</sup>

China's proposal has been for the United States and North Korea to return to negotiations without precondition, and to simultaneously to negotiate for denuclearization and to replace the existing armistice agreement with a peace treaty, which would formally end the Korean War. Such a proposal is naturally easier said than done, as both sides bring with them significant issues of distrust and suspicion toward one another. But China's hope, it seems, is that a return to the negotiating table will reduce tension and, most optimistically, resolve the issue most likely to undermine China's broader ambitions.

It is my assessment that China is unlikely to change its broad approach toward North Korea. Doing so would require a substantial revision in Beijing of how they identify their interests and to accept a great deal more strategic risk than they have to date. In order to China to substantially change its approach to North Korea, it would have to make the fundamental calculation that continuing to manage the issue would have consequences and risks for China's broader interests far beyond the likely outcome of taking action.

#### *Views on U.S. Allies in Northeast Asia*

While Beijing views any American ally through the lenses of its relations with the United States, its strategies toward South Korea and Japan are uniquely tailored to China's particular interests, goals, and concerns with these countries.

China's approach to South Korea has seen highs and lows in recent years. Perceiving the potential to drive a wedge between the ROK and the United States, primarily over close ties between Washington and Tokyo but also exploiting the deepening economic ties between China and South Korea, Beijing has at times reached out to Seoul in an effort to substantially improve bilateral relations. At first, hopes were high in Beijing for the potential of improved bilateral ties under President Park Geun-hye. Her Chinese language suggested an openness to engagement, and her attendance in the 2015 Chinese parade commemorating the end of World War II further raised expectations. However, China's subsequent treatment of Park, and her decision to agree to the deployment of THAAD to the Korean peninsula despite vociferous Chinese objections, convinced Chinese leaders that Park did not have China's interests at heart.

More recently, Chinese leaders are expressing renewed hope that South Korea's new President, Moon Jae-in, will reinvigorate bilateral relations. Prior to the 2017 Korean presidential election, Moon criticized Washington's confrontational approach to North Korea as ineffective, and called for engagement in line with Chinese preferences. Moon also called for a review of the deployment of THAAD to the Korean peninsula; while not the outright rejection that China would prefer, this suggested to Beijing that may be somewhat sympathetic to their concerns.

Personally, I am skeptical that bilateral relations between China and South Korea will substantially improve given China's current level of support for North Korea. Beijing has

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<sup>14</sup> Cui Tiankai, "'China has done its utmost' on North Korea," USA Today, May 8, 2017.

demonstrated time and again its willingness to defend Pyongyang, even after brazen attacks by the North against the ROK's military and civilians. Until this changes, and China demonstrates a willingness to take an unequivocal and sustained stand against North Korean belligerence, there will be an inherent ceiling to relations between China and South Korea.

China's views on Japan go far beyond concerns over the Korean peninsula. Memories of Japanese aggression and rampant human rights abuses before 1945 are deeply ingrained in China, and continue to inform a broad view of Japan as fundamentally aggressive and hostile to China. More contemporaneously, China's claims of sovereignty over the Diaoyu Islands (called the Senkakus in Japan) fuel increased suspicion in Beijing and Tokyo about the interests and objectives of the other.

Chinese leaders generally do not see Japan as a major player on the Korean peninsula, other than as a conduit for American military power. Chinese foreign policy specialists are very much aware of long-simmering antagonism between Japan and South Korea, and were concerned by the improved trilateral security cooperation that occurred under the leadership of President Obama, President Park, and Prime Minister Abe.

## **Views from U.S. Allies**

For U.S. allies in South Korea and Japan, North Korea represents the preeminent threat to their national security and to regional stability. While this is not a new threat, especially for South Korea, the changing nature of the North Korean threat, and changing perceptions of the United States, have greatly increased concern in Seoul and Tokyo that the North Korea is trending in a decidedly negative direction.

### *The View from Seoul*

South Korea has seen North Korea as an existential threat ever since 1950, when the Korean People's Army very nearly reunified the peninsula by force. Ever since, South Korea has seen its alliance with the United States as essential to its survival. In recent decades, South Korean leaders have also sought to build the ROK's own military capability in order to play a greater role in contributing to its own defense. This trend has intensified in recent years as the North Korean threat has intensified and as concerns in Seoul about the credibility of U.S. extended deterrence guarantees have deepened.

South Korean leaders have adopted a wide variety of strategies vis-à-vis North Korea, from hostile confrontation to open engagement. While North Korean belligerence has quelled calls for engagement for a time, the persistent belief in some elements of the South Korean polity remain committed to the idea that engagement and aid will heal the wounds of the past and bring about peace and eventual reunification.

After his inauguration as President of the ROK, Moon Jae-in pledged to attempt to resolve the North Korea nuclear crisis through dialogue and engagement, saying that he was willing to meet with Kim Jong-un if the circumstances were right. As of this writing, Moon has yet to identify

what those circumstances may be or what is overall approach toward the North will look like, but his preference for engagement is clear.

The Moon administration's preference for engagement is likely to have trouble fitting in with the Trump administration's less conciliatory approach, which is likely to increase the amount of turbulence in the U.S.-ROK Alliance. Efforts by the Trump administration to "maximize pressure" through diplomatic isolation and further economic sanctions will likely be challenged by potential efforts by the Moon administration to provide aid and engage Pyongyang bilaterally. Managing these differing approaches will be critical for both Washington and Seoul to avoid a major breach in the Alliance.

More broadly, the Moon administration will likely seek to reduce ROK dependence on the United States, both out of a sense of national pride but also out of simmering concerns about the reliability of the United States. A likely area of emphasis for the Moon administration will therefore be to make progress toward the transfer of wartime operational control (OPCON) to the ROK military. This is a difficult process that will require time and significant investments from Seoul, but in the end it would give South Korea a greater degree of control over its own self-defense.

Related to the drive toward OPCON are long-simmering concerns in Seoul about the credibility of extended U.S. extended deterrence guarantees. Many in Seoul point to repeated North Korean provocations, and its continued development of nuclear weapons and ballistic missiles, as evidence that the United States is failing to deter Pyongyang. While this has led to increased calls for the United States to "do more" on the Korean peninsula – in the form of increased military deployments and other demonstrations of its will and commitment to the defense of South Korea – it has fed calls in South Korea to enhance its conventional military capabilities and, in some circles, to develop an indigenous nuclear weapon.

These concerns have been more recently buttressed by statements from some senior U.S. officials expressing increased concern about the potential development of a North Korean ICBM. The threat of nuclear attack is not new to South Korea, and this focus on a North Korean ICBM suggests in the eyes of some South Korean foreign policy experts that the United States is more concerned about its own security than of its allies.

Nevertheless, such concerns have yet to translate in a dramatic reconsideration of the U.S. –ROK alliance or of the ROK government's refusal to pursue an indigenous nuclear weapon. Yet the calls for the United States to "do more" will likely intensify as the North Korean threat intensifies, and worries in Seoul about what the United States will or will not do vis-à-vis North Korea are growing.

#### *The View from Tokyo*

Japan's views on the North Korean threat have evolved over time. While Japan mostly saw the North Korean threat as contained to the Korean peninsula, North Korea's development of ballistic missiles brought Japan in range of a potential strike, either conventional or with

weapons of mass destruction.

Today, like South Korea, Japan also sees North Korea as its most immediate security threat. As a result, Japan has increased investments in its self-defense capabilities and has enhanced its ability to contribute to U.S.-Japan Alliance operations. Japan has also focused on enhancing its bilateral relationship with South Korea in order to enable enhanced trilateral security cooperation, which it views as an important aspect of its defense against North Korea.

One unique aspect of Japan's approach to North Korea is its focus on the status of Japanese citizens who were abducted by North Korea in the late 1970s and early 1980s. While Japan and North Korea disagree about the number of people who were abducted, Japan's leaders remain focused on learning the fate of the abductees and, if possible, securing their return to Japan. While the U.S. and Japan have in the past had difficulty resolving these differing priorities, such differences have more recently been managed by deft diplomacy and because of the intensifying threat from North Korea.

## **Implications**

There are several actions that the U.S. Congress could take to enhance the ability of the United States to address these issues:

- 1) Fully support efforts to enhance the U.S. military posture on the Korean peninsula to ensure that the United States has the ability to defend itself, its allies, and to respond to any North Korean provocation. This may include introducing new capabilities that would enable enhanced monitoring and penetrating strikes inside North Korea, may be necessary.
- 2) Enable the transfer of advanced military capabilities to the ROK. Our South Korean ally is facing a tremendous threat from North Korea, and they require enhanced capabilities in order to defend themselves. Relaxing export controls, while South Korea's ability to secure these technologies, would allow our ally to contribute more to their own self-defense without sacrificing key U.S. interests.
- 3) Support administration efforts to negotiate with North Korea. Any negotiation will require concessions on both sides, and the ability of the United States to successfully negotiate with North Korea will require the ability of the administration to make concessions and follow-through on its commitments.

**OPENING STATEMENT OF DR. ANDREW SCOBELL, SENIOR POLITICAL  
SCIENTIST, RAND CORPORATION**

HEARING CO-CHAIR CLEVELAND: Dr. Scobell.

DR. SCOBELL: Good morning. Thanks. Thank you to the Commission for the opportunity to appear before you today. It's an honor to be on such a panel of distinguished scholars and analysts.

My written testimony, as you know, is focused on Japan--I'm sorry--China and North Korea. In the next few minutes, I just want to make three, three points drawn from that written testimony.

First, the first topic, looking at China's relations with North Korea. In my opinion, the level of frustration in Beijing with truculent Pyongyang has reached an unprecedented high in recent years because North Korea seems determined to antagonize China at virtually every opportunity. From a Chinese perspective, this certainly seems to be the case.

As a result, on Xi Jinping's watch, Beijing has shifted its peninsula strategy from one of bolstering the North Korean buffer to one of hunkering down in Northeast Asia.

In other words, China has not abandoned or even distanced itself from North Korea. Rather, Beijing has chosen to stand by Pyongyang. Despite being extremely upset, particularly since 2013, with Kim Jong-un's behavior, China has reserved some of its most virulent ire for South Korea, most recently over the issue of THAAD deployment.

Why? In my view, this shows that China is more alarmed by what it perceives to be American efforts to strengthen the U.S. alliance system in Northeast Asia than China is about obstreperous North Korea behaving very badly.

The second point, on the topic of North Korea itself, a number of--as you're all aware--the number of missile launches and nuclear tests have accelerated to unprecedented levels in recent years. Pyongyang's nuclear arsenal is believed to have expanded substantially, and its delivery systems have been enhanced significantly during the past few years under, during Kim Jong-un's tenure as leader of the regime.

Why? In my view, it's because the Kim regime sees nukes as its best chance to stay in power, to deter adversaries, and provide a strong negotiating position in any future talks.

It's important to note that I think Pyongyang doesn't trust any outside power, including Beijing, and it believes that it can only rely on its own wiles and resources. So, in short, it doesn't have very much comfort in, take much comfort in being so reliant economically on China.

The third topic, on the issue of U.S. policy toward North Korea. In my view, the approach of the Trump administration, at least during the first few months, is not unprecedented. Indeed, this administration seems to be proceeding down a well-trodden path similar to the previous two administrations, that being the Bush administration and the Obama administration.

What I mean by that is each administration comes to Washington with a desire to solve the North Korea nuclear problem once and for all. Each conducts a policy review on North Korea. Each reaches the conclusion the solution is China: specifically, getting China on board with U.S. policy goals and strategy is the key to making progress on the North Korean nuclear issue.

For a time each administration gets positive vibes, verbal support, and even some good cooperation from Beijing. Hopes rise, but every administration's expertise--I'm sorry--

expectations seem inevitably disappointed by China's apparent inability or unwillingness to deliver on what Washington believes Beijing has signed on to do. There is little reason to expect a different outcome in 2017.

**PREPARED STATEMENT OF DR. ANDREW SCOBELL, SENIOR POLITICAL  
SCIENTIST, RAND CORPORATION**

**Hearing on “China's Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

The Democratic People’s Republic of Korea (DPRK) has proved to be a near-constant headache for the People’s Republic of China (PRC) since the early 1990s.<sup>15</sup> Unlike China’s relations across the Taiwan Strait with Taipei, which have improved appreciably since 2008, and relations with Washington and Tokyo, which have their ups and downs but remain cordial (if not exactly friendly), Beijing’s Pyongyang problem has not abated and appears to be chronic. During the past two decades, China’s unruly neighbor has conducted a series of nuclear tests and missile launches. Pyongyang’s provocations have come in swift succession: In 2010, it torpedoed a Republic of Korea naval vessel and shelled an island near the Korean Demilitarized Zone (DMZ), killing 48 South Korean military personnel and two civilians. In subsequent years, it performed five nuclear tests and numerous missile launches. But this is not all. To add insult to injury, Pyongyang executed North Korea’s key China interlocutor—Kim Jong-un’s uncle, Chang Song-taek—in late 2013 and, more recently, assassinated Kim Jong-un’s half-brother—who had been living under Beijing’s protection—while he was traveling in Southeast Asia in early 2017. For the PRC, there has been no respite where the DPRK is concerned.

This testimony addresses the following topics:

- China’s interests and strategy vis-à-vis North Korea
- North Korea’s interests and strategy
- potential for cooperation between the United States and China on North Korea
- key trends in North Korea and in China’s relations vis-à-vis North Korea
- policy implications of this analysis for the United States.

**What China Wants**

North Korea besmirches China’s prestige and threatens its national security.<sup>16</sup> Beijing has been accused of consorting with unsavory regimes around the world. For example, in the lead-up to the 2008 Olympics, China found itself tarred as the bad guy in a humanitarian tragedy in Darfur because of Beijing’s association with a Khartoum regime accused of perpetrating atrocities. China craves the reputation of a responsible global citizen and a force for good in the world. However, Pyongyang is not akin to Khartoum in Beijing’s eyes. After all, North Korea is

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<sup>15</sup> This paragraph draws from Andrew Scobell and Mark Cozad, “China’s North Korea Policy: Rethink or Recharge?” *Parameters*, Vol. 44, No. 1, Spring 2014, pp. 51–64. Indeed, PRC-DPRK relations have long been bedeviled by tensions. See, for example, Jonathan D. Pollack, *No Exit: North Korea, Nuclear Weapons and International Security*, London: International Institute for Strategic Studies, 2011.

<sup>16</sup> This paragraph draws from Scobell and Cozad, 2014. DPRK actions also embarrass China’s leaders domestically, and Chinese leaders are sensitive to Chinese public opinion on this issue. See Simon Shen, “The Hidden Face of Comradeship: Popular Chinese Consensus on the DPRK and Its Implications for Beijing’s Policy.” *Journal of Contemporary China* Vol. 21, No. 75, 2012, pp. 427–443.

not some far-off, third-world state like Sudan. Rather, it is a radioactive Darfur on China's doorstep—a humanitarian disaster that is the subject of enormous international attention, led by a repressive dictator armed with ballistic missiles and weapons of mass destruction. Instability immediately across the Yalu River directly threatens domestic stability in China's heartland, if only because of the specter of many hundreds of thousands of refugees flooding into Northeast China. As a result, Beijing is ultra-sensitive to any hint of turmoil on the Korean Peninsula.

China's approach to the continuing high drama in North Korea also takes place within the broader context of Chinese assessments of the evolving overall balance of power in the wider region. While Beijing remains gravely concerned about Pyongyang's repeated provocations and its expanding nuclear and ballistic missile programs, its greatest concern is reserved for U.S. military presence and robust U.S. alliance partnerships in Northeast Asia. From Beijing's point of view, Pyongyang's nuclear and missile programs are most problematic in that they trigger what China sees as threatening military responses by the United States and its allies. China's adamant opposition to the deployment of Terminal High Altitude Area Defense (THAAD) in South Korea is a manifestation of this abiding concern.

China's key interests on the Korean Peninsula are routinely summed up as “three no's”—no war, no chaos, and no nukes (or “denuclearization”). While Beijing is undoubtedly sincere about desiring a nonnuclear Korean Peninsula, maintaining peace and stability on China's doorstep has received a much higher ranking than denuclearization. PRC Foreign Minister Wang Yi underscored these rankings when he stated in early 2014 that Korea was China's “doorway” and Beijing would not allow anyone to foment instability there. Since then, however, Chinese thinking has evolved as PRC assessments of developments on the Korean Peninsula have altered. Indeed, by 2015, Wang began to emphasize that, in Beijing's view, all three interests have become tightly interwoven and cannot be attained separately. In short, if lasting peace and stability is to be attained on the Korean Peninsula, denuclearization is essential. Speaking on September 2015, Foreign Minister Wang stated, “Without . . . denuclearization, stability on the Peninsula and peace in Northeast Asia will be hardly attainable.”<sup>17</sup>

Since 2014, there has been a noticeable chill in Beijing-Pyongyang relations. China's response has not been to abandon North Korea; rather, Beijing has shifted gears from a strategy of “bolstering the buffer” to one of hunkering down on Pyongyang. China has held resolutely to its goal of preserving its North Korean buffer but adjusted tactics from actively funneling in a wide range of resources designed to strengthen its fragile neighbor to stubbornly standing by its truculent ally in the face of increasingly unfavorable conditions, growing international pressure, and significant domestic criticism of Beijing's policy toward Pyongyang.

Beijing is extremely risk averse, and fear over the prospect of instability across the Yalu is paramount in the minds of China's top leaders. They are afraid that if China gets too tough on North Korea that this will only exacerbate matters—Pyongyang will pull away and Beijing will lose what little influence it has, Pyongyang will escalate its provocations, or both. While China is not happy with the current situation, maintaining the fragile status quo is preferable to the uncertainty of change, which, from Beijing's alarmist perspective, increases the potential for instability. While Beijing was not enthusiastic about dynastic succession following the December 2011 death of North Korean dictator Kim Jong-il, China accepted it, believing that it provided

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<sup>17</sup> Wang Yi, “Stick to the Spirit of September 19 Joint Statement and Direction of Denuclearization of the Korean Peninsula,” Stockholm: Embassy of the People's Republic of China in the Kingdom of Sweden, September 19, 2015. As of May 26, 2017: <http://www.chinaembassy.se/eng/wjdt/t1298833.htm>



some semblance of continuity and hence was conducive to stability both in Pyongyang and in bilateral relations. But this assumption has since been repeatedly called into question by North Korea's actions.

### **What North Korea Wants**

Conventional wisdom routinely identifies “regime survival” as Kim Jong-un’s foremost goal, but this phrasing can be misleading. While North Korean leaders are undoubtedly deeply insecure, they probably do not spend every waking hour fearful that their regime will be toppled tomorrow or even next week or next month. Kim Jong-un devotes substantial resources and attention to ensuring loyalty and maintaining strict control over the regime and North Korean society. However, these extensive efforts are not at the expense of planning for the future. Indeed, successive generations of DPRK leaders have formulated and sought to implement highly grandiose and wide-ranging long-term plans. In short, Kim Jong-un, just like his father and grandfather before him, has not only demonstrated a remarkable talent for political endurance but also a clear proclivity for ambitious designs.<sup>18</sup>

Many observers point to Kim Jong-un’s executions of family members and extensive purges as indicators of regime instability. But this begs the question, what is the nature of the regime in Pyongyang? If it is best described as a totalitarian regime, then such activities can be seen as the norm rather than the exception. Indeed, the executions, the purges, and a condition of fear or terror are all hallmarks of totalitarianism.<sup>19</sup> In this light, the Kim Jong-un regime appears significantly more stable and secure than has been widely depicted.

Nevertheless, totalitarian regimes are notoriously paranoid and ruthless. All indications are that Kim Jong-un is suspicious of everyone both inside and outside his regime. This includes deep distrust of Beijing—Pyongyang’s only formal ally. North Korea certainly does not trust China as a loyal friend or even an honest broker. Consequently, China has limited influence on North Korea. Of course, as a key provider of essential material inputs, Beijing has some real leverage over Pyongyang if it has the will to use it. North Korea is uneasy about being so heavily dependent on its northern neighbor.

In the context of this climate of insecurity, Pyongyang’s arsenal of nuclear warheads and ballistic missiles provides additional comfort and a greater sense of reassurance.

### **China, North Korea, and the United States**

As North Korea’s sole remaining great-power patron, China is a crucial player in any effort by the United States or other countries to exert influence or apply pressure on Pyongyang. Indeed, when successive administrations come into office in Washington with intentions to resolve the North Korean nuclear issue once and for all, they eventually turn to Beijing. The administrations of George W. Bush and Barack Obama each conducted North Korea policy reviews and concluded that the key to making progress on the issue was greater cooperation with the one country closest to North Korea economically and politically. In each instance, the initial outreach to China was positive, cooperation was real, but ultimately both administrations were

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<sup>18</sup> Andrew Scobell, *North Korea’s Strategic Intentions*, Carlisle Barracks, Pa.: U.S. Army War College, Strategic Studies Institute, 2005a.

<sup>19</sup> See, for example, Andrew Scobell, “Making Sense of North Korea: Pyongyang and Comparative Communism,” *Asian Security*, Vol. 1, No. 3, December 2005b, pp. 245–266.

disappointed when Beijing was unable or unwilling to deliver on Washington's expectations. This pattern appears to be playing out currently with the Donald Trump administration.

It is worth briefly examining the most significant and sustained instance of U.S.-China cooperation on North Korea in the past two decades—the Six-Party Talks, held from 2003 to 2007. Although the talks did not ultimately have a happy ending, the initiative made noteworthy progress. Moreover, this complicated and involved diplomatic initiative is unprecedented in the annals of PRC diplomatic history.<sup>20</sup> The only comparable move Beijing had taken in the modern era was in Central Asia two years earlier with the founding of the Shanghai Cooperation Organization. Although this organization was a Chinese creation, it evolved gradually out of a decade-long series of confidence-building measures among countries that had little animosity toward each other. By contrast, in putting together the Six-Party Talks, China was coaxing and cajoling different countries with histories of conflict and deep-rooted mutual distrust and suspicion.<sup>21</sup>

After U.S. and coalition forces' remarkably swift initial battlefield successes in Afghanistan in late 2001 and the dramatic toppling of the Saddam Hussein regime in spring 2003, Beijing was reeling from the “shock and awe” of high-tech U.S. power projection. Increasingly, Chinese leaders worried about how to prevent a U.S. military strike against North Korea. Moreover, Beijing feared that a Bush administration intoxicated by a string of recent victories would pursue nothing short of the end of North Korea. According to an unnamed Chinese official interviewed by a U.S. journalist, “By early 2003, the situation was very dangerous. . . . [President] Bush said, ‘All options are on the table.’ China did not see this statement as an idle threat. . . . Only when China realized the dangers of confrontation, even military confrontation, did China change its low-key manner.”<sup>22</sup>

According to multiple analysts interviewed in Beijing in September 2003, fear of what the Bush administration might do was the key motivator pushing Beijing toward a more proactive DPRK policy.<sup>23</sup> Chinese fears of the potential for instability on the peninsula were especially heightened because of the leadership transition under way from the third to the fourth generations in 2002 and 2003. The powerful desire for a smooth succession from Jiang Zemin to Hu Jintao prompted Beijing to step outside its traditional comfort zone.<sup>24</sup> Then the Bush administration offered China an opening. During a February 2003 visit to Beijing, then-Secretary of State Colin Powell suggested that China initiate multilateral talks on North Korea. Two weeks later in New York, Powell held follow-on talks with Chinese Foreign Minister Tang Jiaxuan and pushed more vigorously for a Chinese diplomatic initiative on North Korea, implying that it was the only hope for averting an escalating crisis. Around the same time, a similar idea was gaining traction in Beijing. Reluctance to taking an activist role was replaced by a growing sense that if China wanted to avoid a showdown in Korea, it had no choice but to step up and launch a full-fledged diplomatic initiative.<sup>25</sup>

The policy solution was to bring the United States and North Korea to the negotiating table.

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<sup>20</sup> The discussion here on the Six-Party Talks draws heavily from Andrew Scobell, “The PLA Role in China’s DPRK Policy,” in Phillip C. Saunders and Andrew Scobell, eds., *PLA Influence on China’s National Security Policymaking*, Stanford, Calif: Stanford University Press, 2015, pp. 198–217.

<sup>21</sup> Andrew Scobell, *China and North Korea: From Comrades in Arms to Allies at Arm’s Length*, Carlisle Barracks, Pa.: U.S. Army War College, Strategic Studies Institute, 2004, pp. 11–12.

<sup>22</sup> Quoted in Mike Chinoy, *Meltdown: The Inside Story of the North Korean Nuclear Crisis*, New York: St. Martin’s Press, 2008, p. 165.

<sup>23</sup> Scobell, 2004, p. 14.

<sup>24</sup> Scobell, 2004, p. 21.

<sup>25</sup> Chinoy, 2008, pp. 165–166.

This required two separate full-court presses: one in Pyongyang and the other in Washington. For Pyongyang, the effort was a combination of carrots and sticks. Beijing promised rewards but also hinted at strong-arm tactics. PRC Vice-Premier Qian Qichen visited Pyongyang in early March 2003, exhorting North Korea to come to the negotiating table. But there were also subtle messages, such as the temporary shutoff of an oil pipeline for a few days in mid-February. China never explicitly stated that the short halt was intended as blackmail, but North Korea seemed to take the hint. Moreover, the step was somehow reported and publicized abroad. The result was a perception that Beijing had finally gotten tough with Pyongyang—a very appealing interpretation in Washington, Tokyo, and Seoul. This was most helpful when China was trying to get representatives from all these countries to sit down with North Korea for multilateral talks.<sup>26</sup>

Chinese efforts were particularly important because the Bush administration refused to show up for one-on-one talks with Pyongyang, insisting on multiple parties being seated at the table. China initially arranged three-party talks involving representatives of North Korea, the United States, and China in Beijing in April 2003. These ultimately led to a first round of the Six-Party Talks in August 2003, which added Japan, Russia, and South Korea.

A central lesson of this overview is that real, albeit limited, cooperation between the United States and China on North Korea is possible. The question is whether the key conditions of the 2003–2007 period can be replicated a decade later.

## **Trends in North Korea and China's Strategy**

Generally speaking, contemporary trends inside North Korea are fairly positive from China's perspective. However, the external trends are quite worrisome—particularly the DPRK's military activities (especially nuclear tests and missile launches) and tense relations with other states (especially the United States but also Japan, South Korea, and, of course, China). The domestic political situation seems relatively stable, with Kim Jong-un appearing to have consolidated power. Moreover, the North Korean economy seems to be reviving, agriculture is performing significantly better in recent years, and Pyongyang has been able to procure regime-sustaining income and inputs from overseas networks.<sup>27</sup>

These trends present a picture of mixed results for Beijing's "bolstering the buffer" strategy. China's sustained initiative to improve North Korea's economy has borne fruit, but China's diplomatic efforts have been much less successful. Militarily, Beijing's efforts have arguably helped sustain the buffer but have not prevented continued tensions on the peninsula. Since the early 2000s, China has embarked on a comprehensive effort to bolster North Korea's economic fundamentals and has undertaken concerted endeavors to get Pyongyang's economy off life support and to revitalize a range of economic sectors through a substantial injection of trade, aid, and investment.<sup>28</sup> China has been North Korea's top trading partner since the collapse of the Soviet Union. Most of North Korea's exports to China have been resources, such as minerals and fish.

Beijing has also provided hundreds of millions of dollars in foreign aid, much of it in the form of food grains and petroleum. The size of these shipments increased considerably in 2003,

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<sup>26</sup> Scobell, 2004, pp. 23–24.

<sup>27</sup> See, for example, Asan Institute for Policy Studies and the Center for Advanced Defense Studies, *In China's Shadow: Exposing North Korean Overseas Networks*, Seoul, South Korea, January 2017.

<sup>28</sup> This paragraph draws on Scobell and Cozad, 2014.

2004, and 2005 according to available estimates.<sup>29</sup> This aid was reportedly the largest amount China disseminated to any country in the world and was allocated at the highest echelons in Beijing, rather than through the normal channels for dispersing development aid in the Ministry of Commerce.<sup>30</sup>

China's diplomatic efforts have been less successful. During the past ten years, Beijing's diplomatic support to North Korea has come in two varieties. First, the PRC has not publicly condemned the DPRK (although there have been some mild tongue lashings) and has watered down or opposed United Nations Security Council resolutions on North Korea. For example, in December 2014, China and Russia were the only United Nations Security Council members to oppose including consideration of human rights in North Korea on the council's agenda. Second, as mentioned previously, China established the Six-Party Talks in 2003 to manage the North Korean nuclear issue, but these are now defunct.

China's military efforts have had very mixed results. The PRC has not disowned or distanced itself from the DPRK in the security sphere. Furthermore, Beijing's only formal military alliance is with Pyongyang; the Treaty of Friendship, Co-operation and Mutual Assistance Between the People's Republic of China and the Democratic People's Republic of Korea was signed in July 1961. The document commits one country to come to the aid of the other if attacked. However, there does not appear to be any real defense-coordination mechanism, nor do the terms of the treaty ever seem to have been invoked. While Chinese leaders have, on multiple occasions, stated publicly and privately that Pyongyang cannot assume that Beijing will come to the rescue, the treaty provides the justification for an intervention should Chinese leaders consider such a step to be necessary. Thus, the security relationship is perhaps best viewed as a "virtual alliance."<sup>31</sup>

The alliance may be a virtual one, but this does not mean that Beijing does not take it seriously or that the Chinese military (the People's Liberation Army) does not see it as real. For Chinese civilian and military leaders, this alliance remains relevant and personal. The alliance was sealed in blood during the early 1950s when the so-called Chinese People's Volunteers fought side by side with the Korean People's Army. Hundreds of thousands of Chinese soldiers gave their lives in the conflict, and Chinese troops remained in North Korea until 1958.<sup>32</sup> Many in China are upset by what they view as a dearth of North Korean gratitude for China's sizeable sacrifice. Consequently, Beijing's actions in a Korean contingency will be motivated by a steadfast desire to protect China's vital interests rather than out of any sense of allegiance to a formal ally.

### **Meanwhile, in Washington . . .**

The current tensions in China–North Korea relations and underlying distrust between Beijing and Pyongyang can be leveraged by Washington. On the one hand, this means that the United States cannot count on China to persuade or pressure North Korea; on the other hand, it suggests that Washington can use these factors to influence or pressure Pyongyang and Beijing.

The United States must approach North Korea as a multidimensional problem that defies straightforward solutions. That means taking the time to appreciate the complexities and

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<sup>29</sup> See, for example, Scott Snyder, *China's Rise and the Two Koreas: Politics, Economics, and Security*, Boulder, Colo.: Lynne Rienner, 2009, pp. 113–117.

<sup>30</sup> Snyder, 2009.

<sup>31</sup> Scobell, 2015, pp. 199–200.

<sup>32</sup> This paragraph draws from Scobell and Cozad, 2014.

interconnectedness of the North Korea challenge. While the focus of the U.S. North Korea policy in recent decades has understandably been on Pyongyang's nuclear weapons and ballistic missile programs, there are other aspects to be incorporated into any new policy. Moreover, for any strategy or policy vis-à-vis North Korea to stand a chance of being effective, the United States must coordinate with its allies and partners, especially South Korea and Japan. Of course, coordination requires time and effort.

According to Secretary of State Rex Tillerson, the “strategic patience” approach of the Obama administration has ended. But this should not mean embracing impatience.<sup>33</sup> In America's eagerness to achieve results on North Korea, the Trump administration ought not lose sight of the importance of moving judiciously and shunning deadlines when working with China (or North Korea, for that matter). Americans tend to be irrepressible optimists, believing that every problem has a solution and that near-term results are readily within reach. While this can-do spirit definitely has its upside, it also has a downside. This eagerness makes U.S. leaders prone to impatience and short timelines, which creates vulnerabilities that can be exploited by other countries. China possesses a corps of extremely skilled diplomats with extensive experience in negotiating with the United States on a wide range of issues, and these negotiators possess considerable patience and a long-term outlook. Fortunately, the Trump administration also has a talented bench of experienced diplomats and international negotiators inside and outside of government at its disposal. Moreover, the U.S. national security community has some extremely useful resources to draw upon.<sup>34</sup>

The Trump administration has reportedly adopted a North Korea policy dubbed “maximum pressure.” Ratcheting up pressure can be a viable option as long as it includes a release mechanism. In other words, if the United States doubles down on North Korea, Washington should also dangle a clear opening or illuminate a way forward for Pyongyang.

## Conclusion

The Korean Peninsula is an extremely sensitive piece of real estate for Beijing, and China is deeply worried by North Korea's burgeoning nuclear and missile programs. However, Beijing is also worried by the specter of U.S. military actions against Pyongyang and by U.S. efforts to enhance operational capabilities and strengthen alliance relationships with South Korea and Japan (in particular, THAAD deployment in South Korea is currently a contentious issue for Beijing). At the same time, China is consumed by the very presence of highly capable U.S. military forces in Northeast Asia, not to mention a robust U.S. alliance structure in the wider region. North Korea, meanwhile, is fearful of *all* outsiders, including China, and keen to reduce its over-dependence on China. These facts—along with the current tensions in Beijing-Pyongyang relations—can be interpreted as either obstacles or points of leverage as the United States looks for creative ways to advance its policy to deal with obstreperous nuclear-armed North Korea.

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<sup>33</sup> Mercy A. Kuo, “Trump's ‘Rebalance’? Tillerson's Asia Trip and Beyond: Insights from Andrew Scobell,” *The Diplomat*, April 3, 2017. As of May 26, 2017: <http://thediplomat.com/2017/04/trumps-rebalance-tillersons-asia-trip-and-beyond/>

<sup>34</sup> This includes an excellent primer on how to negotiate with China, authored by veteran diplomat and RAND researcher, the late Ambassador Richard Solomon. See Richard H. Solomon, *Chinese Political Negotiating Behavior, 1967–1984*, Santa Monica, Calif.: RAND Corporation, MR-663, 1995.

**OPENING STATEMENT OF DR. BALBINA HWANG, PROFESSOR AT AMERICAN UNIVERSITY AND GEORGETOWN UNIVERSITY**

HEARING CO-CHAIR CLEVELAND: Dr. Hwang.

DR. HWANG: Good morning. First, it's quite an honor for me to be here, and thank you so much for inviting me to share my views with you.

I've been asked to consider Chinese views of the Korean peninsula, of South Korea, as well as South Korea's views about China.

First, it's quite important to understand that Chinese interests and strategies regarding South Korea are not bifurcated or separate from its views on North Korea. I think there is a tendency, especially here in the West and especially in the United States, to consider South Korea and North Korea as very different entities.

China has never looked at the Korean peninsula that way, and, in fact, Chinese history with the Korean peninsula is over 2,000 years old. What's even more important to understand is that the Korean peninsula itself is not necessarily among Chinese interests in the sense of it being a separate interest. It is really part of Chinese periphery. As China has currently 14 sovereign neighbor countries, the most in the world, China has always been concerned about its entire periphery and the role that different regions surrounding it have played.

And so really Chinese interests come down to focusing in internal stability, building that stability, and making sure that there is stability in the external areas. That is why actually in the testimony that I prepared I focused talking extensively on China's "One Belt, One Road," And I talk about One Belt, One Road because it is one example of the latest manifestation of China's new strategy to exert what I call "extraterritorial stability" in its regional and peripheral areas. In other words, ensuring stability on the Korean peninsula is just one part of China's much broader national goal.

Now, interestingly, the Korean peninsula has the potential to be unstable. What's even more interesting is that if you look at One Belt, One Road, and I've included a map in my exhibit, it extends in every single direction with the exclusion of southeast, meaning towards the Korean peninsula.

It's explicitly left out of the One Belt, One Road plan. And one has to ask why, especially because if you're talking about economic integration between Asia and the land mass of Europe, you have to include the Korean peninsula. To me this shows that although the Korean peninsula is one part of China's regional and global strategy, it has very specific contained strategy that, as Mr. Denmark has observed, really has worked, and in fact that is exactly why it has been more reactive than active.

Now, it's partially reactive for two reasons. One is the presence of the United States and its very strong alliance with South Korea. And essentially that is what I worry about because I'm not so certain--I think we're reaching a period where it's quite uncertain what will happen in the future, not just because of the uncertain signals that this administration is sending but also because of the new leadership in South Korea.

Now having said that, the way that Koreans view China, and I specifically use the word "Koreans" because the division between North and South is only 70 years old, and as we know today, the division is very, very stark, and the two are involved in an existential battle for control of the Korean peninsula.

Having said that, there is a unified Korean view of China that goes back centuries, and I

don't think either of the Koreas has abandoned these deeply imbedded views about China, despite their very differing current modern ideological differences. , and so both have been, have understood in the last 70 years--both meaning South and North Korea--that China has had bifurcated strategies towards each Korea.

Now this has become more complicated and complex since the end of the Cold War and since South Korea has, since China has normalized relations with South Korea. But what both Koreas fear, is that on the one hand, that each will be abandoned by its respective great power. So in North Korea's case, it's clearly China because China has essentially served as the lifeline of North Korea, but they also fear dominance, dominance from their patrons.

So South Korea fears dominance from the United States, and this has been the source of a great deal of friction off and on throughout the 70 years of the alliance, but the same with China. Alternatively, both also ultimately fear abandonment. So North Korea, on the one hand, while resenting all of the dominance and the dependence it has on China also fears abandonment by China.

For South Korea, it's the same but with the United States. What's made it even more complicated for South Korea recently is that now South Korea has to worry about not just dominance from the United States but dominance from China, and that dominance comes from obviously economic, its economic power and strength.

Very recently South Korea has become very alarmed because China has been trying to use economic coercion to--in the political decisions of South Korea, namely, for example, the decision to adopt THAAD. Now that has just completely changed with the election of a new president in South Korea, and I think what is interesting is this progressive leader, President Moon Jae-In, what he is trying to go after is greater independence, and it's actually greater independence both from the United States--although he is unwilling yet to cut off those ties because he understands that he needs the United States--but it's also now he has to find a way to balance China. And the most recent struggle over THAAD I think is just one part of China's broader tactics, what I call basically strategy of attrition.

What it's doing is trying to chip away, not just at South Korea, but look all around the region at the way it's pressuring Japan, Southeast Asian neighbors. It's a way to chip away at their willingness to stand up to China, and so South Korea faces a very, very difficult crossroads, and I think the new South Korean president understands this.

The question is whether our government here understands complexities of the challenges that face South Korea and how it's willing to work together.

And, finally, I fear that if there is any daylight in the way that two allies are working in concert to address changes in the region, then I think we're in for some very difficult times ahead.

Thank you very much.

**PREPARED STATEMENT OF DR. BALBINA HWANG, PROFESSOR AT AMERICAN UNIVERSITY AND GEORGETOWN UNIVERSITY**

**Hearing on “China's Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

Commissioners Cleveland and Stivers, and distinguished Members of the Committee: thank you for your kind invitation asking me to testify before you today. I am honored to have the opportunity to share with you my thoughts on the topic on the People’s Republic of China’s (PRC) relations with its neighbors in Northeast Asia, specifically the Republic of Korea (ROK).

I was asked to focus on four specific issues: (1) China’s interests and strategies shaping its relationship with South and North Korea; (2) South Korean views regarding China’s role in the region (3) how PRC-ROK economic relations affect South Korean strategic concerns; and (4) how the U.S.-ROK alliance and bilateral economic relations affect PRC-ROK relations. I conclude my examination of these issues by offering specific recommendations for the U.S. Congress to consider in addressing the dramatically changing landscape in East Asia.

***(1) China’s Interests/Strategies on the Korean Peninsula***

Chinese interests, strategies, and goals regarding South Korea cannot be comprehended fully unless considered within the context of the entire Korean Peninsula. Moreover, it is important to understand that the Peninsula’s strategic value cannot be examined in isolation, but is considered as only one key geographic asset in Northeast Asia for the PRC. In turn, this sub-region is one part of China’s broader neighboring periphery. With the distinction of having the largest number of foreign countries bordering its land territory --fourteen -- China has understandably maintained a hyper-vigilant preoccupation with protecting not only its territorial integrity, but a wariness of the potential for instability or conflict in all of its neighboring states, for fear of its destabilizing effects within its own borders.<sup>35</sup>

Unlike other global western powers, such as the United States or Great Britain, China’s national security interests are not prioritized in the context of the global environment, but rather derived from the primacy of its domestic condition and national circumstances. In other words, the drivers of modern China’s external strategies emanate from deeply embedded domestic interests and are simultaneously dedicated almost exclusively to their pursuit; their impact in the regional and global arenas are thus of secondary value.

Such an orientation has been endemic to the PRC since its foundation in 1949, and have remained consistent throughout the ensuing challenging decades of nation-building and

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<sup>35</sup> China shares land borders with 14 sovereign countries: Afghanistan; Bhutan; India; Kazakhstan; North Korea (DPRK); Kyrgyzstan; Laos; Mongolia; Myanmar (Burma); Nepal; Pakistan; Russia; Tajikistan; and Vietnam.



development. Despite the rapid modernization achieved in this century, the state has firmly maintained this framework of core national interests. These were articulated clearly in the state's *Peaceful Development White Paper* issued in 2011, to uphold: state sovereignty; national security; territorial integrity and national reunification; the political system established by the Constitution; overall social stability; and basic safeguards for ensuring sustainable economic and social development.<sup>36</sup>

Notably, while these core interests have consistently remained the pillars of Chinese strategic goals, the contours of how the state defines and achieves these objectives have expanded in the recent decade, commensurate with an exponential increase of material capabilities across the spectrum of economic, political, and even social arenas. In turn, such confidence has given rise to growing ambitions to further reinforce the priority goal of ensuring domestic stability by venturing beyond its borders for the first time. Under Xi Jinping's leadership, the country has embarked on a dramatic shift away from China's long-standing foreign policy axiom in place since Deng Xiaoping dictated that the country "keep a low profile" in international affairs in order to focus on domestic economic modernization and stability.

Under Xi, the familiar national goals have been recast by the articulation of the "Chinese Dream" to achieve "national rejuvenation."<sup>37</sup> The long-standing taboos against Chinese foreign intervention, such as building overseas bases, deploying troops in peace-keeping mission abroad, developing clear spheres of influence, creating buffer zones, and forging alliances have steadily eroded. But perhaps the boldest and most dramatic manifestation of the country's shift in foreign policy activities is the launch of a grand project to reconstruct the network of historical silk roads connecting the ancient Chinese empire with the Western world: "One Belt and One Road".<sup>38</sup>  
[See Exhibit 1]

Spanning some 65 countries, approximately 4.4 billion people or 60 percent of the world's population, and about 40 percent of global GDP if and when fully implemented, OBOR has the potential to make China the driving economic and diplomatic force for a development strategy and framework that will integrate the entire Eurasia region.<sup>39</sup> The path includes countries in regions situated on the original "Silk Road": Central Asia, the Caucasus, the Middle East, and Southern and Central Europe.<sup>40</sup> But the plan is even more geographically expansive, looking north to connect China's northeastern rust-belt with energy-rich Mongolia and Siberia; south

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<sup>36</sup> *China's Peaceful Development*, White Paper, Information Office of the State Council, The People's Republic of China, September 6, 2011. ([http://english.gov.cn/archive/white\\_paper/2014/09/09/content\\_281474986284646.htm](http://english.gov.cn/archive/white_paper/2014/09/09/content_281474986284646.htm))

<sup>37</sup> Note that the four parts that comprise the "Chinese Dream" are a direct reflection of the traditional core interests: (1) "strong China": economically, politically, diplomatically, scientifically, militarily; (2) "civilized China": equity, fairness, culture, morality; (3) "harmonious China": amity among social classes; and (4) "beautiful China": healthy environment, low pollution. (Robert Lawrence Kuhn, Op-Ed, "Xi Jinping's Chinese Dream," *New York Times*, June 4, 2013.)

<sup>38</sup> For a detailed analysis of OBOR, see: Balbina Y. Hwang, "A Fork in the Road? Korea and China's One Belt, One Road Initiative," *Academic Paper Series*, Korea Economic Institute, November 16, 2017.

<sup>39</sup> Bert Hofman, "China's One Belt One Road Initiative: What We Know Thus Far," *East Asia on the Rise*, December 4, 2015; <http://blogs.worldbank.org/eastasiapacific>

<sup>40</sup> Two major rail projects are already in the planning stages: one will likely link China's Henan and Sichuan Provinces and the Xinjiang region to hubs in Serbia, Hungary, Poland, Germany, and the Netherlands by way of Central Asia, Iran, and Turkey. The other major rail connection links China to Europe by way of Russia via the "New Eurasian Land Bridge." (Ian Mount, "Spain to China By Rail: A 21st Century Silk Road Riddled With Obstacles," *Fortune*, December 24, 2014.)

towards the Asian subcontinent and Southeast Asia; and even south-west towards Africa, seeking to create a cohesive economic area by creating land transportation networks.<sup>41</sup>

A second “Maritime Road” seeks to build maritime infrastructures throughout the Indo-Pacific, Middle East, and African coastal regions, ultimately linking the Pacific and Indian Oceans with the Mediterranean and Red Seas, via the Suez Canal. These would essentially connect the South China Seas to maritime Europe, to include the east coast of Africa along the way.<sup>42</sup> From the east coast of Africa, MSR will then connect to the Red Sea via Djibouti, where China is building a naval base.<sup>43</sup> From there, the maritime connection will continue into the eastern Mediterranean, and eventually central and southeastern Europe.<sup>44</sup>

Notably, OBOR is not a “new” initiative because China has been heavily investing in overseas infrastructure construction across Eurasia for the last decade. Instead, it is the articulation of a broad plan that encompasses economic priorities emanating from the most immediate goal of stabilizing China’s struggling domestic economy by opening new markets, generating increased demand for Chinese exports, and boosting the development of increasingly competitive global industries.

Maintaining steady domestic economic growth, however, is closely interwoven with the leadership’s preoccupation with political and social stability, and it views promotion of broad stability in all neighboring countries as an integral aspect of reinforcing domestic harmony at home.<sup>45</sup> Thus, while OBOR’s projects are targeted towards achieving national economic goals, they ultimately serve the state’s *political* objectives of promoting national stability and strength.<sup>46</sup> In turn, this contributes to China’s dominance regionally, by expanding the boundaries of the region itself.

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<sup>41</sup> By 2015, almost \$900 billion in more than 900 projects, involving some 60 countries, was pledged towards building the six primary land corridors comprising OBOR: (1) China-Mongolia-Russia; (2) New Eurasian Land Bridge; (3) China-Central and West Asia; (4) China-Indochina Peninsula; (5) China-Pakistan Economic Corridor (CPEC); and (6) Bangladesh-China-India-Myanmar (BCIM). Note that both CPEC and BCIM have not been officially classified as part of OBOR strategy, but the Chinese government has stated they are “closely related to the OBOR Initiative.” (“China, India fast-track BCIM Economic Corridor Project,” *The Hindu*, June 26, 2016).

<sup>42</sup> These maritime corridors will be developed through construction of new ports and surrounding special economic zones to support them. Specifically, MSR includes plans to connect ports in Kenya, Tanzania, and Mozambique with the Indian Ocean; the Chinese government has already announced plan for a \$3.8 billion railroad connecting Nairobi to the Indian Ocean port of Mombasa (“Prospects and Challenges on China’s ‘One Belt One Road’: A Risk Assessment Report,” *Economist Intelligence Unit Report*, 2015.; and Nayan Chanda, “The Silk Road: Old and New,” *Global Asia*, (Vol. 10, No. 3) Fall 2015).

<sup>43</sup> The naval base in Djibouti – opened in 2016 – is the PRC’s first foreign military base since it withdrew its military forces from North Korea in 1958. In addition, a new counter-terrorism law passed at the end of 2015 legalized for the first time the dispatch of Chinese military forces for combat missions abroad without a UN mandate; this is considered a precursor for more active foreign military operations in the future. (Charles Clover and Luna Lin, “FT Big Read: China Foreign Policy,” *Financial Times*, September 1, 2016)

<sup>44</sup> Although all of these corridors have not been officially identified as part of MSR, China has already pursued projects that serve as key components of these routes; for example, the Greek government agreed to sell a 67 percent stake in Piraeus, the country’s largest port, to China Cosco Holding Company, a Chinese state-owned enterprise (SOE). Cosco already operates two container terminals in Piraeus under a 35-year concession it acquired in 2009. (Nektaria Stamoulim “Greece Signs Deal to Sell Stake in Port of Piraeus to China’s Cosco,” *Wall St. Journal*, April 8, 2016.)

<sup>45</sup> OBOR’s goal is to link vast new markets with the Chinese economy which will boost sluggish domestic demand and provide relief for inefficient state-owned enterprises (SOEs) suffering from over-capacity. Struggling SOEs, are not just an economic burden on the government, but fraught with risk because they cannot readily be eliminated without instigating severe social and political repercussions for the leadership. Moreover, OBOR provides a useful rallying agenda for the Chinese Communist Party (CCP) which has struggled with uncertainty and internal divisions under Xi’s toughening “reform” campaign

<sup>46</sup> Another objective is to secure energy supplies through new pipelines and other transport lanes – both rail and sea – in Central Asia, Russia, and through South and Southeast Asia’s deep-water ports. The countries within the orbit of OBOR account for 70 percent of the world’s energy reserves.

In this sense, OBOR can be considered a prophylactic strategy to promote long-term stability in neighboring countries through economic investments to prevent China being “forced” into a military confrontation with another major power. Underlying China’s preoccupation with stability both internally and in bordering countries is the Chinese Communist Party’s (CCP) most immediate concern: eliminating separatist movements that endanger the unity of the state’s political system and its functioning as a unified state. In a country of over 1.38 billion people, increased agitation among the 11.5 million Muslim Uighurs – the largest ethnic minority – is becoming a serious domestic security concern due to their growing extreme and violent efforts to gain greater autonomy and even independence from Beijing’s increasingly harsh authority and oversight.<sup>47</sup>

The possibility of any separatist movement succeeding is anathema to the Chinese leadership and is an unacceptable development because of its potential to trigger a domino effect that could lead to the collapse of the entire state system. Elections last year in Taiwan and Hong Kong have intensified Beijing leadership’s concerns about challenges to its central authority.<sup>48</sup> Movements calling for independence may actually be more threatening to the Chinese leadership than pro-democracy movements, because they are a direct threat to the President Xi’s dream of building a strong nation-state. While separatist versus pro-democracy agitations may be a distinction without a difference for the much of the world, especially in the West, for the CCP, pro-democracy efforts are so threatening in great part because they might trigger calls for separatism or independence by ethnic minority groups.

Thus, while some analysts argue that the geostrategic aspects of OBOR are “overstated” because its primary objective is ultimately to “advance key economic goals,” the argument here is that there seems little doubt that for Beijing, economic goals are subordinate components of broader national goals, which in turn formulate the basis for geo-political calculations.<sup>49</sup> In essence, OBOR is a manifestation of a new “extra-territorial” project by China that seeks to shape a new defacto architecture in surrounding regions which prioritizes stability – across the economic, political, and social realms --- as the primary goal for nations within OBOR’s orbit.

Thus, OBOR at least presently, reflects more myopic Chinese goals of expanding the country’s influence in surrounding regions in order to shape existing international rules and norms to better reflect its own preferences, which are not always synchronous with global standards. Nevertheless, the integration of sub and neighboring regions is being driven primarily by great powers such as China, and as in the past with the ancient silk road that unleashed an enormous flow goods, peoples, and ideas between the two continents, Chinese actions and ambitions have profound consequences for the myriad smaller states and societies that occupy strategically valuable real estate along the integration path.

Such a detailed and rather laborious examination of China’s core national interests and broader regional strategies are crucial to contextualize the country’s interests and strategies regarding the

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<sup>47</sup> The government officially recognizes 56 ethnic groups comprised of some 105 million people; the Han represent the largest ethnic group comprising nearly 92 percent of the population.

<sup>48</sup> “Elections in Hong Kong: A Not-So-Local Difficulty,” *The Economist*, September 10, 2016.

<sup>49</sup> Christopher K. Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative,” Center for Strategic and International Studies, March 2016 (p. 20)

Korean Peninsula. For China, Korea is just one -- albeit crucial -- geographically strategic asset. What is exceptionally striking, however, about Beijing's ambitious vision to link several continents under a new informal architecture shaped by its desire to expand extra-territorial stability, is that it sweeps outward in every direction -- north-east, north, north-west, west, south-west, south, and south-east -- with the *explicit exclusion* of its easternmost neighbor, the Korean Peninsula. [*Refer to Exhibit 1*].

The glaring omission of the Korean Peninsula in the sweep of OBOR is particularly stark, given that its inclusion is economically and strategically crucial for any truly complete regional integration. This is not just because of the instrumental role of the South Korea in the regional and global economy -- ROK is East Asia's third largest economy, the world's 12th largest, and the 7th largest trading country in the world -- but because geographically, the southern tip of the Korean Peninsula is the easternmost launching point for an eastward expansion to link the Pacific, including Japan with mainland Asia.

The exclusion of Korea is even more conspicuous given that South Korea's President Park Geun-hye had articulated her own version of building a "Silk Road Express" with the launch of a "Eurasia Initiative," (EAI) almost simultaneously with Xi's grand pronouncement in September 2013. Park's "Era of Eurasia," announced in October that year, called for physically linking the Western European continent with the farthest eastern end of the Asian continent, the Korean Peninsula, evoking the romantic image of boarding the Orient Express train in London and disembarking weeks later in the South Korea's southern port of Busan.<sup>50</sup>

While Park's EAI shared OBOR's general vision to promote closer inter- and intra-regional cooperation, the underlying motivation was to permanently alter dynamics on the Korean Peninsula by "the establishment of permanent peace" by attempting to draw North Korea out of isolation and integrating it into a regional network. After all, the North's stubborn reclusiveness is its ultimate weapon of last resort to keep the ROK a virtual geographic island disconnected from mainland Asia.

China's purposeful exclusion of the Korean Peninsula is perhaps further confirmation that for Beijing, maintenance of the status quo -- division of the Korean Peninsula -- even with North Korea's ongoing pursuit of nuclear weapons programs, sufficiently serves Chinese core interests of ensuring extra-territorial stability in its bordering countries without having to incorporate it within the broader orbit of OBOR.

While EAI is now a defunct strategy given Park's impeachment and ouster, the new South Korean President Moon Jae-In has articulated a generally similar goal of achieving "peace on the peninsula," although his methods and tactics may differ widely from his predecessor. Nevertheless, it is becoming evident that South Korea's vision for the region, supported by its growing confidence as a solid middle power, is increasingly at odds with China's.

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<sup>50</sup> For a detailed analysis of ROK's EAI strategy, see: Balbina Y. Hwang, "A Fork in the Road? Korea and China's One Belt, One Road Initiative," *Academic Paper Series*, Korea Economic Institute, November 16, 2017

China's interests on the Korean Peninsula are deeply rooted in historical precedent. As the dominant land and maritime empire in Asia for centuries, China's easternmost neighbor juts out from the main continent "pointed like a dagger at Japan" or alternatively as the "bridge to Asian mainland" from Japan's perspective. Thus, its location, and more importantly who has control or influence over the Peninsula has shaped the strategic and security environment in the region for centuries. While Japan was naturally insulated from the mainland due to its archipelagic geography, Korea was perennially encircled by great empires and located at the nexus of great power interests. Therefore, throughout its history, the Peninsula has been valued more for its strategic attributes than its intrinsic ones, suffering hundreds of foreign invasions throughout its 2,000 year history, the majority originating from its northern territorial neighbor: China.

China has undeniably been the foreign nation of the greatest importance to Korea throughout its long history, beginning with a short-lived Chinese Yen Kingdom's conquest of the ancient Chosun kingdom at the end of the fourth century B.C. For more than two thousand years since then, the fate of the two cultures has been inexorably intertwined. The Korean Peninsula served as the natural conduit for access both to and off the Asian mainland. Indeed, the final death knell of Imperial China, marked by its ignominious defeat by the upstart Japan in the Sino-Japanese War (1894-1895), was essentially a battle over control and access to the Korean Peninsula, as was the subsequent Russo-Japanese War in 1904.

And China's special relationship with the North Korean leadership was forged as comrades joined in the bloody struggle for "independence" from the yoke of Imperial Japanese rule. This long history with the "Middle Kingdom" has meant that both South and North Korea's relationship with their neighboring giant is profoundly complex. And as the "shrimp among whales," the smallest of independent countries surrounded by powerful neighbors, Korea – both unified and divided – has been particularly sensitive to the maneuverings of great powers.

The division of the Korean Peninsula in the aftermath of WWII, which almost all Koreans – both in the North and South – believe was forced upon them by the machinations of the Great Powers, has been a profound legacy that has shaped the strategic considerations of both Koreas, and lingers today as an underlying challenge to a viable and permanent end to the Korean War.

China's role in the War contributed to the particularly complex relationship it has with both Korea's today, more so than perhaps any other country. China sacrificed the most in human costs – other than the Koreans themselves – with nearly one million Chinese forces ultimately supporting the Democratic People's Republic of Korea (DPRK) and suffering an estimated 500,000 casualties.<sup>51</sup> The United States, and fifteen other countries under the auspices of UN Forces also contributed an estimated one million troops in support of the ROK, but suffered far fewer losses (U.S. military casualties were just over 37,000).

The breadth of Chinese support of North Korea during the War, as well as the close relationship the two countries have developed and maintained for the last seven decades have contributed to the myth of extreme closeness between the two allies. In fact, while Beijing has maintained its

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<sup>51</sup> An estimated 2.5 million Korean civilians and military personnel were killed or wounded during the Korean War; 1.5 million were from the North. Tens of millions more were permanently displaced.

position as Pyongyang's closest ally, their relationship is one based on mutual necessity and convenience rather than any genuine affection, and is rife with mistrust and suspicion. Indeed, the PRC which had initially rebuffed the DPRK's calls to support its invasion of the ROK in June 1950, reluctantly entered the Korean War in October later that year, only after U.S.-led UN Forces had reached North Korea's border with China at the Yalu River, and threatened to cross it.

Thus, for China, entering a war it had not condoned or supported, particularly so soon after its own civil war and hard-won Communist victory only one year earlier in 1949, was a necessity borne from its hypervigilant preoccupation with protecting its territorial integrity and preventing instability or conflict in any neighboring state, as previously noted. Moreover, Beijing's continuous support over the decades – both implicit and tacit – of the regime in Pyongyang despite immense international pressure against such policies further demonstrates China's strategic priority of supporting and protecting its neighbors no matter how unpalatable or high the costs.

Nevertheless, the outbreak of the Korean War and the ensuing Cold War was in many ways a period of clarity for both Koreas' position vis-à-vis China. As long as the PRC (together with the Soviet Union) and the United States stood on opposite sides of the Cold War divide, the two Koreas were secure in their proper places in the shadows of their larger partners.

North Korea and China, however, were hardly model allies even during the height of the Cold War. Although almost wholly dependent on the Beijing and Moscow as the guarantors of its security, Pyongyang skillfully remained at arms-length from both powers, often playing one against the other, particularly during the Sino-Soviet split beginning in the early 1960s. But it was the Sino-American rapprochement begun secretly in July 1971 that was the catalytic event which convinced North Korea that China, as with all other powers, ultimately could not be trusted. While the target of Nixon's triangular diplomacy with China and the Soviet Union was North Vietnam – notably another client state of the two communist powers – this only reinforced North Korean fears of betrayal, as well as having the unintentional but equal mirror effect on South Korea's sense of betrayal vis-à-vis its alliance with the United States.

The acute sense of insecurity due to fears of abandonment and betrayal by their respective Great Power rivals drove both Koreas to act astonishingly: in August 1971, they began a series of secret inter-Korean dialogues for the first time since the Armistice in 1953, leading to a shocking Joint Statement on July 4, 1972; the symbolism of this date marking independence from a Great Power not being lost on either Korea. The two Koreas reached agreement on three principles for achieving unification: independence from foreign interference, peaceful means, and national unity transcending differences in ideology and system.<sup>52</sup>

Ultimately, the agreement proved inconsequential in improving inter-Korean relations or breaking the deadlock on the Korean Peninsula, but it marked the beginning of Pyongyang's

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<sup>52</sup> For greater detail on this extraordinary development, see: Balbina Y. Hwang, "North Korea: the Foreign Policy of a Rogue State," in *Routledge Handbook on Diplomacy and Statecraft*, November 2011.

hedging strategy against Beijing. Undoubtedly, it spurred North Korea to begin to pursue an indigenous nuclear program in earnest in the early 1980s, setting the stage for the ensuing “first” North Korean nuclear crisis in 1993.<sup>53</sup> And of course the cataclysmic watershed moment in Sino-North Korea relations was the collapse of the Soviet Union and the subsequent normalization of relations between the newly formed Russian Federation and the ROK on September 30, 1990. It was followed by Beijing’s normalization of relations with Seoul on August 24, 1992.

While both Russia and China pledged their reassurances of continued political support to North Korea, they both substantially reduced their concessionary fuel shipments to the North due to their respective domestic economic conditions. Regardless of the cause, the economic damage to North Korea was acute and a devastating famine ensued (exacerbated by severe drought conditions in the North), from which the country and economy has never fully recovered.

An examination of China’s intimate history with North Korea reveals that Beijing’s continued support of Pyongyang and periodic abatement have little to do with developments on the Korean Peninsula itself and have been driven almost entirely by domestic calculations based on narrow core national interests. China’s paramount priority is maintaining internal political, economic, and social cohesion. Maintenance of the status quo of a divided Korean Peninsula, even with an increasingly recalcitrant, disobedient, and even antagonistic junior partner, may be a distasteful but preferred outcome for Beijing whose leadership faces a crucial 5-year transition of power later this year.

As anathema as the possibility of an outbreak of war on the Korean Peninsula may be for China, the longer-term specter of a unified, highly nationalistic Korea, most likely democratic, with a strong market economy and a vibrant and activist civil society, on its southern border is a chilling prospect given the existing two million ethnic Koreans currently residing in the self-autonomous Jilin Province. The concern is less about the specific ramifications of increased ties among ethnic Koreans, but rather the broader implications such a development may have for the other 55 ethnic groups in the vast country, especially those agitating for independence, such as the Uighurs in Xinjiang, or Tibetans. Thus, Beijing will remain vigilant, and even militant in all its surrounding border regions in order to maintain strict national cohesion; anything less would invite the possibility of the unraveling of the entire system.

Ever since normalization of relations between Seoul and Beijing in 1992, China’s relations with the two Koreas have been a delicate balance of intersecting and often conflicting interests. Today, China has surpassed the United States as the ROK’s largest bilateral trading partner, but China also continues to be the lifeline for North Korea’s economic survival. China’s continued tolerance if not outright support for the North Korean regime, despite its continued recalcitrant behavior, has served to encourage Pyongyang to behave with impunity.

Both Koreas have long tolerated China’s bifurcated strategies to maintain ties with both sides of the Peninsula even if it has meant that Beijing plays one against the other. And both are long

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<sup>53</sup> For greater details, see: Balbina Y. Hwang, “North Korea: An Isolationist Nuclear State,” in *Handbook of Nuclear Proliferation*, ed. Harsh Pant, Routledge Press, 2012.

familiar with China's assertions of superiority and dominance over the Peninsula, as evidenced by the grand controversy that erupted between Beijing and Seoul in 2004 over the origins and historical legacy of the Goguryeo Kingdom (37 B.C. to 668 A.D.).<sup>54</sup> While the bitter recriminations over an ancient and defunct kingdom may seem to be a bemusing historical anomaly to those outside Asia, for Koreans the incident was a profound manifestation of deep and unsettling Chinese strategic ambitions in the region. For China, downplaying the historical importance of an ancient Korean kingdom that had challenged imperial China no matter how long ago, serves its core interests today of preventing any resurgence of ethnic or nationalist challenges to its carefully constructed national identity as a unified state.

While Japan has long-served as an easy and emotional target of Korean recriminations against historical injustices suffered by the Korean people during brutal colonization (1910-1945), it is the uncertainty about future Chinese dominance that has always presented the far more profound challenge to Korean interests, more than any potential resurgence of Japanese power. This dynamic, long-buried and until recently grudgingly acknowledged, is becoming more manifest in South Korea's defense strategies in the last decade.

The ROK's incorporation of policies to address the broader challenges posed by an increasingly assertive China into a new national security framework, however, was triggered by direct provocations by North Korea in 2010, and China's tacit defense of the heinous acts. An international investigation concluded that on March 26, North Korea torpedoed a South Korean warship – the *Cheonan* – killing forty-six sailors.<sup>55</sup> And on November 23, North Korea shelled South Korea's Yeonpyeong Island in an artillery barrage, killing four and wounding eighteen.<sup>56</sup>

The 2010 provocations had the immediate effect of coalescing divergent South Korean opinions about the North Korean threat and led to increased concentration of ROK deterrent and defensive capabilities. But these actions drew sharp criticism from Beijing, contributing to South Korea's growing willingness to meet Chinese challenges more openly. In late 2010, Beijing unleashed a steady stream of objections against pro-active defense measures involving the United States in cooperation with the ROK and Japan following the shelling of Yeonpyeong Island.<sup>57</sup>

China also openly disapproved of U.S.-Japan naval exercises, condemning the announced deployment of the *USS Ronald Reagan* to East Asia in response to North Korea's threat of a "sacred war" on the Korean Peninsula using nuclear weapons. Beijing accused the United States of increasing the danger of war in the region even as it claimed the DPRK had shown restraint amidst a number of ROK drills deemed to be "provocative."<sup>58</sup> Later that same year, an unprecedented level of South Korean public demand for strengthening national defenses against perceived Chinese threats was unleashed after a violent clash between Chinese fishing vessels

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<sup>54</sup> For a detailed discussion of the controversy over Goguryeo, see: Peter Hays Gries, "The Koguryo Controversy: National Identity, and Sino-Korean Relations Today," *East Asia*, (Winter 2005, Vol. 22, No. 4), pp. 3–17.

<sup>55</sup> Sang-Hun Choe, "South Korea Publicly Blames the North for Ship's Sinking," *New York Times*, May 19, 2010.

<sup>56</sup> Mark McDonald, "Crisis Status' in South Korea After North Shells Island," *New York Times*, November 23, 2010.

<sup>57</sup> For example, in reaction to the U.S.-ROK naval drills in the Yellow Sea involving the *USS George Washington* on November 28 to December 1, the Chinese Foreign Ministry warned that "China opposes any military acts in its exclusive economic zone without permission." (Ian Johnson and Helene Cooper, "Beijing Proposes Emergency Talks on Korean Crisis," *New York Times*, November 29, 2010.)

<sup>58</sup> Along with the *USS Vinson* in Guam, "three aircraft carriers in the same region are going to be interpreted as a signal of preparing for war," according to Major General Luo Yuan of the PLA's Academy of Military Sciences. ("New ROK Drills Add to Tension on Peninsula," *China Daily*, December 27, 2010.)



and the South Korean coast guard, in an incident eerily similar to earlier one involving Japan and China.

Such Chinese actions, and increasingly harsh rhetoric reinforced the view in South Korea – and in the rest of Asia – that China’s growing military capabilities combined with more powerful and assertive actions, are indicative of Beijing’s intent to challenge U.S. power in the region. While certainly not ready or capable of loosening close military ties with the United States, South Korea – similar to Japan – has nevertheless been carefully expanding its own independent capabilities in order to better exert its relative position in a regional hierarchy that has become increasingly uncertain.

In the subsequent few years, ROK-PRC relations improved in no small part due to the concerted efforts by the new South Korean leader Park Geun Hye (inaugurated in February 2013) who calculated that Beijing’s cooperation would be crucial to eliciting progress on resolving the North Korean nuclear issue. The bilateral relationship was further solidified with the signing of the ROK-PRC Free Trade Agreement in June 2015, culminating in Park’s highly symbolic attendance at Beijing’s 70th anniversary commemoration of the end of WWII in September.<sup>59</sup> Notably absent at the highly publicized event was the relatively new North Korean leader, Kim Jong Un, who has to this day failed to meet with Chinese leader Xi, reflecting the poor state of PRC-DPRK relations.<sup>60</sup>

Whatever positive capital Park had accrued with Beijing, however, quickly deteriorated in 2016 after North Korea conducted its fourth nuclear test on January 6, followed by a fifth test on September 9.<sup>61</sup> In addition, a series of missile launches throughout the year all contributed to growing public outrage in South Korea and a growing sense of urgency among the public about the growing threat from North Korea. This led to unprecedented popular support for the installation of a Terminal High Altitude Area Defense (THAAD) anti-missile system, which had been a particularly contentious issue for several years in the U.S.-ROK alliance, and the decision to deploy was made in July 2016.

The announcement, however, unleashed unexpectedly harsh criticism from China and in the ensuing months, Beijing began to pursue several retaliatory measures against South Korean retailers and Chinese imports of “Hallyu” (Korean popular culture). Heavy-handed Chinese attempts to pressure South Korea on national security decisions have rankled the South Korean public and may have actually increased support for THAAD at least in the short-term. Since then, THAAD’s deployment has fallen victim to domestic political squabbles related to former President Park’s impeachment trial, and the election of progressive leader Moon Jae-In, who in the past had been a vocal critic of U.S.-led missile defense systems.<sup>62</sup>

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<sup>59</sup> Park Geun-Hye was the only leader among U.S. allies who attended the ceremony, drawing criticism from many for participation.

<sup>60</sup> Negotiations for the ROK-PRC FTA began in May 2012 and concluded in November 2014. It was signed on June 1, 2015, and went into force on December 20, 2015.

<sup>61</sup> North Korea’s first nuclear test was on October 9, 2006, followed by a second on May 25, 2009, and its third on February 12, 2013.

<sup>62</sup> For a more detailed discussion, see: Balbina Y. Hwang, “President’s Impeachment Exacerbates South Korea’s Defense Concerns,” *Janes Intelligence Review*, HIS, January 26, 2017.

Notably, although THAAD remains a divisive issue domestically in the ROK, many South Koreans have coalesced against China and its retaliatory tactics. Since January of this year, China's favorability rating among South Koreans dropped precipitously to a level even below that of Japan's, which until now has consistently been South Koreans' least favored country with the exception of North Korea. The favorability rating of the United States also dropped slightly since the change of administration in Washington, indicating perhaps that overall, South Koreans respond negatively towards what they consider to be excessive interference by regional superpowers on Korean issues.<sup>63</sup>

While it is unwise to draw definitive conclusions from opinion polls that are notoriously ephemeral, particularly in a society that is well-known for its heightened sense of emotional nationalism and volatile public opinions, changing public perceptions about China reflect a broader shift in South Korea's national security strategy and a new-found willingness to address challenges emanating from China more openly.

South Korean frustrations with China are in effect a direct result of Beijing's refusal to acknowledge the obstructionist role that North Korea plays not only against stability on the Peninsula but regional integration. This in turn has contributed to increased South Korean suspicions about broader Chinese motives and ambitions in the region.

And Chinese willingness to insert itself into the domestic debate on South Korea's sovereign right to defend itself is indicative of the extent to which China's preoccupation with stability in its extra-territorial regions is crucial to its *own* perception and needs regarding its national security. Meanwhile, North Korea's ability to assert its own independent actions despite regional and global pressures, highlight the opportunities for exploitation created by the inability of regional powers to cooperate when national security interests diverge.

Thus, China's grandiose project to revive the ancient Silk Roads in order to promote regional integration may paradoxically unleash greater divisions in the Asia-Pacific, and fail to deliver the regional stability all regional nations ostensibly desire.

## ***(2) South Korean Views of China's Regional Role***

The prevalent perception in East Asia today is that the region is experiencing a shift in the balance of power in which Chinese power is dominant while U.S. influence is in precipitous decline. Although the reality is debatable, such a *perception* has accelerated in the advent of the new Trump Administration whose inconsistent actions and statements at times questioning or even challenging American allies around the globe have caused uncertainty and consternation. However, doubts about the U.S. ability to provide a credible counterweight China's increasing regional and global influence predate the current administration.

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<sup>63</sup> China's rating in January 2017 was 4.31, which dropped to 3.21 in early March (A rating of 5 is highly favorable; 0 is least favorable). Even more surprising is that Koreans are now more favorable toward Japan (3.33) than China (3.21). ("Changing Tides: THAAD and Shifting Korean Public Opinion toward the United States and China," Asan Institute, March 20, 2017 (<http://en.asaninst.org/contents/changing-tides-thaad-and-shifting-korean-public-opinion-toward-the-united-states-and-china/>))

Uncertainty about U.S. commitment and capabilities in the region were unintentionally reinforced by President Obama's administration in 2009 when it triumphantly declared that "America has returned to Asia," and punctuated this "new" approach with a "Pivot" to the region.<sup>64</sup> Ironically, the attempt to show its prioritization of the Asia-Pacific region by framing U.S. strategy in Asia as a "return" to the region only served to reinforce unjustified criticism among many Asian nations that the United States had previously retreated or withdrawn its interests and presence in this critical region.

The greater negative consequence of framing of U.S. interests in the region in that manner was that Washington ceded to Beijing control of the rhetorical narrative about shifting regional dynamics. Because the world seems to have accepted the inevitability of a globally powerful China, and Beijing has done a remarkable marketing job categorizing this rise as "peaceful," uncertainties resulting from changes to the regional status quo are now readily assigned to the "reassertion" of U.S. interests or challenges presented by American actions in the region, rather than as a result of changes wrought by China itself.

Note for example Beijing's reaction to Washington's efforts towards closer regional military engagement in 2010 following a series of North Korean provocations against South Korea: labeling joint U.S.-ROK activities as "interference" in the Yellow Sea, the *Global Times* – an official Chinese publication – proclaimed that "since the United States declared its return to Asia, the frequency of clashes in the Korean Peninsula has accelerated. Instead of reflecting on this, South Korea became more obsessed with its military alliance with the United States."<sup>65</sup>

The rapid economic growth and development of China alone do not account for the depth of uncertainty and anxiety about the future power structure in the region; after all, countries throughout Asia, such as Japan, South Korea, and the "Little Dragons" of Southeast Asia have achieved spectacular economic prosperity without engendering commensurate concerns about their wealth being transferred to aggressive military might and ambition. China's rise seems to be different not just due to its sheer magnitude in size and breadth, but because it has been accompanied by a significant shift in Beijing's foreign policy stances beyond the military realm. These include China's increasing leadership role in regional multilateral groupings and arrangements, including the establishment of the Asian Investment and Infrastructure Bank (AIIB) in January 2016. As of mid-May, the Bank already had 52 member states with another 25 signed on as prospective members.<sup>66</sup> The high-profile OBOR Forum held last month in Beijing, attended by 29 world leaders, further highlighted China's outsized leadership role not just regionally but globally. Notably, the United States (and Japan) were open skeptical of the former, and have shown wary interest in the latter.

After decades of abiding by Deng Xiaoping's admonition to restrain Chinese foreign policy in order to advance its peaceful rise, a much more confident Beijing now seems to relish displaying its achievements and exerting its strength in the region. Thus, it is not just the increase in

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<sup>64</sup> Mark Manyin, et al., *Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia*, CRS Report for Congress, U.S. Congressional Research Service, R42448, March 28, 2012, pp. 1-2.

<sup>65</sup> David Pilling, "Beijing is Not About to Prise Lips from Teeth," *Financial Times*, December 2, 2010.

<sup>66</sup> "China-led AIIB Approves Seven New Members Ahead of New Silk Road Summit," *Reuters*, May 13, 2017.

Chinese capabilities but rising uncertainty about Beijing's intentions, punctuated by its increasingly assertive behavior particularly in maritime activities, which is cause for uneasiness.

Regardless of disagreements over perceived responsibility for shifting regional dynamics today, changes in the regional and global status of the United States and China as well as their interaction is of great concern to every nation in Asia, but especially for one of America's closest allies, South Korea, as well as its adversary on the Peninsula, North Korea.<sup>67</sup>

At the core of South Korean and other regional allies' anxieties are fears that China is challenging the dominance of a U.S.-centric order in Northeast Asia and that increased Chinese capabilities will lead Beijing to re-establish a modern version of the ancient Sino-tributary system. This Sino-centric order is perhaps more sophisticated than cursory Western analyses tend to allow, for under this system hegemonic power is wielded through nominal equality but substantive hierarchy.

Historically, China was at the apex of a hierarchical tributary relationship with "lesser" powers that retained their "sovereignty" and territorial integrity within the stratified order. As such, under this system territorial conquest was never necessary for China, the "Middle Kingdom," to retain dominance and regional hegemony. For example, China never bothered to conquer the ancient Kingdoms of Koryo (Korea), Annam (Vietnam) and the Ryukyu (Okinawa) which all remained independent and sovereign under Chinese suzerainty. Note that it was the West and Japan – which was the first Asian nation to embrace the western Westphalian notion of sovereignty – that forcibly seized control over these traditionally independent territories. As Christopher Ford (in his book *Mind of Empire*) observes, China "lacks a meaningful concept of so-called equal, legitimate sovereignties," and as its strength grows, "China may well become much more assertive in insisting on the sort of Sino-centric hierarchy its history teaches it to expect."<sup>68</sup>

Indeed, increasingly assertive Chinese maritime behavior in the last several years may be part of a broader strategy of "attrition" to exercise authority over smaller neighbors in the near term by pushing U.S. forces away from its maritime borders to demonstrate rights over the entire South and East China Seas. Such actions underpin Beijing's "anti-access area denial" doctrine.<sup>69</sup> Once under Chinese dominance, "lesser" powers will not necessarily have to give up their independence or even have to emulate China ideologically, but they will have to show due respect, and if necessary provide appropriate concessions; one necessary concession in China's view will be the reduction of U.S. influence in the region.

This shift towards increasing Chinese influence in the region is not due to any decline of U.S. power presence in the region per se, nor a function of China's military modernization alone, but rather an increase in Chinese confidence borne from its explosive economic growth and expanding global presence. But recent self-assurance – reinforced by its China's relative

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<sup>67</sup> For a more detailed discussion, see: Balbina Y. Hwang, "The U.S. Pivot to Asia and (South) Korea's Rise," *Asian Perspective*, vol. 41, no. 1, (January – March 2017.)

<sup>68</sup> Christopher A. Ford, *The Mind of Empire* (University Press of Kentucky, Lexington, KY: 2010)

<sup>69</sup> Nathan Freier, "The Emerging Anti-Access/Area-Denial Challenge," Center for Strategic and International Studies, May 17, 2012; (<http://csis.org/publication/emerging-anti-accessarea-denial-challenge>)

immunity from the global economic crisis in 2008 – has contributed to the expansion of Chinese strategic thinking to include the need to assert China’s national interests in maritime, air, space, and cyber environments, both near its borders and beyond.

This new boldness was evident in Beijing’s astonishing unilateral declaration in November 2013 of an air defense identification zone (ADIZ) above contested waters in the East China Sea, provoking angry responses from South Korea, Japan, and the United States.<sup>70</sup> South Koreans were especially shocked, because although they were used to periodic territorial spats between China and Japan, China’s surprising inclusion of Ieodo (or “Parangdo” in Korean), a rock previously completely unknown to most Koreans, but that China claims as part of its territorial rights (Suyan Rock) was a completely unanticipated development.<sup>71</sup> It was the first time South Koreans began to consider Chinese sea and air defense area denials as tangible threats to the Peninsula and not just broader regional strategic concerns.

Fueling South Korean wariness about Chinese intentions in the region is Beijing’s reinforcement of military capabilities with increased expenditures. Although China still spends about one-quarter of total annual U.S. defense spending, Beijing recently announced that its 2017 military budget will increase by 7 percent, to \$151.4 billion, compared with the annual U.S. military budget of more than \$500 billion.<sup>72</sup>

In the face of such developments, but more importantly given the *lack* of fundamental changes in the basic security dynamics in the region, there is no question that U.S. bilateral alliances with South Korea and Japan remain the fundamental pillars upon which continued stability rests. Yet, despite the fact that the stark lines of contrasting Cold War security interests remain intact, the blurring of economic interests have served to amplify the twin fears of entrapment and abandonment that have perennially plagued America’s junior allies. The two countries’ worst fear – as is the case of many other nations in East Asia – is to be caught in the middle of a U.S.-China battle for regional supremacy.

While these fears have ebbed and flowed to varying degrees throughout the history of U.S. alliances in post-WWII Asia, they have been amplified in recent months under President Trump due a series of contradictory statements and actions. Despite the valiant and repeated efforts by top administration officials, including Secretary of Defense Mattis, Secretary of State Tillerson, and Vice President Pence to firmly articulate the unwavering resolve of U.S. commitment to its regional allies, other actions such as the U.S. withdrawal from the Transpacific Partnership (TPP) free trade agreement signal more profound concerns about U.S. leadership and influence in the region.

The U.S. withdrawal from TPP is not just a blow to its economic viability because the United States accounted for three-fifths of the bloc’s combined GDP, but because the region – including China – viewed it as a tangible sign of U.S. strategic commitment to the region as a counterweight to China’s growing regional influence. Moreover, the more recent U.S.

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<sup>70</sup> Chico Harlan, “China Creates New Air Defense Zone in East China Sea Amid Dispute With Japan,” *Washington Post*, November 23, 2013.

<sup>71</sup> Choe Sang-Hun, “China’s Airspace Claim Inflames Ties to South Korea, Too,” *New York Times*, November 27, 2013.

<sup>72</sup> “China Confirms 7 Percent Increase in 2017 Defense Budget,” *Reuters*, March 6, 2017.

withdrawal from the Paris Climate Agreement seems to signal that the United States may be moving away from its historical role as champion of an open and rules-based trading order, of which the Asia-Pacific region, including China, has been its greatest beneficiary.

The sudden U.S. shifts away from its traditional roles are particularly worrisome for regional allies such as South Korea because they seem to offer opportunities for China to step into the breach. TPP had been widely criticized by China as yet another attempt by the United States and its allies to constrain China's economic opportunities and isolate it from the regional economy. Its questionable future has only propelled the relative weight of the Regional Comprehensive Economic Partnership (RCEP), an alternative effort to liberalize trade in Asia.

Although mistaken as Chinese-led, RCEP is an imitative led by the ten-member Association of Southeast Asian Nations (ASEAN) and is intended to meld existing free-trade agreements that ASEAN has with six other countries. One of these is indeed China, but four others – Japan, South Korea, Australia and New Zealand – are American allies, while the sixth, India, is hardly a Chinese acolyte. Nevertheless, the sheer gravity of Chinese participation in any multilateral grouping tends to eclipse the other members relative weight. Perhaps most significantly, Chinese participation all but guarantees that RECEP is far from a “gold standard” in trade agreements as the KORUS FTA was often referred to; TPP opens all services to all members, while RECEP negotiations start from a much lower base and are expected to achieve only minimum, not maximum standards of liberalization.<sup>73</sup> Ultimately, if RCEP is to replace the vacuum left by U.S. withdrawal from TPP, this would signal yet another reduction in U.S. economic influence in the region, as well as a capitulation of standards to minimal Chinese levels.

### ***(3) PRC-ROK Economic Relations, and Effects on South Korean Strategic Concerns***

2010 was a pivotal year for the ROK: as host of the G20 Leaders' Summit—the first non-G7 and non-Western country to do so—the relatively small country earned international recognition as a significant force in the global arena. If the 1988 Seoul Olympics was South Korea's debut on the international stage, then the Seoul G20 Summit was the equivalent opportunity to star as a lead economic role in front of a “standing-room only” global audience, at a crucial time in the aftermath of the 2008 global financial crisis. This was an astonishing achievement for a country which exactly 100 years prior had been formally annexed by the Japanese empire, marking a century of struggle to overcome humiliating defeat, division, and internecine war. With Seoul's subsequent role as host of the Nuclear Security Summit in 2012, it emerged from these successful global responsibilities as an acknowledged “middle power.”

Seven years later, South Korea faces another pivotal year with the regional environment in a state of flux exacerbated by a stubbornly entrenched and determined North Korea, the emergence of an assertive and global-minded China, and the change of U.S. leadership. Given the confluence of these changes, especially under a new leadership in South Korea itself, it is unclear if South Korea will be able to maintain its position as a significant middle power, especially in the economic realm. The future of its global position and influence are as much dependent on dramatic changes in the international system today as they are on domestic factors, as well as on

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<sup>73</sup> “Back From the Dead,” *Economist*, May 6, 2017.

whether a “middle power” status meaningfully captures the country’s national identity, capabilities, and ambitions.<sup>74</sup>

One of the greatest challenges confronting South Korea today is that it faces an economic crossroad, largely shaped by China. Whereas for most of its 70 year history as a Republic, South Korea was supported and guided by its staunch ally the United States, in the last decade China’s power has grown exponentially, while U.S. influence has declined relatively, commensurate with rise of ROK’s own status and capabilities. While South Korea’s most important overall relationship is still with the United States, China is now the ROK’s largest bilateral trading partner, with South Korean exports to China totaling \$495.4 billion in 2016. Comprising one-quarter of total exports, this dependence on the Chinese market has exposed an uncomfortable vulnerability made stark by Chinese attempts to pressure South Korea on defense issues using economic levers.<sup>75</sup> Beijing has been strongly opposed to the U.S.-led THAAD anti-missile system, which it argues allows for greater surveillance of its own activities, but ultimately fears is the first step in enhancing a broader U.S. security architecture in the region.

Since July 2016, when Seoul first announced its decision to deploy THAAD, Beijing made its displeasure clear and began to implement unofficial boycotts mainly of South Korean cultural products, such as sales and access of K-Pop (music) and dramas. It also targeted specific South Korean companies citing health and safety issues. But since mid-March of this year when Seoul accepted the first installation of the system, Beijing has unleashed a barrage of moves including curbs on sales of Korean cosmetics and Chinese tour packages to South Korea – they numbered 8 million in 2016.

Wang Yi, China’s foreign minister, issued a stern warning to South Koreans that they “will only end up hurting themselves.”<sup>76</sup> Since then, Chinese inspectors descended on Lotte, a large Korean retail group’s facilities in China, halting construction of a multi-billion dollar project, and suspending operations at 55 of 99 Lotte Marts. Lotte has been specifically targeted because it sold a golf course in Korea to the government on which the THAAD system was installed. Beijing also began to implement other measures, such as hold up Korean goods at customs, and harass employees at Korean companies.

And Chinese state-sponsored hackers began to target South Korean entities involved in deploying THAAD. In April, two cyber-espionage groups linked to Beijing’s military and intelligence agencies launched a variety of attacks against South Korea’s government, military, defense companies, as well as Lotte. While South Korea has long been a target of Chinese hackers, there was a discernible rise in the number and intensity of attacks in the weeks since THAAD’s deployment.<sup>77</sup>

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<sup>74</sup> For a more detailed analysis of South Korea’s “middle power” ambitions, see: Balbina Y. Hwang, “The Limitations of ‘Global Korea’s’ Middle Power,” *The Asan Forum: Open Forum*, February 24, 2017 (March-April, vol. 5, no. 2).

<sup>75</sup> Chun Han Wong, “Seoul-Based Conglomerate Bears Brunt of China’s Ire,” *Wall St. Journal*, March 11-12, 2017.

<sup>76</sup> Ben Bland, et al. “Boycott Diplomacy,” *Financial Times*, May 4, 2017.

<sup>77</sup> Jonathen Cheng, “China Fights Missiles With Hackers,” *Wall St. Journal*, April 22-23, 2017.

The Chinese government's campaign against THAAD even attracted children as young as seven, whose schools have urged them to join impromptu rallies and boycotts of Korean goods across the country.<sup>78</sup> The unofficial boycotts were extended to include South Korean autos: Kia experienced a 36 percent drop in first quarter year-on-year sales, and Hyundai reported sales in China were down 14 percent during the same period, even though the country's auto sector grew four percent. This was not an insignificant number for Hyundai, as China accounts for more than one-fifth of the company's auto sales by volume. It also operates four factories in China with a fifth due to come on line later this year. Thus, it was forced to eliminate a second shift in three of its factories in March.<sup>79</sup>

This development highlights the complexities of pursuing boycotts as an economic tool to achieve political goals. Beijing maintains firm control over the economy and through state-owned enterprises retains powerful leverage over private sector businesses. And while China's role in the global manufacturing and end-markets is now significant lending it much greater leverage, China's economic integration into the global market also means that the government must act with some restraint. South Korea is one of China's largest supplier of imports including high-tech and machinery components that fuel Chinese manufacturing industries. Moreover, Chinese firms rely on importing intermediate Korean goods to complete assembly and sell to other markets. Thus, carried too far, economic retaliation against South Korean firms will ultimately harm the Chinese economy because they also employ Chinese workers, and South Korea is China's fourth largest export market

Indeed, the Chinese leadership understands the tremendous leverage controlling access to its vast market provides, not just over trading partners but also over the domestic audience by signaling nationalist credentials. But it also understands the delicate balancing act required to ensure that its guided boycotts do not damage the Chinese economy or unleash nationalistic forces that could threaten Communist-party rule.

Ultimately, China's tactics against South Korea have been focused and relatively minor, designed to exert maximum "psychological" and political impact with minimum economic damage. Notably, targets were limited to sectors that would have widespread impact across South Korean society but with little direct repercussions for the Chinese economy, such as retail, cultural and tour groups. Temporarily banning immensely popular South Korean cultural groups may have also provided a useful opportunity to limit the spread of what some Chinese government officials have begun to complain is "cultural infiltration" by South Korea.

The specific targeting of Lotte was also likely deliberate in order to send a broader message to South Korea's other large chaebols or conglomerates, which are politically powerful in South Korea, with enough economic leverage to pressure their government. Most certainly, Beijing had hoped to take advantage of the political chaos and leadership vacuum in March and April due to the impeachment of President Park Geun-hye and dissuade the next leader of South Korea from fully deploying THAAD.

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<sup>78</sup> Tm Mitchell, "Children Join Rally Against Seoul's Missile Defense System," *Financial Times*, March 20, 2017.

<sup>79</sup> Bland, "Boycott Diplomacy," *Financial Times*, May 4, 2017.



But Beijing may have underestimated the public backlash from the South Korean public against Chinese tactics. Although the progressive leader Moon Jae-in, known to have previously been a THAAD opponent who was ultimately elected, he has been careful to calibrate his decision thus far to reverse the decision. Moreover, Beijing likely miscalculated the power of the chaebol, as President Moon has pledged to dismantle the chaebol's dominance of the domestic economy as one of his top priorities.

Indeed, it is not evident that Chinese attempts to force South Korea to make a stark choice between its military alliance with the United States, and its commercial economic ties with China will ultimately succeed. Despite the Chinese bluster and heightened public anxiety in South Korea, the reality is that the ROK economy as a whole was not negatively impacted by Chinese retaliation against THAAD. South Korea's exports increased 13.4 percent for the month of May 2017 (from a year earlier) to \$45 billion, with total shipments to China increased 7.5 percent in May.<sup>80</sup>

Meanwhile, South Korea was able to adequately expand markets beyond China, a long-term economic strategy that may be inevitable given the longer-term challenges that China poses, beyond what South Korean Vice-Foreign Minister Ahn Chong-ghee identified as near-term "attempts to weaponize markets for political and security purposes."<sup>81</sup>

Well before Chinese boycotts started to affect sales at Korean companies such as cosmetics, they were encountering challenges in the Chinese market due to more stringent government regulations and rapidly growing domestic competition. As an export powerhouse decades before China began to open its economy, South Korea benefitted greatly from China's rapid development, much as Japan benefited from South Korea's modernization in the 1960s: Chinese factories soaked in Korean-made components, and a growing Chinese consumer class had a voracious appetite for Korean devices, cosmetics, television shows, music, and shopping trips to South Korea. Irregardless of the political dispute over THAAD, the bilateral economic relationship between the two countries had already begun to shift, with China now a competitor in many areas such as consumer goods, and industrial sectors such as steel and ship-building, as much as it is a customer of South Korea.<sup>82</sup>

Thus, China's attempt to retaliate against South Korea using economic tools may have been less about causing any substantial economic damage and more about testing its ability to assert its influence through economic coercion and exploiting the shadow of its economic power. Nevertheless, the implications for the region, and even globally are profound: if Seoul is seen as capitulating to Beijing's economic threats, intimidation of other nations will likely increase across the region. As such, there has never been a more crucial time for the United States to allay any doubt about the steadfastness of its commitment not only to its allies, but its presence in the region as a reliable partner and counterweight to China's growing influence.

#### ***(4) U.S.-ROK Alliance and Bilateral Economic Relations, and Effects on PRC-ROK relations***

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<sup>80</sup> Seung-Woo Kang, "Exports Grow for Seven Consecutive Months," *Korea Times*, June 2, 2017.

<sup>81</sup> Kwanwoo Jun, "Seoul Denounces China Trade Moves," *Wall St. Journal*, April 5, 2017.

<sup>82</sup> Motoko Rich, "A Reliance on China Jeopardizes the South Korean Economy," *New York Times*, March 9, 2017.

For the first time in its 70-year history as an independent state, the ROK finds itself an indisputable regional and global “middle power.” This new and relatively unfamiliar status has profoundly altered South Korea’s national ambitions since 1996 when it joined the OECD (Organization for Economic Cooperation and Development) and broadened the country’s ability to achieve them, even as the security challenges and regional power structure have remained largely unchanged and constant. Thus, regardless of its middle-power heft today, South Korea – and indeed North Korea – has and always will be overshadowed by far larger powers which surround it geographically and impose an inescapable sense of vulnerability.

Exacerbating South Korea’s insecurity in particular is the peculiar challenge posed by North Korea, which since its very inception as the Democratic People’s Republic of Korea (DPRK) in September 1948, has posed an existential threat to the ROK, and vice versa. Moreover, because the DPRK occupies the northern half of the Korean Peninsula, its continued existence effectively makes the ROK a geographic island, physically cut off from the Asian continental landmass. Thus, South Korea has unsurprisingly maintained a remarkably consistent national security strategy given the persistent threat from the North since the Korean War ceased with an Armistice rather than a permanent peace treaty in 1953.

Conventional wisdom dictates that small powers -- such as the two Koreas -- have little freedom to forge independent foreign policies, particularly when situated in a region dominated by much larger powers, because they are hindered by the overwhelmingly disproportionate power of regional neighbors. Nevertheless, both Koreas have separately demonstrated exceptional ability to leverage their respective limited relative power into surprisingly independent strategies.

For South Korea, the primary driver of its foreign policy orientation particularly since the end of the Cold War, has been an internally-based shift in its self-perception of national power, which in turn has been reinforced and shaped by changes in the external environment.<sup>83</sup> Interestingly, North Korea too may have adopted a new self-perception of its own national power, fueled – perhaps unrealistically -- by its relentless pursuit of nuclear weapons and their delivery systems. But in contrast to the South, the North persistently refuses to allow the external environment to shape its internal development, forming the basis of South Korea’s existential dilemma and future uncertainty.<sup>84</sup>

Saddled with this uncertainty and ongoing threat posed by the North, South Korea has relied on the United States and its “ironclad” alliance forged in “blood, sweat, and tears” for 64 years. Unwavering U.S. commitment not only to defend its security but protect its values allowed South Korea to develop into one of the most if not *the* most vibrant, stable democracies in East Asia, as well as achieve miraculous economic development and modernization. The U.S.-ROK alliance has thus served as a model security relationship not just in the region but globally.

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<sup>83</sup> For a more detailed discussion of South Korea’s “independent” foreign policy development, see: Balbina Hwang, “The U.S. Pivot to Asia, and South Korea Korea’s Rise,” *Asian Perspective*, “Special Issue, No 1.” 2017

<sup>84</sup> Balbina Y. Hwang, “A Fork in the Road: Korea, and China’s One Belt, One Road,” *KEI Academic Paper Series*, (Korea Economic Institute) November 16, 2016.

It is rather surprising then, that the new Trump administration in the United States has generated considerable uncertainty in Asia, where the lack of a formal regional multilateral security mechanism has meant that stability in the post-WWII era has been almost entirely dependent on a system of bilateral alliances with the United States and its firm commitment and presence in the region. Yet, during his electoral campaign, then-candidate Trump pledged to “rebalance financial commitments” with U.S. allies, by ending what he termed Washington’s generosity towards “free-loading” allies and to “put America first.”<sup>85</sup>

Such rhetoric reawakened latent concerns in South Korea, Japan, and among other allies about the possibility of U.S. abandonment of its partners. Since assuming office, senior Administration officials, including the Secretaries of Defense and State, as well as Vice President Pence have pointedly and repeatedly expressed firm U.S. commitment to its allies, especially in Asia. Nevertheless, President Trump’s frequent off-the-cuff statements that have not always been consistent with this message, and his performance during the recent NATO summit was not encouraging to U.S. allies around the world.

These doubts about U.S. commitment to its allies comes at a particularly precarious time in Northeast Asia given the growing urgency of threats from North Korea, and China’s increasingly assertive and muscular activities throughout the region. Moreover, U.S. withdrawal from multilateral and global agreements, such as TPP and the Paris Climate Agreement have ceded U.S. leadership, providing opportunities for the leader of China to step in to promote global principles and values that seem inconsistent with China’s current system.

Uncertainty about future U.S. policies and direction come at a particularly vulnerable time for South Korea. Although much of the country’s own uncertainty has been diminished with the election of President Moon Jae-in, how he will address the likely challenges posed by an unpredictable U.S. administration is an open question, as the two leaders prepare for their first summit in late June.

Notably, since President Trump has taken office, a significant shift in American orientation seems to be taking place due to his inordinate preference for focusing on bilateral relationships and narrow issues, to the exclusion of broader regional or global implications. While a certain efficiency can be derived from such a fixation and perhaps a greater quantity of discrete agreements or “deals” can be achieved in the immediate term, they may be limited in scope and achieve short-term results at the sake of long-term gains.

Moreover, the predilection towards quid-pro-quo actions may reinforce China’s (and North Korea’s) zero-sum mentality and calculations, which measure successes and failures according to relative gains and losses. The disadvantage here is that the system of interdependent alliances the United States has nurtured and supported in the post-WW II global environment will be more successful if mutual gains for the entire region are sought and pursued.

It remains unclear whether President Trump’s preference for bilateral deals will be a welcome opportunity for President Moon Jae-in to pursue his dual track approach towards North Korea, of strong pressure on the one hand to force denuclearization, and inducements on the other to tame

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<sup>85</sup> Balbina Y. Hwang, “President’s Impeachment Exacerbates South Korea’s Defence Concerns,” *Jane’s Intelligence Review*, January 26, 2017.

Pyongyang's aggressive behavior. The U.S. administration's seeming reliance on China to take responsibility for North Korea's behavior may defer or delay any resolution of the nuclear issue further. Or it could provide an intriguing opportunity for Seoul to maneuver independently.

While it is uncertain what the effect if any on North Korea will be, the danger is that unless the two allies move in complete concert as they have done over the last decade, dangerous signals about the erosion of the alliance will be conveyed, not just to Pyongyang but to Beijing. Any daylight between the United States and ROK will be considered opportunities for them, and even Russia to pursue more adventuresome behavior and test U.S. commitments in the region. Moreover, any cracks in the U.S.-ROK relationship will negatively affect other alliance relationships throughout the region.

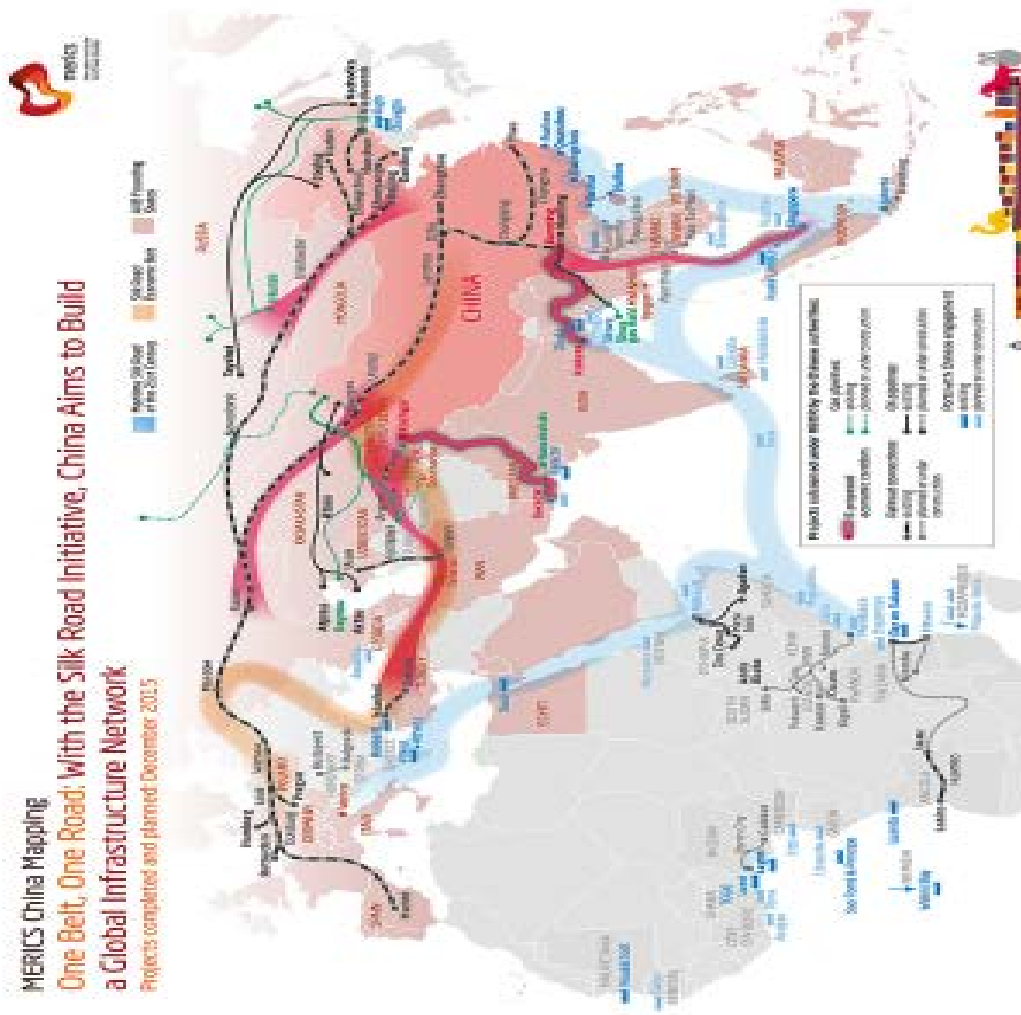
Another serious challenge awaiting President Moon is the future of the KORUS FTA. Statements to date by President Trump and other senior administration officials indicate that the United States will press for some alteration or renegotiation. While there is certainly room for improvement in some areas of the existing agreement for both sides, commencing what is likely to be protracted and contentious negotiations on an agreement already functioning smoothly for five years at this particular time of heightened tensions with North Korea again invites further opportunism by Pyongyang and Beijing.

Above all, both leaders in Washington and Seoul must reach a clear consensus on their expectations of each other, the alliance, and their respective roles in the region. Without such clarity of vision, the East Asia region may be headed towards a destabilizing future.

### **Recommendations for Congress**

- The most important task for the United States in East Asia is to clarify its future role and commitments to the region. The Congress can and should play a role by articulating its own clear position on the future of U.S. alliances in the region.
- The Congress should issue a clear position regarding the status of the KORUS FTA.
- One of the enduring weaknesses of the existing U.S.-led alliance system, especially in Northeast Asia, is the deep divisions that remain between two of America's strongest allies: South Korea and Japan. Lingering historical animosities between the two have been intractable hurdles that seem to prevent greater cooperation. The Congress can play an exceptionally invaluable role by initiating regular dialogue with counterparts from both countries and holding frank discussions and proposing constructive steps that the legislatures of each country can pursue with their domestic constituents.

**EXHIBIT 1**



<http://www.merics.org/en/merics-analysis/infographic/na-mapping/china-mapping.html>

## **OPENING STATEMENT OF DR. SHEILA SMITH, SENIOR FELLOW FOR JAPAN STUDIES, COUNCIL ON FOREIGN RELATIONS**

HEARING CO-CHAIR CLEVELAND: Dr. Smith.

DR. SMITH: Thank you so much and thank you for your warm welcome and to all commissioners for including me in the conversation this morning.

I think Northeast Asia poses multiple challenges to the United States. But I think one of the most pressing is deterring the use of force against the United States and its allies in Northeast Asia and across the region more broadly. U.S. allies have witnessed the growing willingness of Beijing to use military forces to threaten or intimidate them. Even Japan, one of Asia's most technologically advanced and most powerful nations, has been the focus of Chinese efforts at coercion.

North Korea, of course, as you mentioned, continues to pose the most realistic and most imminent threat to the countries of Northeast Asia. For Tokyo, though, it has become apparent that both the Chinese military expansion and the North Korean success in its proliferation has changed the balance of military forces in the region in a direction that undermines Japanese security.

The Japanese response to Asia's changing military balance has thus far been reasonably measured. The Japanese people continue to believe that Article Nine of their constitution assures their best bet for their long-term security.

Prime Minister Abe, however, has reinterpreted that constitution to allow the Japanese Self-Defense Forces, the military, to work with others, especially with U.S. forces but also with other national militaries across Asia.

The Japanese post-war military, however, continues to have fairly strict restraints under which it is allowed to use force.

Nonetheless, I think these growing pressures on Japan's defenses from North Korea and China affect U.S. policy in Asia in three specific ways. First, a direct military threat to Japan requires a combined military response. Article Five of our bilateral security treaty obligates the United States to respond with the Japanese to defend their country.

Second, and more broadly, deterring conflict in Northeast Asia is the best way of securing peace. And the United States and Japan have upgraded their understanding of the risk environment, and they have also been talking closely about how to respond together, not only in Northeast Asia, but across Asia, to help build and sustain regional security.

Finally, and we don't often talk about this, but I think it's worth noting, that this magnitude of geostrategic shift in Asia has bred considerable anxiety among the public of our allies. The U.S. and Japan have not only signaled their shared response to this increased military threat to potential adversaries, but they have also worked very hard to reassure the Japanese public that the alliance is still the best way forward for ensuring Japanese defenses.

Let me share with you what I think I was tasked with this morning, which is largely Japan's views on China, but also a few comments about Japan's response to recent developments in North Korea.

China's military modernization has changed Japan's defense needs and it's raised the specter of a far more conflicted Asia, especially across the maritime domain. The growing reach of Chinese maritime forces, in particular, has raised the bar for Japan's air and maritime forces. The PLA Navy regularly travels through the Ryukyu Islands, through the Straits, for egress into

the Western Pacific, and conducts major maritime exercises just outside of Japanese EEZ waters.

Non-military maritime forces have also been increasingly present around the Senkaku Islands in the East China Sea, and their numbers have grown in the wake of the 2010 and 2012 confrontations between Tokyo and Beijing over sovereignty.

We shouldn't forget that Japan's Air Forces also are continuing to respond at increasing rates to the Chinese incursions into their airspace but also at the same time must respond to the Russians in the north.

Diplomatic relations between Japan and China have deteriorated to be sure over the past two decades, but not all these challenges are related to the military balance. The territorial dispute, however, has raised this risk of military escalation.

In 2014, President Xi and Prime Minister Abe sat down for the first time--a very uncomfortable meeting, but they agreed to a risk reduction agreement to negotiate an agreement by which their two forces would be able to interact with each other in the East China Sea with a little bit more predictability. Unfortunately, that agreement has yet to be concluded.

Tokyo also worries about Beijing's ambitions beyond the East China Sea. They've watched the Chinese expand their presence, and, again, as Dr. Hwang has outlined here, not only in the Indian Ocean and across continental Asia but with particular alarm at the island-building in the South China Sea.

The U.S. response to this has been keenly watched by Tokyo. Chinese military operations in the South China Sea should not be seen as separate from their activities in the East China Sea. As tensions have risen in the South China Sea, the PLAN and PLAAF have increased their presence in and around Taiwan and Japan, and it has persuaded Tokyo that Beijing sees these two theaters as being linked in terms of their strategy for pressing U.S. allies.

Japan has upped its own maritime cooperation across the Asia-Pacific in response. It has had maritime exercises with Australia, India, and the Philippines along with our U.S. Pacific Forces.

It continues to work closely to help bolster their capacity for maritime defenses, and the Philippines and Vietnam have particularly benefited from Japanese expanded support.

On the economic front, it's important to remember, however, that Japan and China are deeply interdependent. They are vital sources of economic growth for each other although the balance of that interdependence has shifted slightly in China's favor.

This should temper their overt strategic rivalry in Asia. Abe and Xi are scheduled to meet again this summer. The Prime Minister is asking for a reciprocal meeting so there is an invitation on the table for President Xi to visit Japan. They've had six opportunities since 2014 to sit down together and the economic ties between their two countries have largely continued. Japanese manufacturers, however, are increasingly diversifying their foreign direct investment in China, but trade levels in 2016 were roughly at \$300 billion between the two countries.

Foreign direct investment had just returned to pre-2011 levels. Japan continues, in other words, to seek economic interdependence with China as all advanced industrial economies must, but their economic dependence now comes with a strategic risk that was unthinkable in the past.

Let me share a couple of thoughts on North Korea, very briefly, because my time is running out. You know as the most likely cause of conflict in Asia, North Korean provocations continue to focus Japanese attention on their military preparedness. Particularly in the last several months, the Japanese government has understood that their vulnerability to missile strike by Pyongyang could open them up to attack or provocation even before Pyongyang has the

capacity to tip those missiles with nuclear warheads.

Japan is likely to engage this year in a conversation with the United States about moving beyond missile defenses, although they do want to strengthen those missile defenses. But there is an open discussion today about Japanese intentions to move in the direction of a conventional strike capability, one that would be managed within the U.S.-Japan alliance but would nonetheless give Tokyo a retaliatory capability should Pyongyang threaten them.

In conclusion, it is very clear that Tokyo depends heavily on the United States for its security. The U.S.-Japan alliance is the primary means by which Japan seeks to deter aggression, and in the case of a provocation or a war, Tokyo would rely very heavily on the integrated operations and exercises that they've been doing with the U.S. Pacific Forces.

Thank you.



**PREPARED STATEMENT OF DR. SHEILA SMITH, SENIOR FELLOW FOR JAPAN STUDIES, COUNCIL ON FOREIGN RELATIONS**

**Hearing on “China’s Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

Northeast Asia poses multiple challenges for U.S. foreign policy, but one of the most pressing is deterring the use of force against the U.S. and its allies. U.S. allies across Asia have witnessed the growing willingness of Pyongyang and Beijing to use their military forces to threaten or intimidate other states across Asia. As North Korea continues its missile launches, and as Chinese maritime and air forces assert their presence in the East and South China Seas, it has become apparent that the balance of military forces in the region is shifting in a direction that undermines Japan’s security. The U.S. military presence in the region not only assures the continued stability and open access to maritime Asia, but it also reassures allies such as Japan that their national defenses are secure.

Japan has chosen to maintain a military capability focused exclusively on defense. The presence of U.S. forces on Japanese soil, around 50,000 military personnel, acts as a deterrent against aggression, but also provides the offensive strike capabilities that offset Japan’s Self Defense Forces (SDF). While the United States and the Republic of Korea (ROK) have always prepared for the use of force on the Korean Peninsula, the U.S.-Japan alliance has not had to cope with a direct and ongoing military threat to Japanese defenses. Not, that is, until now.

Japanese views on Asia’s changing military balance have been measured, and the Japanese people continue to subscribe to the idea that Article Nine of their constitution remains their best hope for peace. The Japanese defense budget continues to be limited to around 1 percent of the Gross domestic product (GDP), and changes to Japan’s military doctrine continue to emphasize defensive operations. Prime Minister Abe Shinzo’s reinterpretation of the constitution in 2014, supported by new security legislation in 2015, allows the SDF to work more closely with the militaries of the United States and other security partners, including United Nations (UN) peacekeeping forces, but Japan’s postwar military has a very strict set of scenarios under which it is allowed to use force. Even Prime Minister Abe—who has been an advocate of security policy reforms—continues to frame the use of force in terms of Japan’s own security requirements. Abe’s decision to allow the exercise of collective self-defense, in other words, fell short of an embrace of collective security.

Nonetheless, growing pressures on Japan’s defenses from North Korea and China affect U.S. policy in Asia in three ways. First, a direct military threat to Japan requires a combined military response. Article Five of the U.S.-Japan Security Treaty obligates the United States to assist in the defense of Japan, and our two militaries have planned and exercised for that scenario since

the treaty was concluded in 1960.<sup>86</sup> Second, deterring conflict in Northeast Asia is the best way of ensuring peace, and the United States and Japan continue to upgrade their shared understanding of the risk environment and how they will respond together to improve the allied deterrent.<sup>87</sup> Finally, geostrategic shifts of this magnitude breed anxiety among the public, and the United States and Japan have sought to refine declaratory policy so as to not only signal to potential adversaries of their shared response to military threat but also to reassure Japanese and Americans that they ensure their security. Preparing for the defense of Japan and of Northeast Asia together, and adapting declaratory policy backed up with concrete steps to improve military readiness, has gone a long way to ensuring the U.S.-Japan alliance continues to cope with the changes in the region's strategic balance. With these goals in mind, a closer look at Japan's views on the military challenge posed by China and North Korea is required.

### Japan's Views on China

China's military modernization has changed Japan's defense needs and has raised the specter of a far more conflicted Asia, especially across in the maritime domain. China's nuclear modernization has worried Japanese planners, and caused some concern about how Beijing plans on using these nuclear forces over time.

Chinese conventional military forces now pose a direct threat to Japanese control over its maritime and air domains. The growing reach of Chinese maritime forces, in particular, has raised the bar for the Maritime and Air Self Defense Forces. The growing presence of Chinese vessels in Japanese waters has prompted an increased investment in intelligence, surveillance, and reconnaissance capabilities (ISR). The People's Liberation Army Navy (PLAN) regularly travels through the Ryukyu island straits on its way to the Western Pacific, and conducts major military exercises just beyond Japanese waters. PLAN submarines now operate across the East China Sea and transit out in the Western Pacific.<sup>88</sup> Non-military maritime forces are also increasingly present around the Senkaku Islands, and their numbers have grown in the wake of the 2010 and 2012 tensions over Beijing's sovereignty claims. Japan's Air Self Defense Force (ASDF) now responds to Chinese aircraft far more than ever. This April, the Japan's Ministry of Defense reported their fighter jets scrambled 851 times against Chinese People's Liberation Army Air Force (PLAAF) during FY2016, 280 times more than in the previous year, and a

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<sup>86</sup> In the early years after the treaty was revised in 1960, training between U.S. and Japanese forces was limited largely due to the Self Defense Forces' limited capabilities, but in 1978, the U.S.-Japan Defense Cooperation Guidelines were crafted to expand the bilateral dialogue on how the U.S. and Japanese militaries would work together in a crisis.

<sup>87</sup> In 2006, the U.S. and Japan agreed upon a comprehensive force posture plan that upgraded their forces to cope with the new security environment in Northeast Asia. The United States and Japan continue to consider their roles, missions and capabilities as this plan reaches completion.

<sup>88</sup> In 2004, a PLAN submarine was discovered attempting to transit the Miyako strait underwater, a violation of international law. Japan's MSDF was ordered to defend the Japanese islands, and the sub surfaced. Whether it was a deliberate attempt to challenge Japanese defenses, or a commander's mistake, is unclear. See Peter A. Dutton, *Scouting, Signaling, and Gatekeeping: Chinese Naval Operations in Japanese Waters and the International Law Implications*, U.S. Naval War College China Maritime Studies, no. 2, (Newport, RI: Naval War College Press, 2009), and Minemura Yoshito, "Han kyu sensuikan no ryokai shinpan jian—CMSI Scouting, Signaling, and Gatekeeping wo yonde [A Han-class Submarine's Invasion of Japanese Territorial Waters: Reading the Dutton's 'Scouting, Signaling, and Gatekeeping']," *Japan Maritime Self-Defense Force Command and Staff College Review*, vol. 1 no. 1, May 2011, 90-100.

thirty-eight-fold increase over a decade ago.<sup>89</sup> Moreover, Japan's air force must contend with Chinese air forces while simultaneously continuing to respond to Russian air forces to the north.

Diplomatic relations between Japan and China have deteriorated over the past two decades, as the two governments have been unable to resolve a host of new policy challenges. Not all of these challenges are related to the military balance,<sup>90</sup> but the Chinese sovereignty claim on the Senkaku Islands has blossomed into a full-fledged territorial dispute with the maritime forces of both countries mobilized in defense. In 2010, a Chinese fishing trawler captain, reportedly inebriated, challenged the Japanese Coast Guard ships that asked him to leave Senkaku waters, ramming two vessels and resulting in his arrest and the trawler's detention. Eventually he was released, but not before Beijing's outrage spilled over into an informal embargo on exports of rare earths and the detention of four Japanese businessmen in China. Nationalist politics on both sides of this dispute were fed by public sentiment, making diplomacy difficult. In 2012, the Japanese government sought to control access to the islands by purchasing them from a private owner, but this led to another round of Chinese reaction against Japan, and Beijing sent its own coast guard to patrol the waters and defend its sovereignty claim. Throughout, Japanese attitudes towards China hardened, and when reports of a Chinese PLAN vessel locking its fire control radar on a Japanese MSDF ship surfaced in early 2013, the notion that this could escalate into a war spread. With a newly elected Abe cabinet in Tokyo, the Obama administration moved quickly to help ease tensions and formal efforts to revise the U.S.-Japan Defense Cooperation Guidelines sought to consider how the alliance might help in de-escalating these type of "grey zone" pressures on Japan's defenses.

It took until November 2014 for China's president to sit down with Japan's prime minister. Beijing lashed out at Prime Minister Abe when he visited Yasukuni Shrine in December 2013, once more inflaming sentiment in both China and South Korea over war memory. With China hosting the Asia-Pacific Economic Cooperation (APEC) meeting the following year in Beijing, however, the opportunity came for a meeting between Abe and Xi Jinping. Considered efforts were made by National Security Advisor Yachi Shotaro and State Councilor Yang Jiechi to find a way to restore regular diplomatic channels. On the East China Sea, the compromise was to recognize that the growing risk between their forces was a problem, and that both leaders, while disagreeing on the cause of that risk, wanted to find a way to prevent miscalculation or incident from escalating to armed conflict. On this premise, the first meeting was held—uncomfortably. The bilateral risk reduction agreement has been discussed by a variety of government agencies, but Japan and China have yet to reach conclusion on this important step towards ensuring that their militaries do not inadvertently use force against each other.

Tokyo continues to worry about Beijing's military ambitions beyond the East China Sea, however. For some time Japanese strategists have also watched the Chinese expand their presence in the Indian Ocean and across continental Asia. Japan has watched with particular

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<sup>89</sup> Japan's Air Self Defense Force reported only 22 scrambles against Chinese aircraft in FY2006. "Joint Staff Press Release: Statistics on scrambles through fiscal year 2016," April 13, 2017, Joint Staff, Ministry of Defense, Japan, [http://www.mod.go.jp/js/Press/press2017/press\\_pdf/p20170413\\_02.pdf](http://www.mod.go.jp/js/Press/press2017/press_pdf/p20170413_02.pdf).

"Heisei 22 nendo no kinkyu hasshin jisshi jokyo ni tsuite [Joint Staff Press Release: Statistics on scrambles through fiscal year 2011]," April 28, 2011, [http://www.mod.go.jp/js/Press/press2011/press\\_pdf/p20110428\\_02.pdf](http://www.mod.go.jp/js/Press/press2011/press_pdf/p20110428_02.pdf).

<sup>90</sup> For a discussion of the various issues of contention that have arisen between Tokyo and Beijing as China's economic and political influence has grown, see Sheila A. Smith, *Intimate Rivals: Japan's Domestic Politics and a Rising China* (New York: Columbia University Press, 2015).

alarm Chinese island building in the South China Sea. China's salami slicing of the maritime spaces in Asia is a worry, and the U.S. response to what is largely viewed as an expansionist China is keenly evaluated. Tokyo has quietly urged for more frequent Freedom of Navigation operations (FONOPs) by the United States to challenge Chinese sovereignty and Exclusive Economic Zone (EEZ) claims, and has noted its own interests in ensuring that Asia's waters continue to be open to all. As a result of the new security legislation, the United States asked Japan to provide asset protection for the U.S.S. Carl Vinson's carrier strike group (CSG) sent to train and exercise across Asia, including some time in the South China Sea. The MSDF's helicopter-capable destroyer *Izumo* was sent to join the CSG on May 1.

Chinese military operations in and around the South China Sea are not unrelated to their activities in the East China Sea. As tensions have risen with the United States on the South China Sea, the PLAN and PLAAF have demonstrated their presence in and around Taiwan and Japan, suggesting to Tokyo planners that Beijing links the two seas in its calculus of how to assert its military pressure on U.S. allies.

Japan too has upped its maritime cooperation across the Asia-Pacific in response. Maritime exercises with Australia, India, and the Philippines have been done in cooperation with U.S. Pacific forces. Japan has formally joined the Malabar exercises with India and the U.S. navies, and has sent observers to the bilateral Balikatan exercises with the Philippine and U.S. militaries. Security cooperation between Canberra and Tokyo has expanded to include ISR cooperation and other types of military missions. To its Southeast Asian partners, Japan now offers maritime defense assistance through training, financial assistance, and leasing of retired Japanese coast guard vessels. The Philippines and Vietnam have both benefitted from Japan's expanding support for their maritime security.

Investing more on its own capabilities and building partnerships with other maritime partners are two areas where Japan is likely to continue to strengthen its response to China's growing military presence. Japan has loosened its constraints on the export of defense related technologies, a step that seeks to leverage its technological prowess in the service of its own defense needs but also a means to strategic cooperation with a variety of partners in the North Atlantic Treaty Organization (NATO) and the Asia-Pacific.

Over the longer term, however, the role of the United States in the region will be critical to Japan's sense of how to ensure its security, both within its own air and maritime territory as well as in the sea routes it depends so heavily up across the Indo-Pacific. Not only will Asian allies continue to look to the United States to lead in sustaining the existing security architecture of the region, but Japan will also be watching how the United States manages its other alliances, such as NATO, for indications of U.S. intent and future capabilities. Without the U.S.-Japan alliance, Japan will be woefully unprepared to contend with a China that seeks regional hegemony, especially if that hegemony is sought through coercive means.

For now, Japan and China will compete with each other for markets and for resources across the globe. China has overtaken Japan to become the world's second largest economy, but Japan continues to have distinct advantages as a global economic leader that China will be hard pressed

to emulate. Nonetheless, Japan's economy continues to be deeply intertwined with China's. The complementarities of this interdependence remain a vital source of economic growth for both nations, and should act to temper an overt strategic rivalry. That being said, Tokyo's experience with Beijing in 2010 and again in 2012 was sobering. The use of an embargo and arrests by Chinese authorities during the crisis was seen as using economic coercion to resolve a crisis, and while the impact was short-lived, it did impress upon the Japanese government that their economic exposure in China could make them very vulnerable to Chinese coercion should there be a more difficult clash between them.

Tokyo has also observed that China's use of trade and embargos as instruments of coercion has been also used by Beijing against the Philippines during the Aquino presidency and against a Korean conglomerate, Lotte, in retaliation for the Terminal High Altitude Area Defense (THAAD) deployment. Thus beyond the question of China's rising economic and military influence in the Asia-Pacific, Tokyo is focused on the way in which Beijing is using this newfound power to its advantage in shaping regional politics.

Abe and Xi are scheduled to meet again this summer. Since 2014, they have had six opportunities to sit down together to discuss their relationship and broader interests in Asia. Moreover, the economic ties between Japan and China have now largely been restored, although Japanese manufacturers are increasingly diversifying their foreign direction investment. In 2016, trade between the two reached \$301.6 billion, but foreign direct investment (FDI) had just returned to pre-2011 level.<sup>91</sup> Resource competition is evident in the Middle East, Africa and Latin America, as China expands its global sourcing of oil, gas and minerals needed to fuel its own manufacturing industries. Japan continues to seek economic interdependence with China, just as all other advanced industrial economies must. Yet their economic dependence now comes with a strategic risk that was unthinkable in the past.

### **Japan's Views of North Korea**

As the most likely cause of conflict in Asia, North Korean provocations continue to focus Japanese attention on its military preparedness. The lack of a sustainable peace on the Korean Peninsula for over sixty years keeps U.S. and ROK forces stationed at the demilitarized zone, and Pyongyang's quest for a viable nuclear arsenal capable of challenging the U.S. presence in the region has been the defining security challenge of the past two decades. Japan's military would have no direct role in a war on the Korean Peninsula, of course, but a conflict there would clearly affect Japanese security. U.S. bases in Japan would be involved in any military action, and the evacuation of non-combatants would be one of Tokyo's highest priorities.

The more direct threat to Japan, however, is the missile and weapons of mass destruction (WMD) capabilities of North Korea. In 2002, then Prime Minister Koizumi Junichiro traveled to Pyongyang to meet with Kim Jong-il and successfully negotiated a moratorium on missile testing. But the Pyongyang Declaration announced in September 2002 did not hold after the

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<sup>91</sup> "2016 nen no nicchu boeki (soho yunyu beisu) [JETRO survey: Analysis of Japan-China Trade in 2016 (Based on imports of both countries)], March 13, 2017, [https://www.jetro.go.jp/ext\\_images/Reports/01/aae9c90e6aaf01db/20160133.pdf](https://www.jetro.go.jp/ext_images/Reports/01/aae9c90e6aaf01db/20160133.pdf). On FDI, see "Japan's Outward and Inward Foreign Direct Investment," Japan External Trade Organization, <https://www.jetro.go.jp/en/reports/statistics/>.

United States confronted Kim with knowledge of its uranium enrichment program the following month. Since Kim Jong-un has come to power in 2011, Pyongyang's missile development program seems to have accelerated. For the past year and a half, Kim has sustained testing of a variety of missile platforms, from fixed sites to submarine-launched ballistic missile (SLBM) to mobile launchers. From January 2016, North Korea conducted thirty missile tests, four of which fell into Japan's EEZ.

Similarly, the U.S.-Japan alliance has adapted to this growing lethality of North Korea ever since Kim Jong-il announced that it would abandon his country's commitment to the Nuclear Nonproliferation Treaty in 1993. Working closely with the United States, Tokyo has deployed a ballistic missile defense system, with Patriot III land based defenses and AEGIS defenses at sea.<sup>92</sup> Kim Jong-un's willingness to test shorter range missiles, in addition to his quest for an Intercontinental ballistic missile (ICBM), has raised concern in Tokyo about its own lack of offensive capability.

For Tokyo, North Korean missiles are now a direct and persistent threat. Prime Minister Abe in April noted that Japanese had only a ten minute warning of an imminent missile attack from North Korea. Moreover, in light of the assassination of Kim Jong-un's brother using a nerve agent in Malaysia and the demonstration of President Bashar al-Assad's use of chemical weapons in Syria, Abe pointed out that Tokyo should not assume that Pyongyang would exercise restraint over the use of its biological or chemical weapons stockpile. Even short of the ability to put a nuclear warhead on a missile, Pyongyang could wreak considerable damage on the Japanese people or on U.S. military forces stationed in Japan.

For some time now, Japanese military planners have noted this missile gap with Pyongyang, and have studied what this could mean should conflict on the Korean peninsula erupt. With no recourse of their own to retaliate, Japan would be vulnerable should sufficient missiles be able to overwhelm existing missile defenses. Another layer of ballistic missile defense (BMD) protection is needed, and Tokyo is currently considering what kind of system might best rectify this vulnerability. In addition, there is growing political support in Tokyo for opting for the ability to launch a retaliatory strike against Pyongyang if Japan were to be attacked. This conventional strike capability would enable Japan to deter a missile attack, and is proposed to be a capability that would strengthen the U.S.-Japan alliance deterrent.<sup>93</sup>

Kim Jong-un's goal of developing an ICBM capable of striking the United States with WMD would call into question the extended deterrent currently provided by the alliance. At the very least, it would raise questions about whether any sitting U.S. president would put Los Angeles or any other U.S. city at risk for Japan. Japan's commitment to military restraint could be called into question.

Tokyo's ability to respond to a military crisis provoked by Pyongyang depends on smooth security cooperation with South Korea. Bilateral tensions between Seoul and Tokyo over war

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<sup>92</sup> *Defense of Japan 2016*, Ministry of Defense, Japan, 290-293, [http://www.mod.go.jp/e/publ/w\\_paper/pdf/2016/DOJ2016\\_3-1-2\\_web.pdf/](http://www.mod.go.jp/e/publ/w_paper/pdf/2016/DOJ2016_3-1-2_web.pdf/).

<sup>93</sup> "Dando misairu boei no jinsoku katsu bapponteki na kyōka ni kansuru teigen [Recommendations for Enhancing Ballistic Missile Defense Promptly and Fundamentally]," Liberal Democratic Party's Policy Research Council, March 30, 2017, [https://jimin.ncss.nifty.com/pdf/news/policy/134586\\_1.pdf](https://jimin.ncss.nifty.com/pdf/news/policy/134586_1.pdf).

legacy issues continue, and in the South Korean presidential campaign this year virtually every candidate called for a renegotiation of the bilateral agreement on the so-called comfort women, concluded by former President Park Geun-hye and Abe. President Moon Jae-in since coming into office, however, has signaled his hope for summit diplomacy with Japan's prime minister, a direct dialogue that Park and Abe failed to realize. Sustained and close contact between the South Korean president and Japanese prime minister is sorely needed if this critical leg of the trilateral strategic cooperation between Tokyo, Washington, and Seoul is to continue. Yet this will be politically challenging for both leaders.

### **The U.S.-Japan Alliance in the Asia Pacific and Beyond**

More than at any time since the end of the Cold War, the U.S. role in maintaining peace in the region is under scrutiny. China's rise has changed the way Japanese view their future, and the clash between Tokyo and Beijing over islands in the East China Sea has required making the U.S. treaty commitment to Japan's defense much more explicit.

If U.S.-Japan security cooperation is to keep pace with the changes in the Northeast Asian military balance, cooperation between U.S. and Japanese forces should be designed for long term. An enhanced roles, missions, and capabilities vision should be created and implemented for the next decade and beyond. Critical to the alliance will be determining what (if any) conventional strike capabilities could do for the alliance and how these capabilities could be managed by the United States and Japan. In other words, alliance deliberations on a Japanese retaliatory capability should not simply be about which weapons are best suited to the task, but should also consider when and how the alliance will use them.

The U.S.-Japan alliance has adapted to the growing lethality of North Korea largely through the development of missile defense systems. Technological advancement of missile defenses continues, and Japan-U.S. cooperation should be sustained. As South Korea's missile defenses are improved, a trilateral dialogue on how best to integrate regional missile defenses could prove helpful in coordinating further investment in these capabilities.

North Korea's recent spate of missile launches towards Japan has prompted a new emphasis on military preparedness in Tokyo as concerns about the use of force against them grow. The Abe cabinet has initiated civil drills, for example, in case of a missile strike. Considering how the alliance can cope with this growing concern would also help reassure the Japanese public. The United States and Japan should consider under what circumstances it would be appropriate to deny or severely limit Pyongyang's ability to launch missiles towards Japan.

Beyond this, the United States, Japan, and South Korea should initiate a broader conversation on a framework for avoiding conflict on the peninsula. With a new president in Seoul, a U.S.-ROK-Japan strategy for reducing tensions on the peninsula must also be considered. Given North Korea's continued efforts to intimidate Japan, this conversation cannot stop at the peninsula's edge. Tokyo, Seoul, and Washington must come together to consider how they will manage Pyongyang's effort to divide them.

In maritime Asia, Japan's role in building maritime capacities of Southeast Asian nations should be expanded. The United States, Japan, and other maritime powers must continue to build the foundations of collective action in ensuring the stability and security of Asia's maritime trade routes. In addition, the United States should lead a discussion of how Japanese, Australian, Indian, and other navies might exercise more frequently for region-wide concerns, such as humanitarian and disaster relief. A regional discussion on access to maritime infrastructure, such as ports, repair facilities, etc., should be considered.

The SDF operates at a far greater tempo today than ever before, scrambling to meet Chinese and Russian aircraft and monitoring and if need be confronting North Korean and Chinese forces in Japanese territory. As China and Japan continue to improve their relations, completion of the East China Sea military risk reduction agreement is imperative. Improving and expanding maritime cooperation with South Korea could also prove beneficial. Japan's air defenses will benefit from the introduction of the F-35, and as much as possible, this process should be accelerated.

Finally, the United States should do all that it can to support the Moon-Abe dialogue on the future of their countries' relationship. As Northeast Asia's tensions increase, the strategic benefits of closer ties between these two U.S. allies cannot be ignored. But equally important, recognizing the costs of failing to cooperate in the case of heightened tension with Pyongyang or worse yet, a conflict on the peninsula could be disastrous for both nations. Planning for conflict is a requirement for both militaries, and discussing the ways in which each nation must prioritize their military responses to reveal how best to complement each other could be beneficial at this time. Multilateral discussions, for example, on non-combatant evacuations—organized via the UN—could lessen the risk of misunderstanding in the case of a conflict.



## PANEL I QUESTION AND ANSWER

HEARING CO-CHAIR CLEVELAND: Thank you all very much.

Vice Chairman Shea.

VICE CHAIRMAN SHEA: Thank you very much for your testimony. Okay. Thanks again for your testimony.

I have two questions. One, Mr. Denmark, I've sort of zeroed in on a statement you made in your testimony which you were quoting yourself in 2015--

[Laughter.]

VICE CHAIRMAN SHEA: --when you say that Beijing's vision for a revised global order is centered on a revitalized China, make it the dominant power in the Asia-Pacific, and is able to shape events around the world through a kind of neo-tributary system.

And I was wondering if you could just flesh out what you mean by a "neo-tributary system"? What countries are part of this system, and is neo-tributary different from tributary? Is there a distinction there? So if you can flesh that out just a little bit, and what are the implications if they were--China were to achieve that vision for the United States?

And just for the panel, it seems to me that if you could provide an assessment of Chinese points of leverage vis-a-vis North Korea? It seems to me that their major point of leverage is withholding fuel and food, and they have not done that in a significant way because the prospect of a nuclearized North Korea is less of a concern to them than a destabilized North Korea.

So if you could just--if you could assess that statement, and what are the main points of leverage that China has over North Korea?

DR. DENMARK: Thank you, Vice Chairman, and appreciate the note of citing myself.

[Laughter.]

DR. DENMARK: It's better than plagiarism.

In terms of when I, I use the term "neo-tributary" very purposefully in that it speaks to the sense that China is not operating in the same historical frame that we tend to look at things, and that they're not seeking an empire in the sense of a classical Western concept thereof. Rather, it seems to me to be based more on Chinese history in which China formally established a tributary system in which other states paid tribute, recognized Chinese position at top of a very formal hierarchy of nations, and that China benevolently allowed them to operate with a degree of autonomy.

But it's different. China is--you know, this is a post-Westphalian international system so China is not seeking to formally undermine the sovereignty of nations. Rather, my assessment is that it's seeking to, through political soft power and economic ties trying to establish a degree of influence with the countries around the world but especially in the Asia-Pacific close to its mainland for the purpose of having influence so that it can shape major decisions that are happening in the region.

So I see examples of denying Rare Earth exports to Japan or denying--allowing bananas to rot on the deck on the ports in the Philippines, and now some economic sanctions that came out after the THAAD decision in Korea as examples of China trying to exert some degree of influence inside the decision-making of countries around the world.

So I say "neo" because it's not trying to establish a formal hierarchy. It's not trying to formally undermine sovereignty of nations. Rather it's trying to establish a more informal network of influence around the region, the implications being that for the United States, we

cannot see diplomacy, economic integration, military power and soft power as separate. Rather, they're all part of an integrated whole. That's how China approaches this. That's how many of these countries looking at their role in the world and their relations with the United States and China, that's how they see things.

And we cannot continue to tell ourselves that the downturn in economics or a problem in our cultural relationship with a country will not affect the broader diplomacy, will not affect the broader geopolitics of the region. These dynamics are all integrated now, and we need to recognize that as part of our own strategy in order to appropriately compete with China across the Asia-Pacific.

VICE CHAIRMAN SHEA: Thank you. Second question.

DR. SCOBELL: So on the question of what are Chinese points of leverage vis-a-vis North Korea, I'm partly going to answer and partly going to sidestep the question, and let me explain what I mean.

I think China has what I would call potential influence with North Korea, and what I mean by that is China has lots, a significant number of ways where it can put pressure on North Korea, particularly economic, but it is reluctant to do so. So its potential is often never realized. And why? I think you aptly explained why. It's worried about the impact, the consequences of that, because from a Chinese perspective, the status quo, albeit very fragile, has some kind of stability from a Chinese perspective.

And what they're terrified of is change, uncertain change, which could be highly destabilizing, and I think there are other countries--I suspect that South Korea and Japan have similar concerns even though none of these countries are very happy with what's going on in North Korea, North Korea's activities.

To talk specifically--a second point--to talk specifically about how China imposes or uses economic sanctions, building on what Mr. Denmark was saying, I think you can see a pattern that China tends to follow in applying sanctions to a country. It's for a specific reason for a limited time, and they're very focused, and it's to signal displeasure, and I may be getting too cultural here, but I think from a Chinese perspective, isn't that bad enough? We're not happy with you, and we're making the point, and it's time for you to shape up and come around, to understand the Chinese perspective, and accommodate us.

And so perhaps from a U.S. perspective, that sounds a little strange, but I think from a--I think that's the way China approaches this. The skillful application of targeted sanctions for a very limited time has a demonstration effect. And to be honest, it gets people's attention. It gets headlines. It gets countries worried. South Korea, Japan, along with virtually every other country in the Asia-Pacific, is in Chinese economic orbit. So they pay attention to those things.

But the challenge for all these countries, including South Korea and Japan--not to tread on expertises of my esteemed colleagues here--is that they seek, they walk a fine line or a balance. They don't want to antagonize China. They want to maintain those good economic relations. But at the same time, they want to maintain good strong security ties with the United States, and that can be very challenging.

DR. HWANG: I think this idea that--I actually think it's a myth. The myth that China has all this leverage over North Korea I think is, well, it's a myth. Certainly relatively which country has the most leverage? Obviously China because it has the greatest economic interaction, and, yes, the cutting off fuel oil or food shipments is sort of an immediate tool that China could use.

But clearly China is not willing to use these tools, and Beijing won't for exactly the variety of reasons that were already stated. But leverage is only leverage if the target views it as such, and I'm not so sure that North Korea necessarily does. And I think North Korea's actions very specifically in the past year or two towards China and the willingness, and if you look very closely at North Korean statements, they've been increasingly and openly harsh about China. I think this shows that what North Korea is trying to show is that "you can go ahead and try, China, to cut us off, but we're going to figure out a way to survive regardless."

And there's actually two very interesting developments, I think, that people are not considering. Number one, the one superpower that we have not mentioned yet is Russia, and I think that we always underestimate the role of Russia in Asia. Now, I think for very good reason--Moscow has not necessarily been focused on using Asia, but I suspect that in the next few years, that Russia will decide that this is an arena in which it can start to make a difference, and we're already beginning to see signals of this, and we have to remember North Korea used to rely on its relationship with the Soviet Union. It goes all the way back.

So Russia may view this as an opportunity to step into the breach just to annoy the United States if for any other reason. But also to distinguish itself from China. By the way, I've been hearing that Chinese are increasingly worried about Russia's role in the region and so by no means are the two friends either.

The second is, again, the recent election of Moon Jae-In in South Korea, and I think it's very clear what President Moon is going to try to do, is his main priority is to prevent conflict on the Korean peninsula, and this is going back to Rho Moo-hyun, Sunshine Policy 2.0, you know, Moonshine Policy, and his updated Moonshine Policy, and I don't mean that in any derogatory sense, but his Moonshine policy, I think it will be to step into that breach of what China has done to support North Korea.

This is actually in South Korea's long-term interest because South Korea wants to reduce exactly its economic dependence on China, but it also would like to see North Korea's economic dependence on China reduced. This is better for the eventual unified Korea that is the vision, I think, actually of both Koreas. Never mind in very different ways.

DR. SMITH: I agree with the comments made by my colleagues. I just wanted to raise a couple of things. When we think about China's influence, we think about the economic levers immediately, and of course China alone now has the preponderant economic tools with which to try to coerce Pyongyang to attempt to change its behavior.

If you go back a decade or more, Japan used to have trade with North Korea; right. It had some levers it could use. It no longer has them. Japan has virtually no influence with Pyongyang. We have never had any.

South Korea in the Sunshine Policy and its engagement with the North actually expanded some of its economic levers through some of these programs, Kaesong, et cetera. And it helped in some ways and intermittently. Right. It may not have derailed the proliferation program, but it gave more latitude, I think, for Seoul to try to work with Pyongyang.

So one of my questions and one of my points here is we're very focused on the Chinese levers in some way because it's China alone that has leverage that we all don't have anymore, and I think that is one of the strategic outcomes that we ought to give more attention to as we think about Northeast Asia.

The other is obviously in the context of the U.N. Security Council. China has tempered and sometimes supported, held back, slowed down, the global response to proliferation in the

North. That is significant leverage over global or international responses to the proliferation challenge, not necessarily the future of the Korean peninsula, but to the very specific issue of missile and nuclear proliferation.

China could exert a very different influence on the U.N. Security Council, and I think Russia obviously has had a much more--what's the right word--much more concerning gaze in the U.N. conversation than China has. China can step up, so we shouldn't take the pressure off that venue either when we talk to the Chinese.

VICE CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR CLEVELAND: Senator Talent.

COMMISSIONER TALENT: Thank you.

I really appreciate your testimony. Okay. So one of the best politicians I ever knew in Missouri, or nationally, a state senator, and he told me one time, he said you want to control somebody, find out what they want and find out how bad they want it. Okay. Now, it seems to me that the problem here with the North Koreans is they know what we want, and they know how bad we want it.

We want them to give up the nukes, and so they have the leverage, and you mentioned, Dr. Scobell--I think you're exactly right--we're now having the third administration in a row go down the same thing, alternatively threatening and begging the Chinese and the North Koreans, all of which keeps projecting this is what we really want, and you're not giving it to us.

So what about restructuring our diplomacy so that we're not accepting them as nuclear state, but we're basically saying, okay, there is nothing that we're willing to do because of collateral risk? What we could do to try and stop you is like a regime change. Okay. We're not going to do that because the risks are too great with that; right?

So for the foreseeable future, you're going to have this because you want it. Okay. Fine. There's going to be numbers of things that happen that you don't like. You are going to continue paying a price, and we're going to increase that price every opportunity that we get. We're not going to talk a lot about it. We're just going to do it. And then say to the Chinese, this is your guy, you own it, you live with it, and continue enforcing the reputational costs and the rest of it and stop. I mean there's a sense in which we're just, we're like puppets because of all this. And I don't see the end game. I don't see where it goes.

Now one of the questions--if you could address that--more of a comment than a question, but please address it. It seems, if I'm in the Chinese position, I'm not going to--if you screw the economic stuff down too tight, then what happens is--enough to overthrow this guy--then the problem is you don't know what he's going to do while he's going down; right? Plus what you don't know what's going to happen afterwards.

So it seems to me the two alternatives are either the current situation for the Chinese, as long as it's acceptable, or some kind of coup d'etat, you know, replacing this guy with their own guy, you know, as smoothly as you could do it. I've assumed all along that there are contingency plans in Beijing if necessary to try and do that.

So is that--but no one ever talks about it. So is there any possibility of that happening or is that--I assume that's the reason Kim is killing all these people or one of the reasons he's killing all these people, right, because he's afraid of that, too. He's figured out that's what they'll do if they do anything.

So would you comment on whether you think that might be a possibility? I mean who knows. But, but if you think that's where the Chinese will go if they decide to move decisively?

DR. SCOBELL: Well, we've certainly, we've played some wargames at RAND where Chinese do different things, and including one of the things you just mentioned, but those are games. We can get insights from those, but actually determining what China might or might not do or would or wouldn't do under certain circumstances is inherently speculative.

I would say that China is very much risk averse where the Korean peninsula is concerned. It really is, and, in fact, China's foreign minister has used this term--it's China's doorstep or the gateway to China. So this is a very sensitive piece of real estate, and, as I said, I think the level of frustration in China with North Korea has never been higher as long as I've been, you know, for several decades going to China, and you can even see it on Chinese social media.

I think the most hated country amongst Chinese is North Korea, hands down, and yet they're--and actually you can see this. Obviously China is not a democracy, but there is a significant amount of freedom of expression or ability, a space for Chinese to express themselves, and that includes analysts, professors, and ordinary, ordinary Chinese who are allowed to or permitted to voice their frustrations with North Korea.

But as you might guess, they also tend to take it a little further and then voice frustration with their own government. Why aren't you doing more? Why are you letting North Korea jerk us around so much?

So this is a sensitive issue, and it gets to something that Mr. Denmark mentioned, mentioned earlier. In a sense, North Korea touches, tugs at the sinews of political legitimacy of the Chinese Communist Party. So while there's no love lost for North Korea, if China were to walk away--hypothetical--then that--why did all those Chinese die? You know why did we sacrifice so much back in the '50s? So it raises very uncomfortable questions for China. I know I'm getting away from your question.

COMMISSIONER TALENT: Well, that's okay because Kim's like in the position of the borrower, is he not, who's figured out that he now owes so much to the bank that the bank can't afford to foreclose on him?

DR. SCOBELL: Too big to fail; yeah.

COMMISSIONER TALENT: Right? I mean he's the one, he really has the leverage, not, not the Chinese.

DR. SCOBELL: Right. So just to sum up, because I think the Chinese are so risk averse, and they're reluctant to do some of the things that you were mentioning, but under the right circumstance or the wrong circumstances, if things were to get worse, if, for example, there was--a war broke out in the Korean peninsula or, I think more likely, some kind of collapse, I mean North Korea I think is actually quite stable, but it's stable until it isn't stable. I mean think about the collapse of the Soviet Union. One minute it seemed to be, you know, the Evil Empire that was one of the two superpowers of the world; the next minute it collapsed with a whimper.

I don't think, I think, so I think it's possible that North Korea could collapse, but I don't think it's going to be a whimper. I think, I think it's very, even a collapse scenario where there is no, no serious conflict is very, very complicated and very, very worrisome for everyone, including China.

And under those circumstances, to plagiarize myself, you know, I've said, you know, China, China is capable of anything, of doing anything if it believes its own vital national security interests are threatened, and of course that's true of any country.

So even with that reluctance, that risk averse mentality, it under, if the situation gets much, gets significantly worse from a Chinese perspective, they will react, and while I agree

with my colleague, they're in reactive mode, I think they, they tend to be in reactive mode, they can react very quickly, and if--and so one, one last point--if something, if there, for example, a hypothetical collapse scenario in North Korea, in my view, who's most likely to move quickest of any of the outside, outside powers, I think it would be China, yeah, because (a) they're highly motivated and they've prepared, I think they've prepared contingency plans for this.

But also they're much, much better able to act quickly because they've got the resources right there, and, you know, compared to the U.S., we have to consult. We would have to necessarily consult with our allies, and that can happen relatively quickly, but not as quickly as the Chinese leadership saying, the Politburo saying go.

DR. HWANG: Andrew, it's not so much that I disagree with you about China being risk averse. But I don't think that's China's primary driver. I do agree that China's behavior is essential, prefers, you know, less risk than more, but again I go back to the problem with the Korean peninsula is only one piece of China's entire periphery. And I do think that that's how China views this.

So going back to One Belt, One Road, what China worries about is instability in Afghanistan and in Pakistan, and all of the other countries around the region. This is precisely why One Belt, One Road policy is really intriguing to consider because China's goal is to ensure that those regions are all stable. So the Korean peninsula is part of it.

DR. SCOBELL: It's a special one.

DR. HWANG: Yes, it is very special, agreed, and especially because of the very special geographic access that the Peninsula provides, and has done for several thousands of years.

This is why this emphasis on China's desire to build this neo-tributary state, I think, is so important because I do believe that is precisely what the broader strategy of China is.

Now we coming back to North Korea, the essential problem that we've had with North Korea, certainly for the last 20 years and actually the last four U.S. administrations because even President Clinton had to address this, is, what exactly is the source of the threat that North Korea poses?

Four. And I think this is exactly why we had the major problems in US-ROK relations in the 2000s under President Bush, and President Roh Moo-hyun and Kim Dae-jung, because there was a dramatic shift in the way the United States and South Korea each perceived the threat from North Korea. Throughout the Cold War, the threat from North Korea was North Korea's strength. It was the fact that it maintained a vicious military, the world's largest standing army.

It spent all, it's willing to spend all its resources. And then the nuclear weapons and the missile programs. These were all signs of strength, and, in fact, even its brutal humanitarian, you know, authoritarian system where it just brutalizes all these people and suppresses their freedom, even that was a sign of the strength.

That is what President Bush firmly believed, and that's what we were going after, especially in the era of post-9/11.

Kim Dae-jung and the Sunshine Policy changed all that, and it wasn't so much that they changed it, but North Korea changed that perception because of the famine in the 1990s. And so in the 2000s, the Sunshine Policy precisely was designed to address the threat from North Korea as North Korea's weakness. It was the fact that any day the North Korean regime could collapse. It had starved itself. It was on the verge of famine, and the nuclear weapons and missiles, just sort of its last attempt to prevent this.

But really the way you address that threat then, if its weakness, is to shore up the regime.

Now that doesn't make sense from the U.S. perspective in the 2000s. You don't shore up a regime that's intent on building up weapons and so on. So there was that problem, and I think for ten years that was essentially why the US-ROK alliance was in such trouble because we couldn't agree on the policies to address the sources of the threat.

Now, then, we fast-forward to under President Obama and President Lee Myung-bak and Park Geun-hye, I think there began to be agreement that actually it really was the problem is with the strength because, again, North Korea's concerted efforts to rapidly expand its nuclear and missiles program.

And now here we are today, and now the real question becomes what does China view as the source of North Korea's threat? And I think China does view it as North Korea's weakness, and that's why I think that nuclear programs and the missile programs are a lower priority for China.

So China insists, oh, we absolutely don't want a nuclear North Korea. I think that's true. I think China prefers a non-nuclear North Korea, but mostly because what China fears is a long-term eventual fact that the Korean peninsula could become nuclear, unify, meaning eventually the entire Korean people, including the South, might want nuclear weapons. That's what China doesn't want.

But in the short term, it absolutely fears instability of regime collapse, which is exactly why it continues to provide the minimum amount of economic aid.

The question is now what does South Korea view, and I think again with the new president in South Korea, I think we're returning back to this idea that it's really the weakness of the regime, and if we can convince the regime that we're willing to support it and woo it away from China, then maybe it's willing to give up its nuclear weapons. I think that's President Moon's strategy.

The real open-ended question becomes what is, what are we here in Washington thinking? And President Trump seems to have focused on North Korea's strength. It seems to have honed in on the nuclear weapons and really, really--I mean it's elevated that as United States' most important security threat globally.

So, but what we're seeing is we have a strategic difference in the way that China views what North Korea's threat is, the source of that threat, and probably how South Korea views it as well, and I don't think there's any kind of agreement whatsoever yet.

COMMISSIONER TALENT: Thank you.

DR. SMITH: Senator Talent, let me just add two responses to your comment. I think for U.S. policy, we thought that North Korea was containable. I think the Chinese thought that North Korea was containable. Certainly the Japanese saw it as a problem over there on the other side of the sea that shall not be named at the moment.

[Laughter.]

DR. SMITH: But I think that assumption is breaking down. I think it's breaking down in Beijing as much as it's been broken down in Tokyo and here in Washington. So that means what do we do? It's no longer about what China can do alone. It's going to have to be a regional security response in my view. How we get there from here I think is not so clear, but I think we need a regional approach.

The second piece is, of course, what we were all talking about initially, and that is the North Korean threat to the allied defenses. Even if we don't openly acknowledge North Korea as a nuclear power, but let it be and raise the bar for deterrence, what we're really talking about

increasing the military capability of both South Korea and Japan; right?

And so Dr. Hwang can talk more about South Korea, but I'll discuss Japan. What we're seeing happen is China responding to the increase in allied capabilities—rather than on North Korea's behavior. We're seeing Chinese response. And the THAAD response to me is puzzling because I don't, I mean we can talk about THAAD for a long time, but if that scenario of let's let the Chinese respond, we would assume the Chinese would then assert some influence on Pyongyang to lower the temperature. That's not what's happening.

What they're doing is asserting pressure on South Korea, and they're going to, I can bet you a lot of money, that when we start talking about conventional strike for the Japanese, you'll see a very similar and much heightened political response and an effort to try to dissuade Washington from assisting Tokyo in beefing up its capabilities.

So what I think Beijing's response is, is not to turn its gaze on North Korea to dampen its behavior, but to try to put pressures on the alliances in Northeast Asia and to weaken our ability than to help our allies defend themselves.

So we are in this strategic situation today that's not just about the peninsula. It's about this larger context of China's rising power and its willingness to assert that power.

COMMISSIONER TALENT: Thank you.

HEARING CO-CHAIR CLEVELAND: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you all for being here.

And, Dr. Smith, to your last point, looking at some recent numbers, in April, the sale of South Korean vehicles in China dropped by 60 percent. I doubt that's simply because of public anxiety but probably some sponsorship by the state.

So I agree with the assessment that China is going to exert its influence, and I think they see somewhat of a policy gap in terms of the U.S. role in the region, that they see conflicting messages from the military versus the White House, military state versus the White House, and we are, as you know, a commission that advises Congress.

DR. SMITH: Yes.

COMMISSIONER WESSEL: And would welcome thoughts about what specific steps do you think Congress should either be taking or urging the administration to take in terms of whether there's a vacuum, whether there is missed signals or lack of a coherent policy? What should we be doing now differently, if anything, than is being done?

Dr. Hwang, you appear to be most interested in speaking so please start.

DR. HWANG: No, I think this is absolutely crucial, and one thing I hadn't had a chance to say in my statement here was talking about the economic arrangements in East Asia, and I think the U.S. decision to pull out of TPP, that's exactly one of the vacuums that are being signaled to China.

And we certainly know that it was a big blow to Japan because Japan viewed this far more than just an economic arrangement. It was crucial for Abe, not just for domestic reasons to advance reforms, but because it was a signal ultimately of the U.S. presence, and not only U.S. presence, but the ability of surrounding Asian countries to band together to provide some sort of counterweight to China.

So, unfortunately, pulling out of TPP is a gift to China, and so one thing that Congress should do is--

COMMISSIONER WESSEL: But what now? You know--

DR. HWANG: Right. So--



COMMISSIONER WESSEL: The public and the president have spoken out on that.

DR. HWANG: Right. So that decision has already been made, but I think now what is up next for negotiation is apparently the KORUS FTA--the U.S.-South Korea. And now we're coming up to there will be a summit with President Moon in Washington at the end of this month.

I think it's absolute--I think actually both presidents might want to--I'm not sure that President Moon necessarily wants to keep it because he is, he is the inheritor of president--no--and ideologically they were never happy necessarily with KORUS FTA, and it might be something that they're willing to give up.

So I think that Congress needs to decide whether or not KORUS FTA is crucial for the U.S. economy and also for the U.S. presence in Asia. And I think that Congress needs to decide. I'm certainly not sure what the answer is, but KORUS was approved, and it has been working for five years, and I think the reason why the U.S. Congress, as divided as it was about the free trade part of it, was because it meant more than just free trade.

It really was a signal of an expanding strategic relationship with South Korea. So Congress needs to make a very, very firm statement about whether they think it needs to stay or be renegotiated, and I think that will actually help provide some measure of confidence, you know, and perhaps it may even put pressure on the South Korean president or certainly the South Korean public.

DR. SMITH: I think it's a great question, and I think we can answer it at the meta-level, which is, the last thing the United States wants and should do in Asia is separate its economic negotiations from its strategic assessment of its interests. And so I agree on the Trans-Pacific Partnership --we have withdrawn so I'm not going to beat that horse although I did think that was a mistake.

What I think where we are today is, and I don't know yet what this administration is going to do in terms of the bilateral negotiations either with Korea or with Japan, but I think it's important for Congress to explore some of the ways in which the negotiations during the Trans-Pacific Partnership can be renewed with some of our partners in Asia.

We don't have to embrace that particular instrument, but we do have to continue to remember that the partnership with Japan and ostensibly the partnership with Korea and with others around Southeast Asia, Vietnam, others, is not just about our military, and our willingness militarily to stay engaged, it's about our investment in the region and our long-term staying power, and that is largely expressed through our economic investment and trade.

So if you are sitting in Asia and you're looking at the United States, you are seeing an America that is no longer interested in long-term, sustainable American leadership in the region, and that is terribly destabilizing in and of itself.

So the consideration I would suggest to Congress is that whether it's a bilateral frame or a multilateral frame, set that aside for now, but we should consider what we want to signals and the ways in which American economic interests can be engaged to ensure that we are economically deeply embedded not only in China, but in Vietnam, in Southeast Asia, and with our partners in Tokyo and Seoul.

One thing I will say that the lessons the Japanese have learned--remember the Japanese since 1978 have had, you know, embraced economic interdependence with China as a way of overcoming their very difficult past. The Chinese did, too--for a time. China is changing. It now has economic influence and power. It's quite willing to use it, and we've all referenced that

here today.

I think the United States needs to think a little carefully about just how much interdependence we are going to be willing to tolerate with China and how that interdependence could in the end expose us to the same kinds of use of influence on our decision-making as it has on Japan, and it has on very smaller, much more weaker, economic countries like the Philippines.

China has been very consistent over the last decade. It has no hesitation to use its economic interdependence as a way to pursue its strategic interests, and I think there needs to be a fairly wholesale look at that in terms of our engagement going forward.

DR. DENMARK: Thank you for the question. I have a few thoughts. I'll go quickly over what I provide in my written testimony and then maybe contribute to that, add on to that a little bit.

The first recommendation for the Congress, I think, would be to support efforts to enhance U.S. military posture in the Korean peninsula and in the region. THAAD is an example. I think it's not the final example of the United States military adjusting its posture to ensure that it has the ability to defend itself and its allies.

As the North Korean threat evolves, we're going to need to make sure that we have the capabilities in place, we have the resources in place necessary, we have the people in place necessary, to fulfil our mission, both militarily and I would also add diplomatically and economically.

So in addition to all the stuff about economics that I would sign on to, I also think that the Congress has an important role to ensure that our military and our diplomacy is appropriately resourced but also ensuring that the Congress is doing its appropriate oversight function to ensure that we have the people in place necessary.

The president has said that he sees North Korea as a primary, if not the primary, security threat to the United States, yet we have no ambassador to Korea, we have no assistant secretary of state for East Asia, we have no assistant secretary of defense for Asia Pacific. To me, if these are actually serious threats, then we would make sure that we had the people in place necessary to implement policies necessary. So that would be my first piece.

Second would be I think Congress has an important role too. And this is a bit in the weeds--but I just spent the last two years in the engine room of alliance management so if you'd pardon my mixed metaphors there--enhancing our ability to support the modernization and improvement of our allied militaries in Korea and in Japan. This goes to export licensing on the transfer of technologies to ensure that our allies have access to the capabilities they need, the military capabilities they need, as well as the security systems they need, to better defend themselves, I think is an important piece, and I think the Congress could have another role, a large role in playing.

Third, and we haven't really gotten to this in this conversation so far, but the president has said that he prefers a diplomatic approach and solution to the North Korea issue, and we have known for decades that any negotiation with North Korea is going to require concessions on both sides, and in the past, concessions have not been something that the Congress has been all that excited about accepting.

In fact, there's an argument that has been made that one of the reasons the Agreed Framework from the 1990s was not successful was because the Congress was not willing to fund certain aspects of what had been conceded to the North Koreans.

So I said the argument could be made. So supporting any administration, be it the current one or a future administration, in its efforts to negotiate with the North I think would be helpful.

And, finally, and this is going to something that Sheila made, this goes to the topics of trade and China more broadly, is preparing and ensuring that the United States is prepared for long-term competition, strategic competition, with China--ensuring that not only on the economic ground but also on the military realm and the diplomatic realm that we are doing what needs to be done in order to compete effectively with China in the Asia-Pacific and around the world.

This means that sometimes accepting that trade agreements are not entirely about trade or that decisions on technology transfer are not entirely based on a specific technology transfer. But understanding the geopolitical signal that we've been seeing for a long time that we're in a long-term strategic competition with China, whether or not we acknowledge it, and making the decisions, making the investments necessary to ensure that we are successful in that competition I think are especially important, and I think it's important for the executive branch to acknowledge, but I also think that the legislative branch and the Congress has an especially important role to play in ensuring that that competition is enabled and prepared and appropriately resourced.

Thank you.

HEARING CO-CHAIR CLEVELAND: So Mr. Denmark, I'm going to assert my chair privilege here and just say briefly that my father was the fundraiser for the \$40 million oil fund for the North Koreans, and I staffed Senator McConnell, and it was an ugly Thanksgiving when we cut off funding. However, he recently acknowledged that part of the reason that the effort failed was because of the duplicity of the North and not abiding by the terms of the Framework Agreement.

So I don't want to oversimplify that the Congress is unwilling to fund when, in fact, there certainly was skepticism, considerable skepticism, both within my family and more broadly, but I don't think it's fair to say that the Congress simply didn't fund. I think that there were substantial violations and concerns by the North that led to the fuel fund not moving forward.

So I don't think this is worth relitigating. It was, as I said, an ugly Thanksgiving, and I'd like to keep it in back history. So on to--

[Laughter.]

HEARING CO-CHAIR CLEVELAND: --Commissioner Stivers.

HEARING CO-CHAIR STIVERS: Thank you. Thank you, Commissioner.

Staying on the North Korea issue, it's an incredibly difficult foreign policy issue to make any progress on. We've seen successive administrations, the best thinkers, Republicans, Democrats, try to come up with a plan to no avail. We can't ignore the nuclearization of the North Korean peninsula, but it's also difficult to put any kind of pressure that's going to work on North Korea.

So Chinese officials have stated that they think the answer is restarting the Six Party Talks or some sort of multilateral talks. In your view, under what circumstances would you advise entering into direct talks, and as Mr. Denmark alluded to, what would an eventual solution look like? Maybe we could talk with Dr. Scobell and then go to others who would like to chime in, if that's okay?

DR. SCOBELL: As you mentioned, this is a very complicated problem. If it were easier, it would have been solved by now obviously. And I think the different sides are looking for

quick fixes, excuses, and so I think both China and the United States to varying extents at various times are prone to pointing the finger at the other and outsourcing the problem. Like, you know, you created this problem or you're exacerbating this problem, you fix it.

And I think there's some truth to that, but at the end of the day, it's not just a U.S. problem, it's not just a Chinese problem obviously, and so logically then it needs cooperation, coordination to make progress.

But what is the way forward? I think the most important thing is to figure out what is the top priority of the United States? What is our strategy? And that involves, you know, yes, getting some experts together but also getting consensus within the administration, with the Congress, about the best way forward, what the most important things are we want to accomplish and how best to achieve those, and so getting domestic consensus is really important and then building an international consensus. Easy to say, obviously difficult to do.

But so one issue is goals. The other is mechanisms. What mechanisms do we use? So, you know, pressure, yeah. I mean ratcheting up the pressure. That's not necessarily a bad thing, but if that's all you do, then that either won't have any effect because North Korea just doubles down, and some of the pressure points we use hurt the ordinary people of North Korea more than the elites.

But, you know, when you're wagging your finger and applying pressure, you also need to suggest some fruitful avenues forward or some good behavior that you'd like or signaling that you'd like to see. And so we can't do one at the expense of the other. Carrots and sticks are required.

I'm not suggesting we reward bad behavior, by the way, but I've heard the Trump administration policy on North Korea described as maximum pressure, you know, the era of strategic patience is over, but what is it being replaced by, and maximum pressure sounds good, but the actual application of that policy, implementation of that policy needs to be I think bit more nuanced.

So what are the mechanisms we use? One possibility is, and it seems a logical one, is you need a multilateral mechanism. You know, you could try bilateral, and they're not mutually exclusive. So if you use a multilateral mechanism, what do you do? Do you start all over again? Start from scratch? Or do you try and go back to some existing agreements and breathe new life in, try to breathe new life into the Six Party Talks?

I think there are some advantages to not starting from scratch. There are some advantages to leveraging China. On the one hand, we've talked about the frustrations that the U.S. has had with China.

On the other hand, there are some ways to leverage China and China has a sense that it's invested some-it's got some reputational costs here from the collapse of the Six Party Talks, and you can exploit that if the U.S. determines the multilateral way is the best way to go.

And then we can also try and hold North Korea accountable for some of the agreements that it signed. But I guess one last point, and that is we can certainly be clear about the ultimate goal being, you know, the denuclearization. I think realistically is that going to happen any time soon? So we need to think about stages or phases and perhaps a more realistic short-term goal is a freeze on the North Korean nuclear program. But that's obviously very contentious.

HEARING CO-CHAIR STIVERS: Any others? Dr. Hwang?

DR. HWANG: Actually we all keep saying the problem is so complicated. It's actually really not. There's one very simple solution, and there's one very simple source of the nuclear

problem. It's the North Korean regime itself, which is why I actually think that the nuclear weapons, the nuclear problem, is really not "the problem." It's really the symptom of the real problem, which is the existence of the North Korea regime.

Now what is very complicated, and I certainly don't profess to have the answers or responses, the reason we've been struggling for at least 20, 30 years over the nuclear issue -- certainly for the last 70 years, and why we still have a military presence in Korea and why we even had this horrible war in 1950, is precisely because addressing the source of the problem, which is the existence of the North Korean regime, is in fact extremely complicated.

And I don't think that is anything that any of the surrounding countries have been willing to really address, and here we are. This is exactly why we're here today, precisely because China, again for all the reasons already mentioned, is willing to sponsor and keep that regime afloat.

Now, from my conversations with the Chinese, it's my understanding that there's no interest in China of going back to the Six Party Talks. I think what now China is emphasizing once again is multilateral, but I think it's very clear that China is stressing some sort of combination of, you know, encouraging the U.S. to have talks with North Korea, but this time it wants to be present.

We certainly tried the two party talks, which was the Agreed Framework in the '90s. I don't think China is willing to accept that. I think China wants to be at the table. The real question is what South Korea's role is? And I actually think that the end--you had asked what is sort of the end vision or the end way in which we get there--I think ultimately this has to be driven by the two Koreas.

Now this is something that North Korea does not want. North Korea wants to sideline South Korea, and the reason is this. The reason is ultimately North Korea wants -- and it's also one of the reasons it wants to develop nuclear weapons - to be able to talk to the United States at the same level, essentially because it wants the United States out of the region. It wants the United States off the peninsula but out of the region.

And I should remind everybody that I think that goal also serves China's interests. I think China also wants the U.S. out of the region because it comes back to China wants to be the dominant influence and power in the entire Asia-Pacific.

DR. SMITH: I don't have much to add to my colleagues, but I would just share a couple of observations from somebody who has watched this for longer than I'd like to admit publicly.  
[Laughter.]

DR. SMITH: You know we've had various vehicles for negotiating, and we've had the North-South dialogue, which I think is always the fundamental basis of any kind of framework, multilateral or alliance-led frameworks. We've had the TCOG effort led by former Defense Secretary Perry, an alliance-first effort initiated in the 1990s, and then the Six Party Talks.

We could have all of those mechanisms overlapping each other today, and I still think we'd be confronted with the same reality, which is a Pyongyang that seems uninterested in denuclearization, especially a negotiated denuclearization.

That doesn't mean, however--and the Council on Foreign Relations has a task force report, and as do many others in town, right--that we shouldn't keep the door open. However, I don't think we should stop there in designing our response, and I think what's happened is as we get closer to this possibility of an ICBM, we get closer to this idea of we have to get our allied defenses shored up. We have to have a better conversation with China about what happens if

there is a conflict of some sort, either internally generated within the North or as a result of a North Korean provocation.

We have to continue to knock on the door with China. That doesn't mean we have to compromise our – or our allies' interests – in a negotiated approach with Beijing, but it's a conversation that we need to try to continue to press forward.

That doesn't mean that diplomacy shouldn't happen, but I think in terms of conditions, I would have some overlap. I wouldn't think that there's one magic bullet. We have various tracks, and we have to be able to walk and chew gum convince President Moon that we need him to be at the table and closely engage if he decides to reopen a conversation with the North.

We've got to get our allies so that Japan isn't anxiety-ridden about being left out of that conversation. So that's a lot of alliance management, the kind of work that Abe and others in the government have been doing.

But I do think it's as important as our conversation with Beijing. We were in Seoul just before the election and had the honor of chatting with General Brooks, who I think is remarkable frankly—as our commander on the peninsula. He said something, it doesn't speak directly to negotiations, but he said that we have to switch it up. We have to raise the costs to Pyongyang. We can't keep saying, okay, we'll deter, and then we'll take a pause and talk. We should be able to do both at the same time.

I don't know what the Trump administration is planning or talking about internally. We should raise the costs and we should do that through our alliances while still trying to use these various vehicles. At the very least, however, we have to have a Pyongyang that's interested in sitting down for that negotiation. I'm not persuaded that's where Kim Jong-un sees his long-term interests.

DR. DENMARK: If I could just chime in. I agree with what's been said before, especially about how terrific General Brooks at USFK is. One of the great honors of my previous position was having the ability to work with such a terrific general.

Generally speaking, negotiations, both sides have an idea of what they're trying to get to and have a general sense that they agree on the end state. The negotiation is a mechanism on how to get to that shared end state.

The challenge that we face is that the United States and North Korea have diametrically opposed end states about what they want to get out of that negotiation, which is why in the past when North Korea has reached out and said we want to talk, and the U.S. says happy to talk, but it has to be on the conditions of your previous commitments to denuclearization, and they say "no thank you very much," why those things haven't really gotten off the ground, because we have such diametrically opposed end states.

Just two reactions to what's been said in the past. I do think that more has been made than I think is warranted about the difference between the Trump administration's approach, at least as best as we can tell now, and the Obama administration's approach. People stopped talking about strategic patience fairly early on in the Obama administration.

The era of strategic patience ended a lot earlier than I think people say that it did although the Trump administration is certainly making an effort to say that it's a clean break. I think especially in the latter years of the Obama administration, you also saw a great deal of effort to increase pressure on North Korea so I actually see a great deal of continuity between where the Trump administration has started and where the Obama administration ended up.

And of course there's some nuanced differences, but I think there's also a lot of

continuity. We have yet to really test the hypothesis that greater pressure on North Korea will get them to change their approach. I'm personally skeptical, but it's an open proposition. There are several other examples of countries that have faced greater international diplomatic and economic isolation than North Korea does right now.

But I think it's worth testing that hypothesis by increasing the economic and diplomatic sanctions. But, as has been discussed, we also need to think about if that pressure doesn't work, how do we react? What are those options? Of course, it's certainly open to speculation. Again, as a person who spent his time in government in the Defense Department, I haven't been entirely focused on which specific mechanism is the right one.

One of the nice things about the Six Party Talks is that everybody that you want to be there is there so you can break off into little groups, depending on what you need to talk about, but overall this comes down to just direct talks between the United States and North Korea.

China has proposed recently a dual track approach in which we negotiate an armistice at the same time as negotiating a denuclearization, and they've added another dual track piece to it. It's a dual track on the dual track saying that the United States as an initial step should stop its major exercises with South Korea in exchange for North Korea not doing its nuclear tests and missile tests, which I frankly find to be a ludicrous suggestion, in that missile tests and nuclear tests violate multiple U.N. Security Council resolutions and destabilize the region, whereas our annual exercises stabilize the region and do not violate any form of international law that I'm aware of.

So I ultimately think China's position is that, America, this is your problem, you need to figure it out, just make sure we're at the table when you do, thank you, but so far I don't think they have any other bright ideas compared to where we are because of the diametrically opposing positions of the two main actors, the United States and North Korea.

HEARING CO-CHAIR STIVERS: Thank you.

CHAIRMAN BARTHOLOMEW: Thank you. And thanks to all of you for appearing here today.

A couple of comments to start with. First, Ms. Pelosi, who I worked for at the time, was Ranking Member on Foreign Ops, and we were going through the funding fight that Robin's dad was fighting for, and I always wondered about just how awful that Thanksgiving dinner was. So--

[Laughter.]

HEARING CO-CHAIR CLEVELAND: We still talk about that.

CHAIRMAN BARTHOLOMEW: So I have some sense of that. I was just in Seoul and Tokyo with our colleague, Larry Wortzel, and there were some very interesting things that we learned while we were there. One: I certainly came away thinking that North Korea is not going to denuclearize. So what we do with that, I don't know. To me, it's not just about survival of the regime, which people talk about, but it's relevance of the regime.

Who else would be paying attention to North Korea if they didn't have nuclear weapons and if they weren't firing missiles? It's about "the mouse that roared" frankly a lot of times I think about it.

Mr. Denmark, I hear what you're saying about sort of continuity of policy. I'd like to broaden our discussion a little bit beyond North Korea and go back to this whole issue of pressure on alliances. My concern is that our allies in the region are seeing this transition here in the context of what they are seeing vis-a-vis U.S. action or inaction vis-a-vis our other alliances.

So I can't just look at it like things are not going to be that different in the policy when we have people in the region who are wondering what does this mean if we are walking away from our NATO alliance? What does it mean for Australia? What does it mean for Japan? What does it mean for Korea?

I'm very concerned about that and it goes to the question of how do we make sure that people in Congress who recognize the importance of our alliances in the region continue to express support for that? They have been doing that, but I think that's a really important point.

I'm going to put another concept on the table. I don't think we need the phrase "neo-tributary." What we kept hearing was people were complaining about being "suzerainty." It was about being suzerain states. We heard that in Seoul. We heard that in Tokyo. So the phrase is out there.

What I find very interesting is about five years ago when we were in the region, there was a lot of talk about hedging a little bit of concern about the United States and everybody needed to get along with China, and this time we didn't really hear that, and yet at the same time there is uncertainty about U.S. presence in the region.

So how do we address this whole pressure on the alliances? It isn't just about North Korea. We do have a bunch of other issues and interests in the region, and how do we make sure that our allies recognize that we recognize the importance of those alliances?

We're having our next panel on Southeast Asia. It was very interesting to me this time that again in Seoul and in Tokyo-- people are really concerned. They recognize the importance of their economic relationship with China, but they really resent the retaliation that's been taking place, and they're really uncomfortable about the dependence of their economic relationship with China, and so they're interested in trying to expand.

Southeast Asia became really important in the discussions. Of course, it can't take the place economically, but how do we foster this sense of alliances at the same time that there's so much uncertainty. There's uncertainty about the U.S. policy. There's uncertainty about the new president--we were there after the election--comfort women has come back up. It's an issue.

There's so much uncertainty in all of those different angles. There's talk about nuclearization. And how do we position ourselves? I was surprised we actually didn't have to talk about TPP a lot when we were in the region, which was kind of a relief. But how do we make sure that we maintain our own interests in the region, and that we are not just held hostage to North Korea?

DR. SMITH: Wow.

[Laughter.]

CHAIRMAN BARTHOLOMEW: Do you want to start?

DR. SMITH: Do you want to go?

DR. DENMARK: Whatever you want.

DR. SMITH: You go ahead. I'll be right after you.

DR. DENMARK: First, I'll just mention how jealous I am that you got to travel with Commissioner Wortzel. I'm sure he's highly entertaining on the road.

COMMISSIONER WESSEL: Sometimes too entertaining.

[Laughter.]

DR. DENMARK: Our alliances, not just in Asia but around the world, alliances in which other countries depend on the United States for their own security is an essentially and fundamentally uncomfortable arrangement in that it requires constant reassurance of



commitment, of capability. I never expect to have the conversation with an ally of them saying, okay, I'm good, don't worry about it. That's just the price of doing business, and that's perfectly understandable, and we spent a tremendous amount of time and energy and resources in the Obama administration, I spent a lot of my time on efforts to reassure our allies in East Asia.

And they're certainly feeling a lot of pressure, and they do pay a great deal of attention to how we treat all of our allies. So I am not surprised at all that you heard a lot of questions about NATO in your travels to East Asia because they certainly see those issues as linked in terms of commitment and ask the question what does it mean for me?

Reassurance in any circumstance requires constant attention and engagement at the highest levels of government. It requires repeated interaction at lower levels, at the cabinet level, at the assistant secretary level, lower, lower, lower, even at the day-to-day engagements between our diplomats and military officials, to demonstrate the will and capability of the United States to defend them in extremis.

That becomes even more complicated as the capabilities of North Korea, the capabilities of China, continue to increase. So intensifying our diplomatic engagement, our economic engagement, our military posture engagement, is an essential piece of reassurance and was at the heart of the rebalance, and I think I'm still in a bit reserving judgment on the Trump administration about how they're approaching this. It's still early months.

We've seen some very positive signals. I think Secretary Mattis' trips to East Asia, most recently in Singapore, have been very reassuring I think for our allies, but they pay, they also pay attention to what the president says, to what other senior officials say. So there's a great deal of anxiety. There's a great deal of uncertainty.

And clarifying U.S. positions and ensuring that they understand those commitments, I think would go a long way. So the good visit that Prime Minister Abe had with President Trump early on I thought was very positive. I'm also looking forward to the visit that President Moon has as another opportunity to solidify those relationships.

But this is not a conversation that has an end is my overall point. In terms of the Congress, two other points I want to make--I think ensuring that in the Congress' role as an overseer, that the administration is making clear statements about its policies, about its commitments to alliances, that it recognizes various aspects of those alliance commitments, I think is very important. And I would include Taiwan in that as well.

And you also asked about how our allies are sort of reacting to this? There's a very complex academic formulation that I could provide you for that, but the broad, the broad strokes of it is that things haven't changed that much in the last six months of how allies are approaching this, is that they're looking to have good relations with China, they are looking to have better relationships with the United States, they're looking to have, they're looking to increase their engagement and the quality of their relationships with each other. You see a lot of engagement between Japan, India, Australia, Vietnam, and I would add Korea to that as well.

And fourth, they're building their own capabilities, what in the academic world we would call internal balancing, so that they have a better ability to defend themselves and respond. Dr. Smith mentioned Japan looking at missile defense and strike. But Korea, Australia, India, they're all looking at effort--the Philippines--they're all looking at capabilities to enhance their own ability to defend themselves.

DR. SMITH: Let me take a little bit of a separate--

HEARING CO-CHAIR CLEVELAND: Can I just say one quick thing?

DR. SMITH: Yes.

HEARING CO-CHAIR CLEVELAND: We have three commissioners who want to ask questions, and theoretically we're supposed to quit in about 25 minutes so to the extent that we can focus our answers, that would be superb. Thank you.

DR. SMITH: Thank you.

So let me try to answer a little bit on this pressure on the alliances. I think one of the things that I sense especially in the region in our allies, is concern about some of the rhetoric, especially the tweeting, from the president. This has been counterbalanced by the steady leadership that we've seen from Secretary Mattis and Secretary Tillerson.

So I think therein lies one of our dilemmas, to be quite honest, of the moment. So to the extent to which Congress can also steady the U.S. position, and I think your trips to the region, the CODEL that I went on with the Aspen Group, helps awareness that this reassurance is coming not just from the executive branch but also from the Hill. This is very, very important.

You know, we've always had a burden sharing debate in our alliances. I don't think we should resist that debate frankly. We should continue to have that. Alliance equities are what they are. I don't think we need to lead with them always, but we certainly need to continue to understand them, and I think in Japan at least you have a pretty ready partner in Tokyo.

I don't like trading off our economic trade arrangements with our security protections. When that becomes an overt way of dealing with our allies, we are weakening our alliances over time.

I also do not like holding back on Article 5 protection. Those are core American treaty commitments. We have a habit of saying them for a reason. It's not just to reassure allies, but it's to communicate to others who may want to test those alliances, and so I'm very sensitive to that, and I'm sure our allies in Asia are as well.

I think we have the burden of collective action in Asia broadly, not just Northeast Asia. Some of this has already been discussed, but in the maritime domain in particular. I'd like to see continuity between the Obama administration and the Trump administration, particularly on getting India and Australia and Japan and other partners in the maritime Asia to continue to work together to make sure that our sea lanes remain open, that trade and resources are accessible across the globe. I think that's a push that I would encourage Congress to continue to make as well because everything depends on it frankly. The economic health of the region demands it. That demands collective action, and it's also an American leadership challenge as far as I'm concerned.

One last point, very quickly, our allies don't always like each other, and that gets us back to your reference to the comfort women agreement. I think there is a particular challenge that we have right now in Northeast Asia, and that is a role Congress again can play consistently and constructively. In the presidential election in South Korea, no candidate supported the Japan-South Korea comfort women agreement. President Park and Prime Minister Abe did not meet for years because of this issue - except at the invitation of President Obama.

Moon has initiated what he calls "summit diplomacy," and I think it's a very constructive step. I think it's very important, especially for Japan and Korea relations, but I think there's going to be a role here for Congress in encouraging continued dialogue on war memory issues and to play a constructive supporting role in that relationship.

It is going to be tricky, and I hope that our new administration understands just how tricky that is. To echo what's already been said, we need people in positions in State and other

places who have experience with or at least understand the depth of difficulty we could face, but we have a role to play in facilitating the Japan-South Korea relationship.

HEARING CO-CHAIR CLEVELAND: Commissioner Tobin.

COMMISSIONER TOBIN: Thank you all for your written testimony and thank you, too, for the extended remarks just now that add to our thinking about North Korea.

Since the panel is about China and Northeast Asia, I want to focus my questions on two remarks, one by you, Dr. Hwang, and one by you, Dr. Smith, in the interest of time.

First of all, you spoke, Dr. Hwang, about the importance of focusing on the idea of China's periphery, and then you spoke about One Belt, One Road and the anomaly you felt of not having Korea there. So my question for you will be could you talk about that, and I understand Japan has decided to begin to become involved in One Belt, One Road? So perhaps you could speak about both those topic and what that means for the United States?

And, Dr. Smith, you mentioned the risk reduction agreement that President Xi and Prime Minister Abe have been working on, that they've had six opportunities to take that draft agreement further. Can you tell us a little bit more about whether you're optimistic, whether it's a matter of time before it's completed, and what that would allow and what this would mean for the United States, too?

So to Dr. Hwang first.

DR. HWANG: Yes, thank you for paying attention to the One Belt, One Road. It's sort of become my obsession in the last year unfortunately. What I think is very interesting--what's even more striking about One Belt, One Road is that once again, it does not include the Korean peninsula even though the main purpose strategy is to connect the farthest regions of the mainland to Europe all the way through Eurasia and essentially to stretch it out to the Pacific. By the way, it includes Africa along the way.

But Japan is an island, so the only way you actually connect to Japan is to go through the Korean peninsula all the way to the South, and then actually build essentially virtual bridges to Japan to include it and then into the Pacific.

So this is very striking. Now the question is why? I think it's because China has realized that it has had for the last 70 years its own particular contained strategy towards the Korean peninsula, and that has essentially worked, and I think that very recently, as has already been discussed, China is discovering that perhaps North Korea cannot be contained any longer because of its pursuit of nuclear weapons.

But the One Belt, One Road was announced at exactly almost the same time that President Park of South Korea announced her own East Asia initiative, and she also talked about rebuilding the Silk Road, but she was talking about connecting the entire European continent all the way down to the very bottom of Korea, to Pusan. I think that was her attempt to say that in order to have a complete integration of the European and the Eurasian and the Asian continents, it actually requires peace on the peninsula.

So that was her way around this. But interesting, it was, in essence, a competitive option to China's view, and China basically said, you know, that wasn't going to work.

Now it ended up self-destructing because, as we know, what happened to President Park, and I don't think President Moon is interested in really more of a regional or, much less, global view. And I think again he's going to be very peninsula focused.

COMMISSIONER TOBIN: So you think it might at some point shift from China's viewpoint?

DR. HWANG: I'm sorry? What?

COMMISSIONER TOBIN: Do you think at some point it will shift, that China will begin to add aspects of the Korean peninsula into their "One Belt, One Road" thinking?

DR. HWANG: Oh, yes, ultimately I think integrating the Korean peninsula is absolutely key to this vision, but I think China's not willing to do that yet because if it does, it gets back to this original problem. It has to then address nuclear North Korea, which is essentially acting as a way to block everything.

I mean the existence of North Korea is--

COMMISSIONER TOBIN: We're short on time so if I may.

DR. HWANG: Okay.

COMMISSIONER TOBIN: Thank you.

DR. SMITH: Okay. Thank you.

Just a comment on Japan and Central Asia. The Japanese have watched the Chinese build roads, bridges, ports and other infrastructure across continental Asia now for a couple of decades. And so Japan is seeking to counter in the near continental Asia where China is building to the North and South. Japan is building East to West. So you'll see a lot of the infrastructure building by the Japanese as a way of countering the ability of China to monopolize strategic routes on land.

And this is going to happen also I think with the OBOR. They're trying to counter just a little bit their access to Central Asia and beyond.

But your question to me was about the Japan-China risk reduction agreement, and thank you for that. The talks were initiated in November 2014, and they include a number of bureaucracies, including the Coast Guards and the Ministry of Education and Science and a lot of different agencies who have a piece of the puzzle of the East China Sea.

The Japanese and Chinese have differed on their maritime boundary, which is not a military problem. It's a problem, under UNCLOS, and so this has been for some time now. Risk reduction specific to the escalating military tension

COMMISSIONER TOBIN: Take us forward on it.

DR. SMITH: So taking us forward, we need leadership approval. What I understand from my Japanese colleagues is that the Chinese are insisting that the Senkakus be addressed in a way that they are acceptable to them. The way the Japanese have negotiated fisheries accords and until now is to leave the out; that little piece of terrain does not necessarily get defined as somebody's territory. You negotiate around it. So that's where the sticking point is.

I'm not sure that's a Japanese-only perspective. I have not had detailed conversations with my Chinese colleagues because they don't know really what the status of negotiations is.

But you need a leadership level decision to this forward, and I suspect if there is an agreement between Xi and Abe to meet and to summits, one in China, one in Japan, this year, then that's the opportunity to see this come to fruition. For the United States, I think it helps us if there's a mil-mil agreement in the East China Sea.

COMMISSIONER TOBIN: I do, too. Thank you.

HEARING CO-CHAIR CLEVELAND: Commissioner Slane.

COMMISSIONER SLANE: Dr. Smith, my interests are Japan, and the Japanese have figured out that no one can control North Korea, and that the Chinese are now running around to our allies in Asia telling them that United States is in decline, and they're not going to be there

for you, and they're developing heightened anxiety over our administration.

What do you see their national security in the future, and do you see them dramatically increasing their armaments to defend themselves?

DR. SMITH: Thank you. That's a little bit where I left off in my written testimony, which is the Japanese are particularly ill-prepared to deal with China alone. And to date, every time there's been an uptick in the sense of threat or a sense of geostrategic change in the region, has pulled closer to us, not farther away, so that goes back to the hedging comment made earlier. That's why you don't hear about hedging anymore.

But for Japan to be left to go it alone militarily, we would have to make that decision. I don't think Tokyo, short of a failure of the U.S.-Japan alliance to defend Japan, would seek an independent nuclear option. And that's one caveat we should always remember if feel the alliance has not defended them, let's just say in a Korean contingency, we have done something else to accommodate Chinese strategic interests, hampered or impinged upon Japanese strategic interests,

I don't think that's likely. So going on the assumption that we're not interested in allies anymore or we're going to pull back the Japanese will continue to want to closely with us. We are going to have this conversation on conventional strike and on how to bolster missile defenses because they do have a bit of a missile gap no and they are very worried about North Korea not understanding that problem that they need retaliatory capability to make sure Pyongyang doesn't miscalculate. I expect the alliance, not outside of the alliance.

But your question, so let's just go on the assumption there is no alliance. Yes, Japan will have to think very carefully about what kind of capabilities it would need to acquire. Everyone jumps to the nuclear option for Japan, but I think that would be a very slow decision-making path. Again, if Northeast Asia goes completely in a different direction and South Korea becomes nuclear, then, of course, the Japanese are going to have to move in that direction too.

The Japanese public may not want to, however. There may be a domestic stalemate there on that question, but I think if you see a real shift in the--I don't want to go back to domino theory here, but if you see a real shift where everyone else in Northeast Asia has nuclear weapons, Japan is going to have a very uncomfortable decision to make.

But, again, my first cut at your question is they will look to United States to continue to integrate and to expand our ability to operate together.

COMMISSIONER SLANE: Thank you.

CHAIRMAN BARTHOLOMEW: Senator Dorgan.

COMMISSIONER DORGAN: Thank you very much. It's really quite remarkable to listen to people that know a lot about a specific subject. I think you contribute a lot to this Commission, and thank you for being here.

Just one quick comment and then one very brief question. Dr. Hwang, you talked about North Korea, the problem being the regime. It seems to me the regime without nuclear weapons is a problem but not a threat. It seems to me the threat is the regime with nuclear weapons, and without it, North Korea is a bark without a bite run by sort of half of a monster, but this nuclear weapon and the delivery systems for nuclear weapons is what causes it to be at the front of minds.

I want to ask a question. During the last political campaign, then candidate Trump opined, and I think more recently perhaps Rex Tillerson has also opined, that perhaps South Korea and Japan might acquire nuclear weaponry. When I heard that in the campaign, it

bothered me a great deal, and I was curious did it have at that point consequences in the region and is there still nervous anxiety in the region about that statement?

DR. SMITH: You want to go next? I just spoke so you should go.

DR. HWANG: Yes. I think Sheila is exactly right about Japan and going nuclear. With South Korea--and this is why I think Congress has a very specific role that it can play--I think it needs to reach out to its counterparts in South Korea, meaning legislature, also perhaps probably Japan, because I think South Koreans have a very different understanding about becoming a nuclear weapons power. It was very disturbing that four or five years ago, this debate has been going on in South Korea, that maybe South Korea should also go nuclear as a way to counterbalance North Korea.

By the way, sir, you're exactly right, the reason that North Korea is a threat is because it has nuclear weapons. Why? It's a very simple formula. What are threats? Threats comprise capabilities plus intentions, and North Korea has had the intention to dominate and overwhelm and essentially get rid of South Korea for 60 years.

But now that it has those capabilities, that threat is real so I completely agree with you. The problem is that I'm not so sure in South Korea that South Korean citizens have a proper understanding of what it means, first of all, why the North Korean nuclear threat is a problem, meaning that, in other words, South Korea has a different conception about what the value of the global Non-Proliferation Treaty is--the NPT.

And so that's why I think for, certainly for Americans but the rest of the world, North Korea going nuclear is not just about the threats on the peninsula, it's about threatening global nuclear proliferation.

South Koreans don't quite view it that way. So I think it's very important to start this dialogue now with the legislature in South Korea so that they can have a discussion with the people, to open up this broader understanding that it's not just an issue of, you know, now we should also have nuclear weapons to counter North Korea.

It's a problem for the global community, and I think that conversation is something that has to occur at the domestic public level and not just among the leaders.

DR. SMITH: Thank you, sir.

Let me, in the interest of time, try to be very brief here. After that comment by then candidate Trump, Foreign Minister Kishida, the Japanese Foreign Minister, very quickly said that Japan is a signatory to the NPT and continues to support that as the best option for Japan -- and the world.

So I think in terms of policy, that strategic choice has been made by Japan. I think what a lot of Americans don't know is that the Japanese government periodically reviewed the nuclear option over time. It did it when the Chinese acquired thermonuclear weapons. It did it again when it was making the decision about joining the NPT, whether or not the nuclear option would be better or worse for Japanese security, and of course it did after the end of the Cold War.

In all three of those moments, Japan, given its geography, not only where it is located but also the topography of the archipelago, the deep strategic depth is not. So, in their very technical review of the nuclear option, don't have a lot of options that would be good in terms of deployment of nuclear weapons, other than a submarine force.

But politically speaking, they have periodically reviewed there and I think one thing Congress is going to see in next year Agreement.

As you know, after the 2011 disasters and the meltdown at Fukushima, Japan's civilian

nuclear capacity has been severely curtailed. And so there's a stockpile issue plutonium, and we're going to have to have that negotiation again.

COMMISSIONER DORGAN: And I asked the question because we have a singular purpose for a long period in this country, and that is to stop the spread of nuclear weapons, and to shrink rather than expand the number of countries that acquire nuclear weapons, and it is becoming increasingly difficult, not easier--

DR. SMITH: Right.

COMMISSIONER DORGAN: --to do that. And I just, in fact, I note that there has been discussions about it both in the campaign and even since in recent months. So that's just a really important area that has a substantial impact on that entire region.

DR. SMITH: I agree. Japan has also been a very strong partner. The head of the IAEA is a Japanese so I think in the global regime maintenance and sustenance, we have good partners in South Korea and in Tokyo.

COMMISSIONER DORGAN: Thank you.

HEARING CO-CHAIR CLEVELAND: I get to ask a question. She likes telling me what to do. She has for 30 years.

[Laughter.]

CHAIRMAN BARTHOLOMEW: And you don't listen.

HEARING CO-CHAIR CLEVELAND: I do often. There are so many questions that are percolating, but I want to zero in on a very, very narrow point that, Dr. Smith, you made in your testimony about the Japanese only having a ten-minute warning of an imminent missile attack. And in light of Kim Jong-un's brother, the nerve agent, the assassination by nerve agent in Malaysia, and the use of chemical weapons of the Assad regime that Tokyo's concern about bio-chem threats, and that is literally something I've not heard discussed anywhere.

And Senator Talent has left, but he and I served on a commission that looked at this issue several years ago, and so I wonder if any of you could sort of articulate the nature of that problem, that we focus so much on the nuclear issue, I wonder if you all might address what I view as a potentially far more serious and maybe likely risk?

DR. SMITH: I am not an expert on either nerve or chemical agents, but the Japanese government worries about all WMD. That comment was made by Prime Minister Abe in the Diet, and it was made after the Assad regime had used chemical weapons the Trump administration had responded to that.

But I think what's also clear here is the Japanese have always looked at the missile threat from North Korea as their primary security concern. It's not that they're not worried about fissile material, but it's the ability to deliver that we've seen Pyongyang's use of that nerve agent in the assassination of Kim's half-brother, I think the Japanese are revisiting this question of what kind of agents could be put on missiles other than nuclear warheads.

I do think it's also useful to remember Japan has had a sarin gas attack, in 1995. The Aum Shinrikyo did that in the Tokyo subway system. At that point in time, they developed their chemical response capabilities. It is one of their primary concerns for trying to deal with anti-terror and threat to their own domestic citizens.

The coupling of North Korea's missile capabilities with the willingness of Kim Jong-un to continue to demonstrate his missile capabilities in large numbers make Tokyo nervous. They have only ten minutes or so of flight time ICBM Japan

DR. HWANG: Can I just very quickly say I think you're exactly right, and the chemical

and biological weapons exhibits the contrast with South Korea. South Koreans are the ones that actually worry about this the most. Why? And this again returns to the nuclear and missiles issue. Most South Koreans are convinced that these not the real threats to South Korea. It's obviously always been the conventional threats.

But now the best and cheapest way for North Korea to attack South Korea is to launch -- it doesn't even take ten minutes -- unleash a bunch of chemical or bio weapons into South Korean sewage systems or water systems. This is actually the most immediate threat to South Korea. And South Korea has really been taking it seriously.

The question is how much are we, the United States, and other allies willing to address this problem and assist South Korea in address the chem-bio issue.

HEARING CO-CHAIR CLEVELAND: To my knowledge, there's been no conversation of it, which is why I thought your testimony was interesting.

So I want to wrap up on that point, which is that, again, we're so seized with nuclear, but could the potential use of a chem or bio weapon, whether it's in a civilian water source or however it's deployed, is that a tipping point for China in terms of whether or not they see the desire for stability versus the risks associated with this regime's behavior? I mean would that change the game at all?

DR. SCOBELL: It's an interesting question. But from the research that I've done, there's more concern in China, a growing concern, about North Korea's nukes. It's more than anything else. And that those nukes can go anywhere. They could be used against China, too, and so there's public concern now, too, about when there's a nuclear test in North Korea, you know, is that radiation coming over the border?

But I think more than chem or bio, the most destabilizing dimension in all this emanating out from North Korea is missiles, because you've got a lot of missiles, and then you have to worry about missile defense, and for China, this is, you know, they always wonder is this about North Korea or is this about them? And that gets at the overall balance of power in Northeast Asia. From the Chinese perspective, it looks really bad.

The U.S. has the best allies, the most powerful allies, the most economically dynamic allies, and by contrast, what does China have? A pathetic excuse for an ally. And so that's, from a Chinese perspective, this missile, that's why THAAD is so worrying, and, you know, if Japan starts to increase its arsenal of missiles or at least its missile defense capability, that also worries China, and then you have just spiraling tensions in the region, and on that pleasant note, I'll stop.

DR. DENMARK: If I could make a couple points on this. I'm really glad that you raised the issue of chem and bio because we don't talk about it enough. I completely agree.

First point. We in the United States talk a lot more about ICBMs and nuclear weapons than our allies do. For obvious reasons. It affects us. It affects us more. Right now there are only two countries that have the capability to strike the United States with nuclear weapons-- Russia and China.

And I'm not comfortable with allowing North Korea to join that club, but our allies are focused on it because of what it means for American commitment and capability. They're having a lot of the conversations now in terms of developing nuclear weapons or other capabilities that our British allies, our French allies were having during the Cold War prior to their own development of nuclear weapons.

I'm also glad that you raised that first point. Second point. This is also a great recommendation for the Congress. The next time that General Brooks is here or Admiral Harris



is here or Secretary Mattis is here to ask how are we positioning ourselves, how are we ready to respond to potential chem-bio attack to South Korea and to Japan? What does that threat pose to you? Because we don't talk about it in the academic world, but it certainly is a practical issue that our militaries need to look at, and I think that's a terrific question both to get the answer, but also to inject that subject into the academic discussion that I completely agree has been lacking.

HEARING CO-CHAIR CLEVELAND: Well, let us hope we don't underestimate or miscalculate this pathetic ally that the Chinese have. And on that cheerful note, we will conclude.

I think we come back at 1:05. I'm not sure why 1:05 versus one, but we will adjourn until one, and thank you very much for your extraordinarily useful and diverse points of view. It was very helpful.

[Whereupon, at 12:06 p.m., the hearing recessed, to reconvene at 1:09 p.m., this same day.]

## **OPENING STATEMENT OF COMMISSIONER JONATHAN STIVERS HEARING CO-CHAIR**

HEARING CO-CHAIR STIVERS: Good afternoon. On this quiet day on Capitol Hill, our second panel will explore China's relations with continental Southeast Asia and comprising for the purposes of this hearing Burma, Cambodia, Laos and Thailand.

Southeast Asia is one of the largest, youngest, and fastest growing regions of the world. Taken together it is already the seventh largest economy in the world, and it is projected to be the fourth largest economy by 2050. Stability and sustainable economic development in this region is critical to future U.S. economic growth and U.S. jobs.

The four countries of continental Southeast Asia have economies that are connected and dependent on the continued growth and investment from China.

Across Southeast Asia, China is funding infrastructure projects that further its own economic and strategic goals. While the region is in dire need of investment, it should be noted that Chinese projects come with significant strings attached, including requirements that only Chinese workers and materials can be used, long-term debt obligations, designs that can create dependency instead of sustainability, and little in the way of social and environmental safeguards.

Further, the Chinese government has demonstrated that it will not hesitate to use economic coercion to pressure foreign leaders and governments.

In Burma, the Chinese-constructed Myitsone dam was widely opposed by the people of Burma due to its environmental impact and the unbalanced allocation of benefits to China. It is often cited as the "final straw" that led the previous military government to open up to the rest of the world and pursue democratic reform.

China also sees control of Kyaukphu port in Rakhine State on the Indian Ocean as key to its energy security strategy that would diversify its oil and gas imports beyond the Malacca Strait.

Most important, though, especially for Burma, China is an active player in Burma's peace process through its support for some ethnic armed groups and its connections with extractive industries.

China has a complicated history here that asserts peace and stability as a priority, yet China is selling weapons to many sides of the conflict and continues to serve as the main market for jade and gemstones and other illicit products that fuel the conflicts.

Cambodia and Laos have particularly strong relationships with China, which is their largest source of foreign investment and trade. In 2012 and 2016, Cambodia was the only country in ASEAN to block resolutions criticizing China's actions in the South China Sea.

Yet on the Mekong River, in particular, Chinese-built dams jeopardize the food supply of millions of fishermen and farmers downriver and protests have erupted and affected people in both countries.

Thailand has a long history of balancing great powers and is more diversified economically than the other three countries. Although Thailand is a U.S. treaty ally, China has negotiated several arms deals, including the sale of Thailand's first new submarine in 60 years.

China's engagement with countries in continental Southeast Asia showcases its growing influence and raises important questions about what U.S. strategic and economic policy should be in the region.

Speaking for myself, I believe that a strong and coordinated U.S. economic and diplomatic policy for Asia is essential to compete with China's growing investment in the region. There are different models for growth, and we want ASEAN countries to develop in a way that prioritizes sustainability, rule of law, good governance, and the environment, and, of course, the health, education, and financial systems that can build a stable and more prosperous future.

I look forward to hearing from our experts on how continental Southeast Asian countries have responded to China's growing influence, and how the United States can best support our values and interests.

I would like to thank you all for coming today, and a reminder, the testimonies and transcript from today's hearing will be posted on our website, [www.uscc.gov](http://www.uscc.gov).

**PREPARED STATEMENT COMMISSIONER JONATHAN STIVERS  
HEARING CO-CHAIR**

**CHINA'S RELATIONS WITH NORTHEAST ASIA AND CONTINENTAL  
SOUTHEAST ASIA**

**Opening Statement of Jonathan Stivers  
June 8, 2017  
Washington, DC**

Our second panel will explore China's relations with continental Southeast Asia, comprising Burma, Thailand, Cambodia, and Laos. China is exerting influence in this region on multiple fronts. In Burma, for example, China has inserted itself into Burma's peace process through its economic connections with extractive industries near contested territory. China has also leveraged its close ties with various ethnic armed groups and the Burmese military to pursue its strategic interests. In Thailand, a U.S. treaty ally, China has negotiated several arms deals, including the sale of Thailand's first new submarine in 60 years.

Across the region, China has funded infrastructure projects that further its economic and strategic goals. While the region is in dire need of investment—by one estimate Southeast Asia will require \$1.7 trillion in infrastructure spending—Chinese money often comes with social and environmental costs.

Protests against Chinese projects have erupted in Laos, Thailand, Cambodia, and Burma over economic exclusion and loss of livelihoods and communities. In some cases communities have been removed from lands near Chinese projects with little or no compensation.

Chinese projects also raise environmental and food security concerns. On the Mekong River, Chinese-built dams jeopardize the food supply of millions of fishermen and farmers. In Burma, Chinese projects such as the Kunming-Kyaukphyu railway and the Myitsone Dam have been suspended by the Burmese government over concerns regarding their environmental impact or the unbalanced allocation of their benefits to China.

China has clear objectives guiding its investment. Access to the Indian Ocean through Burma is a key strategic goal. China's trade, investment, and finance can also translate into political influence. In many cases we have seen Chinese influence in action. In 2012 and 2016, Cambodia blocked ASEAN resolutions criticizing the actions of China—its largest source of foreign investment and trade—in the South China Sea.

China's engagement with countries in continental Southeast Asia showcases its influence in the region, and raises important questions about economic development, security developments, and U.S. strategic interests in the region. I look forward to hearing from our experts this afternoon on how continental Southeast Asian countries have responded to China's presence in the region and how the United States can best support its values and interests.

I would like to thank you all for coming. As a reminder, the testimonies and transcript from today's hearing will be posted on our website, [www.uscc.gov](http://www.uscc.gov).

## PANEL II INTRODUCTION BY COMMISSIONER JONATHAN N. STIVERS

I'd like to introduce our second panel of experts and thank them again for their testimonies. First up will be Murray Hiebert, Senior Advisor and Deputy Director of the Southeast Asia Program at CSIS. Previously, he was Senior Director for Southeast Asia at the U.S. Chamber of Commerce. He also worked as a journalist in Kuala Lumpur and Hanoi for the Wall Street Journal and the Far Eastern Economic Review.

Mr. Hiebert will describe the economic architecture China is trying to create in Southeast Asia.

We will then hear from Ms. Yun Sun, who is a Senior Associate at the Stimson Center's East Asia Program. Previously, she was a Visiting Fellow at the Brookings Institution and an analyst for the International Crisis Group in Beijing.

Yun Sun will provide testimony on China's evolving relationship with Burma.

Finally, we will hear from Karl Jackson, Professor of Southeast Asia Studies at Johns Hopkins School of Advanced International Studies. Dr. Jackson has served as President of the U.S.-Thailand Business Council, Special Assistant to the President of the United States, and U.S. Deputy Assistant Secretary of Defense for East Asia and the Pacific. He was also Senior Advisor to the Executive Vice President at the International Finance Corporation and Senior Director for Asia at the National Security Council.

Dr. Jackson will discuss China's economic and security relationship with Thailand. I encourage all three of our witnesses to feel free to speak on any of the topics that we asked about as you all are experts on the broader region and China.

I'd like to remind you to keep your remarks to seven minutes so we'll have enough time for the question and answer session. Thank you very much for your testimony, and Mr. Hiebert, we'll start with you.

**OPENING STATEMENT OF MR. MURRAY HIEBERT, SENIOR ADVISOR AND  
DEPUTY DIRECTOR FOR SOUTHEAST ASIA, CENTER FOR STRATEGIC AND  
INTERNATIONAL STUDIES**

MR. HIEBERT: Thank you, Commissioner Stivers and Commissioner Robin Cleveland and other members of the Commission. It's an honor to appear before you today to talk about China's relations with mainland Southeast Asia.

China has long been active in providing aid and trading with its neighbors, but this trend has dramatically increased since Xi Jinping became Communist Party Chief five years ago.

China has a raft of different vehicles through which it provides aid, including through the Belt and Road Initiative, the Asia Infrastructure Investment Bank, et cetera.

For the most part, China's southern neighbors welcome and appreciate China's aid, trade and investment, and see it as playing a very critical role in their economic development. Yet each of these countries to varying degrees has concerns about China's growing economic clout in their countries.

Cambodia, under Prime Minister Hun Sen, is probably most comfortable with dependence on China, particularly when other donors like the U.S. and EU raise concerns about human rights.

In response to China's aid, Cambodia has at least twice blocked consensus within ASEAN in trying to hammer out joint statements criticizing China's assertiveness in the South China Sea.

In Laos, a ruling party congress last year replaced the Party chief and another Politburo member because other members in the Party thought that they were moving too deeply into China's orbit and were personally profiting too much from Beijing's largesse.

In Myanmar, at least part of the impetus for the reforms the military launched in 2011 can be attributed to concerns that the country was becoming too dependent on China for aid, trade, military training, and equipment.

The military junta realized it had to launch political reforms to get the U.S. and the international community to lift their sanctions so that Myanmar could diversify its economic and political ties.

Many of China's projects in Southeast Asia focus on infrastructure and energy to promote economic development among its less developed neighbors. To be sure, these projects also benefit China. They provide access to resources like timber and minerals. They boost market access for Chinese goods, and they help China unload some of its surplus steel and cement.

The projects also give Beijing leverage to compete with the United States and Japan in mainland Southeast Asia.

China has also in recent years started increasing, at least to some extent, its military aid, training, and exercises with countries to its immediate south. Because the U.S. reduced its military ties with Thailand in the wake of the 2014 coup, Bangkok has recently purchased some tanks and has put in an order for submarines from China.

In exchange for its aid and investment, China gets important cooperation from its southern neighbors. Besides Cambodia blocking ASEAN's statements critical of China in the South China Sea, Phnom Penh has also deported Taiwan nationals and Muslim Uighurs to China at the request of Beijing.

Laos has turned over Uighur asylum seekers to China. So has Thailand. In addition,

Bangkok has also repatriated Chinese nationals, including two dissidents last year that had been granted refugee status by the United Nations.

Although China's neighbors appreciate Beijing's aid, civil society organizations and some officials complain that Chinese projects often ignore the environmental and social impact of projects.

Farmers complain that they lose their land and get only meager compensation, and many citizens are frustrated that China's projects serve to line the pockets of officials. Officials in Southeast Asia say it is easy to sign an MOU with China, but it is only after that that China begins to negotiate the terms of the project.

For example, China has haggled for years with Laos and Thailand on railroad projects over interest rates and how much land Chinese companies are going to get as concessions on each side of the railroad.

Chinese treatment of the Philippines after 2012 and dealing with Singapore since late last year demonstrated to mainland Southeast Asia that Beijing can punish countries for defiant behavior.

Southeast Asia is obviously also critical to the United States. It has a large population of over 600 million people, a GDP of \$2.5 trillion. It is the U.S.' fourth largest trading partner, and the U.S. is the largest investor in Southeast Asia, much larger than its combined investment in China and Japan, Southeast Asia and India combined. On top of that it straddles the shipping lanes of Southeast Asia.

The previous administration stepped up its engagement with Southeast Asia through its rebalance to Asia and also through the Trans-Pacific Partnership. The Trump administration has not yet spelled out its strategic vision for the region and has not articulated how it plans to engage the region economically after pulling out of the TPP.

This creates considerable uncertainty about President Trump's policies toward Southeast Asia, and it is prompting countries to look increasingly for ways to move closer to China.

I'll conclude with a few brief recommendations. Southeast Asian countries are uncertain about where they fit into President Trump's geopolitical calculus so it's important that the new administration explain soon how important the region is economically and strategically to the United States.

Second, as China steps up its economic engagement, it's important that the new administration spells out how it's going to engage the region without a TPP.

Thirdly, on Thailand, President Trump has invited Prime Minister Prayuth to visit Washington, marking a significant shift from U.S. policy since the 2014 coup. Reengaging Thailand is important, but Washington should also nudge the military government to move ahead with holding the elections it promised and also provide political space and protection for human rights.

Fourthly, on Myanmar, the administration should arrange for Aung San Suu Kyi to visit Washington soon. The U.S. has appeared to be missing in action since the change of administrations, which has opened the door for China to step up its engagement.

And finally, the U.S. should keep engaging Laos and not totally abandon Cambodia despite Hun Sen's recent moves closer to China and reduce ties with the United States. Hun Sen won't be in power forever so it's important to build bridges to the next generation of leaders.

Thank you very much for this opportunity.

HEARING CO-CHAIR STIVERS: Thank you.



**PREPARED STATEMENT OF MR. MURRAY HIEBERT, SENIOR ADVISOR AND  
DEPUTY DIRECTOR FOR SOUTHEAST ASIA, CENTER FOR STRATEGIC AND  
INTERNATIONAL STUDIES**

**Hearing on “China’s Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

**China’s Economic Architecture in Mainland Southeast Asia**

China has long been active in providing aid and trading with its neighbors in mainland Southeast Asia, but Beijing has dramatically stepped up its engagement over the past decade and particularly since Xi Jinping took over as Communist Party chief five years ago. China has emerged as one of the top aid donors and foreign investors in recent years in the less developed countries of Cambodia, Laos, and Myanmar. Economic engagement with these countries, as well as with Thailand, has played a critical role in their economic growth.

China is emerging as an important new bilateral aid provider and, in contrast to traditional donors like the United States, Europe, and the international financial institutions, is providing this assistance without any conditions attached, except that a country does not harm China’s interests.<sup>94</sup> In addition to bilateral aid from central government ministries in Beijing and the provincial government in Yunnan, which borders Myanmar and Laos, Chinese national and provincial companies are deeply involved in projects ranging from infrastructure development to agriculture and mining to forestry.

Some of these projects are promoted under China’s multibillion dollar “Belt and Road Initiative” (BRI), an infrastructure development strategy proposed by Xi in 2013 that focuses on promoting connectivity and cooperation between China and countries in Asia and Europe. Xi likes to say OBOR will link countries into a “community of common destiny.” Its goals appear to be to expand Beijing’s strategic influence, give it a bigger role in global affairs, and link countries in an extensive network of trade.

Beijing established the Lancang-Mekong Cooperation (LMC) framework in 2013 to link the six countries along the Mekong River: China, Myanmar, Laos, Thailand, Cambodia, and Vietnam. The grouping is intended to promote cooperation on political-security affairs, economic issues and sustainable development, and social affairs and people-to-people exchanges. The LMC appears to be partial response to the United States’ Lower Mekong Initiative set up in 2009 and the Japan-Mekong Region Partnership announced in 2007.

China established the Asian Infrastructure Investment Bank (AIIB) in 2015 as a multilateral

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<sup>94</sup> For example, when the Philippines challenged China’s takeover of Scarborough Shoal in the South China Sea in 2012, Beijing punished Manila by cutting off imports of bananas and other farm products. After a new Philippine president who was more sensitive to Chinese interests took over last year, Beijing quickly offered Manila billions of dollars of infrastructure development projects.

development bank aimed at supporting infrastructure construction in the Asia-Pacific. The countries of mainland Southeast Asia are members of the bank, but only Myanmar has received a loan from the AIIB so far.

China is also a strong supporter of the 18-nation Regional Comprehensive Economic Partnership (RCEP), which is led by the 10-country Association of Southeast Asian Nations (ASEAN) and excludes the United States. RCEP seeks to harmonize existing trade agreements between ASEAN and six regional countries, including China, reduce and harmonize tariffs, and promote regional economic integration. RCEP is often viewed as a competitor with the much more ambitious 12-country Trans-Pacific Partnership (TPP) in which the United States was a key player.

For the most part, China's southern neighbors welcome and appreciate China's aid, trade, and investment and see it as playing a critical role in their economic development. Still, each of the countries to varying degrees has some concerns and complaints about China's growing economic clout in their countries.

Myanmar by 2010 was concerned by its near total dependence on China's largesse after the United States, European Union, and most western donors had imposed sanctions against the ruling military junta. After a new reform government took office, it suspended work by a Chinese investor on the \$3.6 billion Myitsone dam near China's border in 2011 in response to domestic protests about the hydropower project's potential environmental damage. Protests in 2012 and 2013 also forced the temporary closing of the Letpadaung copper mine jointly operated by a Chinese arms manufacturer and a Myanmar military company. Villagers claimed their land had been unlawfully confiscated by the mine's operators.

In Laos, a ruling party congress in January 2016 replaced the party chief and another politburo member who were viewed as moving the country too deeply into China's orbit and personally profiting too much from Chinese projects. They were replaced by officials who were closer to Vietnam and more international in their foreign and economic policy outlook.

Thailand, the most developed of the mainland Southeast Asian countries, has long benefitted from trade and investment ties with China. More recently, Beijing has also become more involved in giant infrastructure projects in Thailand, as the two countries moved closer since a 2014 military coup. Construction of the \$5.2 billion, 540-mile Thai leg of a high-speed railway from Kunming to Singapore is finally expected to start this year after more than two years of negotiations between Chinese and Thai officials to hammer out disputes over the project's terms.

Cambodia under Prime Minister Hun Sen is probably most comfortable with its dependence on China, particularly when other donors like the United States and the European Union are scaling back in response to concerns about human rights violations. In response to China's aid and investment, Cambodia has at least twice blocked consensus within ASEAN in trying to hammer out joint statements criticizing China's activities in the South China Sea.

## **China's Projects in Mainland Southeast Asia**

China is working hard through its infrastructure and energy projects to demonstrate that it wants to be a reliable partner promoting economic development among its less developed neighbors. To be sure, China also benefits when its neighbors become wealthier and can buy more Chinese products, which are more easily moved to markets as infrastructure is improved. Many of these projects also make it possible for China to unload its giant domestic surpluses of steel and cement, and employ Chinese state-owned companies and workers who no longer have prospects in China's overbuilt domestic infrastructure and construction markets. China's increased involvement in the countries to its immediate south also provide Beijing an opportunity to compete for economic, political, and strategic influence in this region with the United States and Japan.

China's no-strings-attached model of aid is particularly attractive to Cambodia, where western donors have reduced aid to press the Hun Sen government to make improvements on human rights. In fact, China's aid in Cambodia seems targeted at least in part at supporting the government of Hun Sen, who in exchange for aid is willing to promote China's views within ASEAN, particularly on the South China Sea.

China's aid traditionally has not been used to press for domestic political or economic reform as has that of the United States and the European Union. Until recently, Chinese aid also was not concerned with the environmental and social impact of projects, but that appears to be changing in the wake of the protests that erupted around Myanmar's Myitsone dam project in 2012. Southeast Asian countries receiving Chinese aid and investment also complain that China imports its own workers and suppliers rather than using locals, transfers few skills, ignores corrupt practices in their projects, and is insensitive to land expropriation without fair compensation.

In recent years, Chinese officials have started talking about the need for "a more balanced and holistic development" approach. Officials appear to be urging Chinese companies to make a greater commitment to promote social responsibility and work with civil society organizations and target communities to increase accountability and transparency and better understand local needs and expectations.

For the most part, China's development projects in mainland Southeast Asia have worked independently from international financial institutions and western aid donors. However, that may change now that the AIIB has started making loans. Of the 13 loans approved by the AIIB only one is in mainland Southeast Asia, a \$20 million project for a gas turbine in Mandalay, Myanmar, that was structured in cooperation with the International Finance Corporation, the Asian Development Bank, and some commercial lenders.

Japan, particularly under Prime Minister Shinzo Abe, has stepped up its aid and investment in China's backyard in an effort to give Beijing some competition and provide the target countries some political and economic balance. Japan is establishing special economic zones in Myanmar and Laos to provide high standard and safe investment zones for Japanese companies and other investors. On regional infrastructure projects, China's projects run north-south linking neighboring countries by land to China, while Japan's run east-west linking these countries by

sea to Japan and the Japanese supply-chain.

### **China's Economic and Security Interests in Mainland Southeast Asia**

Economically, China is looking to export its overcapacity in steel, cement, machinery, and even surplus electricity. It is also seeking investment outlets for its companies' excess savings, cheaper manufacturing environments, and raw materials and resources such as timber, minerals, rice, and other agricultural products for its domestic market. To facilitate the ease of doing business, China is promoting regional economic integration through various channels, including RCEP.

The oil and gas pipelines built by China National Petroleum Corporation from the western Myanmar port of Kyaukphyu, along the Bay of Bengal, to western China will cut several days off shipments of hydrocarbon imports from the Middle East and bypass the Malacca Strait and the South China Sea. Farmers who have been dislocated by the project complain they were not informed in advance about the project and its environmental impact, but have received only meager compensation for the land they were forced to give up and have not landed any of the thousands of jobs they were promised.

On the security front, China is seeking to court friendly countries on its southern periphery that will bolster China's regional sphere of influence. Specifically, Beijing seeks to avoid being encircled by countries close to the United States. China also works to encourage its southern neighbors to support Beijing's interests and views on the South China Sea dispute within ASEAN or at least remain neutral when Vietnam, the Philippines (prior to the election of President Rodrigo Duterte), and Singapore press for ASEAN to make strong statements challenging China's actions, including land reclamation. Ahead of the United Nations arbitral tribunal ruling in July 2016 on the Philippine case against China's claims in the South China Sea, Beijing worked hard to gain the support of its neighbors to reject the tribunal's ruling, which overwhelmingly went against China.

China also has growing military-to-military ties with its southern neighbors. Myanmar was almost totally dependent on China for military equipment and training during the years of foreign sanctions against the ruling junta. Since the government launched political and economic reforms, Myanmar's military has begun exploring other avenues for procuring arms and it has indicated that it would be open to military training in the United States, something Congress is not yet willing to consider.

Cambodia, meanwhile, has turned increasingly to China in recent years for military equipment, training, and exercises, while dropping some of its military exercises with the United States. Even Thailand, a U.S. treaty ally that has had cooler ties with Washington since a military coup in 2014 earlier this year announced that it was buying 10 tanks from China to replace old U.S.-built tanks. More recently, the Thai cabinet approved almost \$400 million to buy a submarine from China and is considering buying two more. The two countries are also discussing military co-production and last year had their first-ever joint air force exercise.

China's influence in mainland Southeast Asia varies from country to country. Beijing's influence is probably strongest in Cambodia, which on at least two occasions (2012 and 2016) blocked ASEAN consensus on developing a common stand on China's activities in the South China Sea, including after the United Nations arbitral tribunal ruling last July. Laos, which was chair of ASEAN after the ruling last year, made a neutral statement without directly addressing the ruling. Myanmar acknowledged the ruling but did not call for its implementation. Vietnam has close party-to-party ties with China and there are high levels of trade and investment between the two countries, but Hanoi and Beijing are at loggerheads over the South China Sea, where the two sides have competing claims.

China has good relations with ASEAN and has been a dialogue partner with the grouping since 1995, and Beijing signed ASEAN's Treaty of Amity and Cooperation in 2003. China is a partner in many ASEAN-led forums such as the ASEAN Regional Forum (ARF), ASEAN Defense Ministers Meeting-Plus (ADMM+), the East Asia Summit (EAS), and has annual dialogues with ASEAN's trade, finance, and other ministers. China has a bilateral free trade agreement with ASEAN and is a participant in the RCEP trade talks.

China in 2002 signed with ASEAN a rather toothless Declaration of Conduct to govern behavior in the South China Sea, but Beijing and the Southeast Asian grouping are currently negotiating a Code of Conduct on which their foreign ministers recently completed a framework agreement. China wields its influence over ASEAN policies that Beijing opposes (such as statements on the South China Sea) by engaging individual member states, particularly Cambodia, which it uses as proxies to defend and promote its interests. Because ASEAN makes decisions by consensus, opposition from just one member can derail a group decision. This makes engagement bilaterally with individual countries more effective than trying to get ASEAN as a whole to change its policies.

In general, China has stepped up its trade and investment engagement with mainland Southeast Asia countries over the past six years. Probably the most dramatic impact can be witnessed in Cambodia and its relations with China. Thailand has also increased its engagement with Beijing in the wake of the 2014 coup, which prompted the United States to reduce some of its engagement with Bangkok. Thai-U.S. relations may begin to warm up again after President Trump phoned Prime Minister Prayuth Chan-ocha in late April and invited him to Washington. Myanmar reduced its intense ties with Beijing in the wake of the reforms launched in 2011 as Washington moved to lift sanctions and begin providing some assistance. The Trump administration has not yet indicated whether it will maintain the U.S. government's engagement with Myanmar. Beijing has wasted little time in making overtures to Myanmar, including inviting de facto leader Aung San Suu Kyi to visit Beijing, but it is not yet known what impact this is having on Sino-Myanmar ties.

Laos also tamped down its deep ties with China somewhat following its 2016 party congress, which made senior leadership changes that prompted the government to seek to balance a bit more its ties with Vietnam and China and increase its ties with the larger international community. These moves were bolstered by President Barack Obama's visit last September.

## **How Do Mainland Southeast Asian Countries Respond to China's Engagement?**

Cambodia is particularly close to China. Beijing provides much needed aid for infrastructure and development projects. In exchange, Cambodia uses its veto within ASEAN to block statements critical of Chinese actions in the South China Sea. Last July, shortly after the United Nations ruled against China's claims in the South China Sea, Cambodia broke ranks with its ASEAN partners and rejected efforts to draft a statement calling on China to follow the ruling. Beijing had pledged \$600 million in aid just days before the ASEAN foreign ministers meeting.

Last year Phnom Penh ignored protests from Taiwan and deported 13 Taiwanese nationals to China who were suspects in a telecoms fraud case. In 2009, under pressure from Beijing and despite protests from Washington and the United Nations, Phnom Penh deported 20 members of the Muslim Uighur minority who had fled to Cambodia to escape a crackdown in China.

Senior Cambodian leaders welcome Chinese aid and their families benefit handsomely from Beijing's largesse. Cambodian civil society and environmentalists complain that many Chinese projects ignore their social and environmental impact, line the pockets of officials, and often do not adequately compensate farmers who lose their land to make way for development projects or agricultural plantations.

Laos' communist rulers, who were almost totally beholden to Vietnam when the war ended in 1975, over the past decade or so moved closer to China as Beijing stepped up aid and investment in the small landlocked country. Like their neighbors, Vientiane in 2010 expelled to China seven Uighurs at the request of Beijing.

Frustration about the negative environmental impact of some Chinese agricultural and mining projects and anger at how much the families of some leaders were benefiting from Chinese aid prompted the ruling party last year to oust several top officials and replace them with leaders who are more international in their economic and foreign policy outlook. The new leaders sought to broaden the sources of aid and investment and last year hosted Obama on the first visit to Vientiane by a sitting U.S. president.

During the years of western sanctions against Myanmar beginning in 1988, Myanmar came to depend almost entirely on China for aid, trade, investment, and military equipment and training. Over time the fiercely independent Burmese came to resent this dependence, which became a key factor in the military's decision in 2011 to launch political and economic reforms that prompted the United States to ease sanctions and normalize diplomatic relations. These reforms led to the elections five years later that elevated Aung San Suu Kyi to be the de facto head of the government. Chinese investment in Myanmar plummeted from \$13 billion in the 2008-2011 period to \$407 million in the 2012-2013 fiscal year.

People in Myanmar complained that Chinese projects often dislocated farmers with minimal compensation and damaged the environment, which prompted the government to suspend China's construction of the Myitsone dam in 2011. The junta's abrupt policy shift stunned Beijing and gradually forced it to adjust the way it provided aid and investment to Myanmar. But

the election of Trump as U.S. president late last year has resulted in a period of uncertainty in U.S.-Myanmar relations, which has provided a new opportunity for China.

Frustration at the limited attention from the new U.S. administration and criticism of how the military and government have treated the Rohingya Muslim minority in the west has prompted the new government to again look north. In late May, Aung San Suu Kyi visited Beijing for the second time in a year to attend a BRI summit and returned home with a pledge for China to establish an economic cooperation zone in Myanmar. Her visit was followed by Myanmar's fledgling navy holding exercises with Chinese warships.

Thailand's relations with China have deepened since its ties with Washington cooled following a military coup three years ago. Thailand is receiving some aid and loans for infrastructure development and has purchased some military equipment, including tanks, from China in recent years. In return, Thailand in 2015 supported China's request that it deport over 100 Muslim Uighurs, who were seeking sanctuary in Thailand. Also in 2015 Bangkok repatriated five Chinese nationals, including two dissidents who had been granted refugee status by the United Nations. Last year, Bangkok barred the entry of Hong Kong protest leader Joshua Wang at the request of Beijing.

### **U.S. Economic and Strategic Interests in Southeast Asia**

The United States has critical economic and strategic interests in Southeast Asia, a dynamic region with a population of 630 million people and a combined gross domestic product of about \$2.5 trillion, making it the third largest economy in Asia after China and India. The region is the United States' fourth largest trading partner and U.S. companies export over \$100 billion of goods and services to ASEAN. This creates roughly 550,000 jobs in the United States. U.S. companies from 2004-2015 invested cumulatively \$274 billion in Southeast Asia, more than they have plowed into China, India, Japan, and South Korea combined.

Southeast Asia straddles the critical shipping lanes of the South China Sea and the Malacca Strait that link the Pacific Ocean in the east and the Indian Ocean in the west. Mainland Southeast Asia forms the landmass that connects China and India. The Philippines and Thailand are allies of the United States, while Singapore, Malaysia, and Indonesia are developing deeper security ties with Washington. The United States participates in bilateral and multilateral military exercises with all of the ASEAN countries, except Laos and Myanmar.

China's economic and military rise and increasing assertiveness in the South China Sea are dramatically changing the strategic calculus of the region. Four Southeast Asian countries – Brunei, Malaysia, the Philippines, and Vietnam – have overlapping claims with China in the South China Sea.

It is in Southeast Asia where many geopolitical rivalries play out between the United States and China, as well as between Japan and China. ASEAN centrality, working through three security forums in which both China and the United States participate (the ARF, the ADMM+, and the EAS), provide the framework under which rules and norms are developed and through which

concepts such as the peaceful resolution of disputes, freedom of navigation, and respect for international law are hammered out in the Asia-Pacific.

The previous administration made significant progress in boosting ties with Southeast Asia through its rebalance to Asia. The policy resulted in the deepening of U.S. relations with Vietnam and helped reintegrate Myanmar back into the international community. Concerns about China's stepped up assertiveness in the South China Sea, prompted increased interest among many Southeast Asian countries in bolstering ties with the United States.

The new administration has not yet spelled out its strategic vision for the region, but in recent weeks Trump has hosted the Vietnamese prime minister, made phone calls to the leaders of the Philippines, Thailand, and Singapore (and invited them to visit Washington), and Vice President Pence has visited Indonesia.

But the economic component of U.S. engagement with Southeast Asia has not yet been articulated in the wake of the president pulling out of the TPP, which included four Southeast Asian countries (Brunei, Malaysia, Singapore, and Vietnam) among its members. With China stepping up trade and investment in the region, pushing forward with the RCEP trade talks, and the recent high-profile OBOR summit in Beijing (which included most ASEAN leaders) makes the United States look like it is somewhat missing in action on the trade and investment front.

### **China's Goals in its Relations with Cambodia and Laos**

China seeks in Cambodia a staunch supporter within the ASEAN grouping. Once largely aligned to Vietnam, Prime Minister Hun Sen over the past 15 years has become China's most staunch ally within ASEAN thanks to Beijing's massive infrastructure and development projects and strong political backing. China has filled the void left by western donors who have reduced their aid in response to the government's human rights record. This year, China is providing assistance to the election commission in the run up to local elections in early June and national parliamentary elections in July 2018.

Cambodia has responded by using its veto within ASEAN to block statements critical of Chinese actions in the South China Sea. Last July, shortly after the United Nations ruled against China's claims in the South China Sea, Cambodia broke ranks with its ASEAN allies and rejected efforts to draft a statement calling on China to follow the ruling. Beijing had pledged \$600 million in aid just days before the ASEAN foreign ministers meeting.

China serves as a geopolitical balance to Vietnam's influence in Cambodia. Hun Sen, along with his anti-Khmer Rouge colleagues, came to power in 1979 after Hanoi toppled the Pol Pot regime. Opposition politicians including Sam Rainsy, who currently lives in exile to avoid arrest, often charge Hun Sen with seceding parts of Cambodia to the Vietnamese. The prime minister's ties to Beijing provide him with political cover.

Chinese companies are huge beneficiaries of their ties to Hun Sen and are protected against domestic opposition. Unite International, run by a former Chinese military officer, has a 99-year



lease to develop a \$5.7 billion tourist resort on a beach in a protected national park, despite protests from environmental groups. In exchange the company has helped equip Hun Sen's 3,000-man security detail. One of China's largest sugar companies has a concession to develop over 160 square miles of agricultural land, which has triggered waves of complaints from farmers and environmentalists.

Last year, Cambodia conducted its first naval training exercise with China and, in December, it took part in its first Golden Dragon military exercise with China. A few weeks later, the military announced that it would not participate in its annual Angkor Sentinel joint military exercise with the United States until at least 2019. In April, Cambodia abruptly asked Washington to end nine years of assistance by the Seabees Navy construction unit that was building schools and maternity hospitals around the country.

China in recent years has emerged as the largest supplier to the Cambodian military. Beijing funds an Army Institute, the first of its kind in Southeast Asia, in Cambodia, and trains many Cambodian military officers in China. In 2013, Cambodia received 12 Harbin Z-9 helicopters from China, which Phnom Penh paid for with a \$195 million Chinese loan. The next year it received 26 military trucks. China and Cambodia seem to exchange more military delegations than other mainland Southeast Asian countries.

Laos also is a major recipient of China's largesse. The biggest project currently under construction under the OBOR initiative is a nearly \$6 billion, 270 mile railroad link that will connect China to Thailand. The goal is to turn landlocked Laos into a land-linked country, but many Lao and foreign observers are concerned that for a country with a gross domestic product of less than \$13 billion (in 2015) the project is too expensive and will divert resources from other important development projects. China is believed to be picking up 70 percent of the construction costs, but negotiations over this project have been contentious over issues such as Laos' share of the project costs, interest rates, and how much land on each side of the railroad will be leased to China in exchange for its aid.

The railroad project is strategically important for Beijing because it will help boost China's links to Laos, but it will also give China its much sought access to mainland Southeast Asian markets and the region's natural resources. Lao officials have argued that the project will help boost agricultural exports, reduce travel expenses, increase foreign investment and create jobs.

By 2015, China accounted for fully 40 percent of foreign direct investment in Laos, with much of Chinese investment being plowed into mining, hydropower dams, agricultural plantations, and manufacturing. Chinese companies have played a major role in real estate development in Vientiane in recent years, constructing hotels, a convention center, a 52-storey hotel/office complex (the tallest building in the country), and Chinese-style shop houses along the Mekong River, many of which remain vacant.

Like in Cambodia, Chinese companies been granted a raft of contracts to establish agricultural plantations in Laos, which are farmed mainly by workers from China. Lao citizens increasing monitor these projects for their social and environmental impact. Recently the Lao prime

minister raised concerns in a Facebook posting about the widespread use of the herbicide paraquat, a chemical banned in Laos, on banana plantations on Chinese-run farms. Because use of the chemical was making farmers sick and contaminating water sources, he said he had ordered a ban on leasing more land to Chinese companies for banana plantations.

Domestic resentment about China's growing role in the economy and about how much some senior leaders were personally profiting from their engagement with China prompted the ruling party in 2016 to oust its party chief and replace the prime minister with officials who were more international in their foreign and economic policy outlook. The new leaders sought to boost investment and aid from western and other Asian countries, including Japan and the United States. Last year the U.S. Agency for International Development (USAID) opened its newest overseas office in Laos.

In recent years, military ties between China and Laos have witnessed an uptick, including more military exchanges and joint exercises.

### **Recommendations for the new U.S. administration**

Mainland Southeast Asia is important to U.S. economic and security interests, so it is important that the United States continue to find ways to engage this geostrategic and dynamic region.

- Asia is uncertain about U.S. policy toward the region under the new administration. As a result, it is important that Washington articulate a strategy for the Asia-Pacific soon, explaining the region's economic and strategic importance to the United States. The administration should also spell out how Washington plans to manage China's rising economic and military clout. Understanding this will have a significant impact on the countries on China's periphery as they develop their own policies to dealing with the new geopolitical environment in the region.
- With the new administration pulling out of the TPP, Washington needs to formulate other ideas and channels for engaging Southeast Asia economically and balance the United States' robust military engagement in the region. Southeast Asian nations often expressed concern that the U.S. rebalance to Asia was too focused on military relations and said they wanted the United States to become more active economically to provide a counterweight to China's increasing economic heft. As China steps up its economic engagement with the region and supports new projects under BRI and through the AIIB, the United States risks looking like it is missing on the economic front.
- It is important that the United States remains engaged in the existing Asia-Pacific strategic and economic architecture, some of which is organized by ASEAN and in some of which most Southeast Asian countries participate. Trump's advisers say he is committed to attending the Asia-Pacific Economic Community (APEC) summit in Vietnam, and the EAS and ASEAN-U.S. leaders meeting in the Philippines in November. Much of the preparation for these summits happens at meetings throughout the year, so it is important that Secretary of State Rex Tillerson attends the ARF in August and

Secretary of Defense James Mattis participates in the ADMM+ in October. Cabinet secretaries should also attend the meetings on trade and finance.

- Trump telephoned Thai prime minister Prayuth in late April and invited him to visit Washington. This marked a shift from the previous administration, which cooled ties with Thailand following the 2014 military coup that toppled a democratically elected government. The junta has drafted a new constitution, which still gives the military clout in future governments, and has pledged to hold elections next year. With the prime minister planning to visit Washington, the departments of State and Defense might explore resuming strategic dialogues with their counterparts in Bangkok. If the elections lead to acceptable standards of democratic governance and respect for human rights, the administration should move to fully normalize relations with this long-standing ally.
- The president should telephone the de facto leader of Myanmar, Aung San Suu Kyi, soon and invite her to visit Washington. With the recent visit by the Vietnamese prime minister, Pence's stop in Jakarta in April, and Trump's phone calls inviting the leaders of the Philippines, Singapore, and Thailand to visit the White House, Myanmar remains one of the few Southeast Asian countries that has not been contacted by a top official of the new administration. After playing a key role in promoting Myanmar's transition from a military dictatorship to a fledgling democracy, the United States is conspicuously absent today. China is working to fill the vacuum. Xi invited Aung San Suu Kyi to the BRI conference in May and proposed creating an economic cooperation zone in Myanmar. Washington should continue to support Myanmar's jerky transition to democracy. It should encourage the peace process with the ethnic armed groups and sensitively nudge Aung San Suu Kyi to find ways to address the plight of the Rohingya Muslim minority in Rakhine state. U.S. officials should be given more space to discuss critical security issues with the military.
- The administration should remain engaged with Cambodia, even though Hun Sen has moved to distance the country from the United States and deepen its dependence on China. Minimally, Washington should continue USAID health projects in the country. Hun Sen has been in power for over three decades and at 64 will have to step down at some point, so it is important that Washington maintain ties with the next generation of leaders who will take over after that.
- U.S. relations with Laos improved somewhat last year following the promotion of a new generation of leaders who are interested in expanding their relations beyond dependence only on China and Vietnam. Despite anticipated cuts to the U.S. assistance budget, it is important that the United States continue supporting the clearance of unexploded ordnance remaining from the war that ended in 1975. It is also important, for example, to continue supporting the nutrition work of the new USAID mission to demonstrate to Lao leaders that they can anticipate more diverse sources of assistance.

To be sure, the mainland Southeast Asian countries welcome and appreciate the role that China's growth engine has played in firing up their economies. But they also welcome a more distant

Washington serving as a counterbalance to Beijing and giving them options beyond near total dependence on China for trade, investment, and military hardware. Washington needs to play the long game in the region confident that over time even states like Cambodia will look to United States for closer ties.

## **OPENING STATEMENT OF MS. YUN SUN, SENIOR ASSOCIATE, STIMSON CENTER**

HEARING CO-CHAIR STIVERS: Ms. Sun.

MS. SUN: Thank you to the members of the U.S.-China Economic and Security Review Commission for the opportunity to testify on the key issues in China's relations with Burma and their implications for the United States.

My testimony seeks to answer how China views and pursues its national interest in Burma in the era of political reform and democratization of the former pariah state. It also aims to analyze how the evolving policies of China affect U.S. interests in Burma.

China has a 1,370 mile-long border with Burma. Border stability has always been China's most important national security agenda in Burma. The armed conflicts between the Burmese military and the ethnic groups along the Sino-Burma border directly affect the stability of China's border region.

Economically, China seeks a key role for Burma to play in China's Belt and Road Initiative. China's overall design is to build connectivity projects and transportation networks through Burma into South Asia and Southeast Asia. Projects such as the Kyaukphyu special economic zone and deep-sea port could become the key component in China's 21st Century Maritime Silk Road via the Indian Ocean. Individual projects under the initiative include highways, a deep-sea port, and pipelines.

In terms of strategic values, Burma is one of the only two countries that can facilitate China's access into the Indian Ocean. The other one being Pakistan, which is much less stable and presents a much higher security risk. Additional ocean access could potentially make China less dependent on the Strait of Malacca and the disputed South China Sea for energy transportation routes.

As Burma's largest neighbor, China has been an essential player and a critical factor in Burma's peace process. And this is not least because it has historic, ethnic, economic, and cultural ties with the ethnic minorities in northern Burma. China's relationships with these groups have contributed materially, or even some cases deterministically, to their ability to continue these armed struggles.

China's official position on the peace process follows a principle of non-interference. However, the support that China lends to the peace process is qualified. China desires a peaceful border, but it also views it as unlikely that Burma's ethnic issue can be resolved for the foreseeable future.

Therefore, how much China chooses to contribute to Burma's progress depends on the health of bilateral relations, including Burma's support of China's political, economic and strategic agenda in their country, as well as whether Burma chooses to align more with Western powers over China.

In the Chinese view, the improvement of U.S.-Burma relations since 2011 has greatly affected China's interest in Burma. Most importantly, the warming of U.S. ties with Burma is perceived to be a key element of U.S. rebalancing to Asia strategy, which in China equates to a containment policy towards China.

Chinese analysts invariably frame the issue of U.S.-Burma ties in a broader context of U.S.-China relations, and it blames the U.S. for the deterioration of relations between China and Burma.

Since the inauguration of the NLD government in 2016, China identifies an exploitable moment to regain China's influence due to the perceived cooling of relations between U.S. and Burma. Though Aung San Suu Kyi, Burma's de facto leader, is believed to have had key disagreements and difficulties in her relationship with Washington, China has been using the opportunity to convince Burma that China, rather than the United States, is the one country with both the capacity and willingness to assist the NLD government in addressing the pressing challenges and priorities, such as the peace process and economic development. The relations between China and Burma improved under the NLD government.

U.S. interests in Burma lie in peace, democracy and prosperity of the country. Some of the goals converge with China's national interests, such as in peace, stability and economic development. However, the interests of the two countries diverge significantly on the political level because an overarching theme of China's engagement in Burma lies in a zero-sum competition regarding the U.S.-China power equilibrium in Burma. Competition with the U.S. has been a key determining factor in China's decision-making process.

On three issues, China's interests and approaches collide with the goals and approaches of the United States. First of all, on the peace process, China has a strong security interest in northern Burma based on a fear of U.S. intervention in China's immediate neighborhood, across a porous border that can be easily infiltrated.

Beijing has reacted strongly against the prospect of a U.S. direct role in conflict resolution in Burma. Fearing the potential for growing U.S. influence in the peace process, China also aspires to maintain its leverage by shielding the ethnic armed organizations. The Chinese approach directly fuels the sustainability of the armed struggle, mitigates the ethnic armed groups' interests in making compromise, and therefore undermines the U.S. interest in peace.

Secondly, there is a competition between the Chinese approach and the American approach to political and economic development in Burma. China promotes a model that prioritizes economic development at the cost of political liberalization, while the U.S. places more emphasis on the governance, the capacity-building, the social justice in which that economic development itself is achieved.

The different approaches and priorities allow China the luxury of steering clear of governance and human rights issues that are sore spots for the Burmese government and catering instead to the NLD government's desire in terms of its political and economic needs. And China will pursue transactional relations with the NLD government that serves China's interests.

Thirdly, on the sustainable and socially responsible economic development, the locals in Burma bear strong grievances against the lack of public participation in the decision-making process for Chinese investment projects and the locals are generally suspicious about the authenticity and credibility of the social and environmental impact assessments commissioned by the investors.

In this sense, the economic development that Chinese investments generate is far from being sustainable, inclusive, fair or socially and environmentally responsible.

Thank you very much.

HEARING CO-CHAIR STIVERS: Thank you.

**PREPARED STATEMENT OF MS. YUN SUN, SENIOR ASSOCIATE, STIMSON  
CENTER**

**Hearing on “China's Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

Thank you to the members of the U.S.-China Economic and Security Review Commission for the opportunity to testify on some of the key issues in China’s relations with Burma and their implications for the United States. This testimony seeks to answer how China views and pursues its national interests in Burma in the era of political reform and democratization of the former pariah state. It also aims to analyze how the Burmese government and people react to China and how the evolving policies of China affect U.S. interests in Burma.

Geo-strategically, Burma not only sits at the critical junction between South Asia with Southeast Asia, but also represents China’s most direct and convenient access to the Indian Ocean. Under the former military government, Burma developed an asymmetrical dependence on China due to international sanctions and isolation. Since the beginning of its political reform in 2011, Burma has been able to diversify its external relations with the West and mitigate China’s overwhelming influence. In particular, Burma’s warming ties with the United States under the former Thein Sein government have been perceived by China as undermining China’s national security and economic interests in the region. How to balance the growing Western influence and restore the damaged Chinese influence in Burma has been the Chinese government’s top priority since 2011. China plays an important role in Burma’s peace process and in its economic development through longstanding ties with the ethnic groups in northern Burma and the offering of much-needed foreign investment into the country. Its policies have a direct impact on stated U.S. interests in peace, democracy and prosperity in Burma.

**Key Chinese National Interests in Burma**

China has a 1,370 mile-long border with Burma. Within the framework of bilateral relations, border stability has always been China’s most important national security interest. The armed conflicts between the Burmese military and the ethnic groups along the Sino-Burma border directly affect the stability of China’s border region. Since the Kokang conflict of 2009 and the reignition of the Kachin conflict in 2011, the ethnic conflicts in Burma have sent tens of thousands of refugees into China’s Yunnan province and gravely disrupted local security and social stability.<sup>95</sup> At the height of the conflict in 2015, Burma’s warplanes constantly invaded Chinese airspace, bombed Chinese territories and killed Chinese civilians on Chinese soil.<sup>96</sup>

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<sup>95</sup> “Burma Border Inhabitants Begin to Return from China as Situation Calms,” *Xinhua News*, August 31, 2009, [http://news.xinhuanet.com/english/2009-08/31/content\\_11968443.htm](http://news.xinhuanet.com/english/2009-08/31/content_11968443.htm). “Over 60,000 Burma Refugee Arrivals in China since Conflict Outbreak,” *Xinhua News*, March 7, 2015, [http://news.xinhuanet.com/english/2015-03/07/c\\_134046681.htm](http://news.xinhuanet.com/english/2015-03/07/c_134046681.htm).

<sup>96</sup> “Burma Artillery Shells Fell in Yunnan for the Fifth Time” [in Chinese], *Yunnan News*, Yunnan News, May 15, 2016, <http://www.yn.chinanews.com/special/6/178.shtml>.

Border instability and ethnic conflict in Burma have had an indirect impact on China's internal stability. The Burma army's repeated invasion of Chinese airspace, resulting in the deaths of Chinese civilians on Chinese territory, caused the Chinese people to question the Chinese government's competence in protecting the safety of its own nationals and territory against a much weaker Burmese military.<sup>97</sup> These questions were intensified when Beijing's repeated protests proved futile. The Kokang rebels appealed to the Chinese people's sympathy and support as an overseas Chinese Han diaspora group persecuted by the Burmese central government.<sup>98</sup> The success of their public relations campaign has hurt China's internal stability because of the perception that the Chinese government had failed to protect the Chinese Kokang population in Burma, as well as its own citizens in China, which raised questions about its legitimacy with the Chinese public.<sup>99</sup>

Economically, China's interests in Burma have primarily focused on the natural resources and the transportation routes through Burma, as exemplified by the Myitsone dam project, the Sino-Burma oil and gas pipelines and the Letpadaung copper mine project, which collectively are valued at more than \$8 billion in terms of committed investments.<sup>100</sup> After the substantial decline of Chinese investment in Burma right after political reform in Burma began, Chinese investment has increased steadily from \$180 million in 2014 to \$200 million in 2015 and \$300 million in 2016.<sup>101</sup>

China sees a key role for Burma to play in China's Belt and Road Initiative. China's overall design is to build connectivity projects and transportation networks through Burma into South Asia and Southeast Asia. Projects such as the Kyaukphyu special economic zone and deep-sea port could become a key node in China's 21<sup>st</sup> Century Maritime Silk Road via the Indian Ocean.<sup>102</sup> Individual projects under the initiative include highways, a deep-sea port and pipelines. Earlier in 2017, China and Burma agreed to open a cross-border oil pipeline. Such projects are intended to enhance China's energy security by developing alternative energy transportation routes. Burma is also seen as an ideal country to absorb China's overcapacity in its infrastructure industries. Given Burma's backward infrastructure development, such as in the power sector and transportation industry, Chinese state-owned companies have seen Burma as an attractive market with great potential for construction contracts.

In terms of strategic values, Burma is one of two countries that can facilitate China's access to the Indian Ocean—the other being Pakistan, which is much less stable and presents a much higher

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<sup>97</sup> For Chinese netizens' discussions and criticisms of the Chinese government, please see the blog posts on Tiexue BBS, such as at <http://m.tiexue.net/touch/reply.html?8672300>.

<sup>98</sup> Peng Jiasheng released an "Appeal to all Chinese in the World" (In Chinese) on February 17, 2016, which was widely circulated on the Chinese internet.

<sup>99</sup> For Chinese netizens' discussions and criticisms of the Chinese government, please see the blog posts on Tiexue BBS, such as at <http://m.tiexue.net/touch/reply.html?8672300>.

<sup>100</sup> "New Chinese Foreign Investment Commitment Exceed \$8 billion", *The Burma Times*, August 16-20, 2010, <http://www.mmtimes.com/2010/business/536/biz001.html>.

<sup>101</sup> "Overview of Sino-Burma Bilateral Economic and Trade Cooperation," (2014), [in Chinese], Ministry of Commerce, June 11, 2015, <http://yzs.mofcom.gov.cn/article/t/201506/20150601008674.shtml>;

"Overview of Sino-Burma Bilateral Economic and Trade Cooperation," (2015), [in Chinese], Ministry of Commerce, September 2, 2016, <http://yzs.mofcom.gov.cn/article/t/201609/20160901384778.shtml>;

"Overview of Sino-Burma Bilateral Economic and Trade Cooperation," (2016), [in Chinese], Ministry of Commerce, February 25, 2017, <http://mm.mofcom.gov.cn/article/zxhz/201702/20170202510989.shtml>.

<sup>102</sup> Atul Aneja, "All Is Not Smooth on the Silk Road," *The Hindu*, August 22, 2015, <http://www.thehindu.com/opinion/columns/all-is-not-smooth-on-the-silk-road/article7562232.ece>.



security risk. Additional ocean access could potentially make China less dependent on the Straits of Malacca and the disputed South China Sea for energy transport routes. Chinese Navy has in the past made port calls in Burma, and whether China will try to turn the Kyaukphyu deep-port into a dual-use facility in the future has been a highly sensitive and controversial issue in Burma, whose constitution forbids the use of its territory by foreign military.

### **China in Burma's Peace Process**

As Burma's largest neighbor with a 1,370-mile border between them, China has been an essential player and a critical factor in Burma's peace process. Especially for the ethnic armed groups in northern Burma, their complicated ties with China are the result of the intricacy of historical, ethnic, and emotional linkages, as well as political and economic connections. These groups have sustained their de facto independent kingdoms within the state of Burma for decades. Their ceasefire agreements with the government ended in 2011, and most of them have been engaged in active combat since. China's relationships with these groups have contributed materially, or even in some cases deterministically, to their ability to continue these struggles. While China is not the fundamental cause of Burma's ethnic conflicts, and China may not have actively facilitated the continuation of the conflicts, the reality remains that China's relationships with ethnic armed groups in northern Burma has complicated the conflicts' resolution. In other words, while the success of Burma's peace process may not depend on China, China nevertheless has great ability to influence the process and stymie its result if it so chooses.

China's official position on Burma's peace process follows its principle of non-interference in the internal affairs of other countries. At a bilateral level, China respects the peace process as Burma's internal affair and has pursued a policy of "persuading for peace and facilitating dialogues" (劝和促谈). The Chinese special envoy, Ambassador Wang Yingfan and his successor Sun Guoxiang, has been present as a witness at multiple rounds of negotiations between the Burma central government and the ethnic minority groups, including the signing ceremony of the National Ceasefire Agreement (NCA) in October 2015. Under the NLD government, the Chinese government has worked hard to persuade the non-signatory groups of the NCA to participate in the 21<sup>st</sup> Century Panglong Conference (or Union Peace Conference, UPC) in 2016 and 2017.

However, China's position is not impartial or altruistic. While China respects the peace process as Burma's internal affair, it also maintains that its relations with the ethnic armed groups in northern Burma have deep historical roots and complicated causes. Therefore, although China claims to be willing to facilitate and mediate the peace process, the level of its commitment has always been questioned by Burmese and Western observers. Indeed, within the policy community in China, some have argued continually that China should sustain the ethnic armed groups in Burma as leverage to check the Burma central government's intentions and actions. In the broad context of Burma's political reform and its perceived pro-West foreign policy adjustments, this need is seen to have grown increasingly imperative.

China's role in the Burma peace process is further complicated by the behavior of certain Chinese special interest groups and individuals in their support of the ethnic armed organizations in Burma. Shared business interests and sympathy toward the ethnic armed organizations have laid a firm

foundation for audacious interference in Burma's peace process, which peaked in 2015 with the Kokang conflict and its aftermath. Certain Chinese companies and businessmen have identified northern Burma as a convenient location for illegal activities because such territories are barely, if at all, policed by either Chinese or Burma authorities. The substantive support they have provided to the ethnic armed organizations does not represent China's official policy toward Burma, but it serves to reinforce the perception of a duplicitous Chinese role in the peace process.

China lends a qualified support to Burma's peace process. China desires a peaceful, stable border but it views it as unlikely that Burma's ethnic issues can be resolved for the foreseeable future. Thus, how much China chooses to contribute to Burma's progress depends on the health of bilateral relations – including the Burmese government's support for Chinese political, economic, and strategic agendas – as well as whether Burma chooses to align more with Western powers over China. Furthermore, China's involvement in the peace process is also motivated by concern about the nature of Western involvement and whether it will translate into an intensified Western presence in the border area.

### **U.S. and China in Burma**

In the Chinese perception, the rapid improvement of U.S.-Burma relations since 2011 has greatly affected China's interests in Burma. Most important, the warming of U.S. ties with Burma is perceived to be a key element of the U.S. strategy to rebalance toward Asia, which in the Chinese lexicon equates to a containment policy toward China. As perceived by Beijing, the U.S. successfully alienated Burma's traditional ties with China and damaged existing Chinese commercial projects in the country, as shown through the suspension of the controversial Chinese Myitsone dam. Although President Thein Sein's decision to suspend the project was made in accordance with the "people's will," the Chinese nonetheless believe that the Burmese decision was made at least partially to curry favor with the U.S. In addition, the Chinese saw NGOs, operating with the support and potential guidance of the US government, as having played an insidious role in undermining Chinese investment projects in Burma. To China, these developments confirmed suspicions of the China-related orientation of US strategic intentions in Burma.

Chinese analysts invariably frame the issue of U.S.-Burma ties in a broader context of U.S.-China relations. Their perception of the US presence in Burma is essentially zero-sum: the gains made by the U.S. have come at China's expense. When told by U.S. officials that U.S. policy in Burma is driven by American and Burmese domestic politics, Chinese analysts often question the genuineness of such statements or argue that, at the very least, the U.S. has been inconsiderate of China's vested interests in and relations with Burma. Although there is a general acknowledgement of China's own failures to better manage relations with Burma, in Chinese minds this does not negate the fact that the U.S. exploited those opportunities to expand and deepen the friction between China and Burma.

Since the inauguration of the National League of Democracy (NLD) government in 2016, China identifies an exploitable moment to regain China's influence due to the perceived cooling of relations between the U.S. and Burma. Aung San Suu Kyi, Burma's de facto leader, is believed to

have had key disagreements and difficulties in her relationship with the United States, because of her concern about close U.S. ties with and support to the former Thein Sein government, on the one hand, and, on the other, U.S. disappointment in her approach to humanitarian concerns, especially the Rohingya issue. China has been using the opportunity to convince Burma that China, rather than U.S., is the one country with both the capacity and will to assist the NLD government in addressing the pressing challenges and priorities, such as the peace process and economic development. During President Tin Kyaw's April 2017 visit to China and Aung San Suu Kyi's participation in the Belt and Road Summit in Beijing in May 2017, China reached multiple key economic and assistance agreements with Burma.

U.S. interests in Burma lie in peace, democracy and prosperity. Some of the goals converge with Chinese interests, such as in peace, stability and economic development. However, the interests of the two countries diverge significantly on the political level because an overarching theme of Chinese engagement in Burma lies in a zero-sum competition regarding the U.S.-China power equilibrium in Burma. Competition with the U.S. has been a key determining factor in China's decision-making.

### **1. On the peace process**

China has a strong security interest in northern Burma based on a fear of Western, particularly U.S., intervention in China's immediate neighborhood, across a porous border that can be easily infiltrated. Peace and democracy are a U.S. priority in Burma as the ethnic conflicts and stagnant peace process cast a shadow of uncertainty over the country's future, and some voices inside Burma have called for U.S. intervention and mediation. For China, an open and active U.S. role in the peace process would only further enhance the U.S. influence in Burmese politics and invite an American presence on the Chinese border.

Thus Beijing has reacted strongly to the prospect of a U.S. role in conflict resolution in northern Burma. In 2013, China's top priority was to block the attempted "internationalization of the Kachin issue," demonstrated by a Kachin Independence Army (KIA) proposal to invite the U.S., UK, UN, and China to be observers and witnesses of the negotiation between the KIA and the central government. In 2015, China's ardent opposition prevented the U.S. from becoming a witness to the signing of the National Ceasefire Agreement. The factor of U.S. involvement greatly affects China's strategy in the peace process in two seemingly-contradictory ways. On one hand, a stagnant or stalled peace process will compel the ethnic minorities and/or the Burma government to seek external support, especially from the U.S., as demonstrated by KIA's case. In this sense, the desire to keep the U.S. out motivates China to stay in and promote the progress of the dialogue.

On the other hand, fearing the potential for growing U.S. influence in the peace process and the border region, in cooperation with Burmese authorities, China also aspires to maintain its leverage by shielding the ethnic armed organizations from destruction by the Burma military. The Chinese approach directly fuels the sustainability of the armed struggle, mitigates the ethnic armed groups' interests in making compromise and therefore undermines the U.S. interest in peace.

### **2. On democracy in Burma**

The beginning of Burma's democratic reform coincided with the Arab Spring in the Middle East in 2011. The political change the military government adopted in Burma and the role U.S. policies played in the process have raised great suspicion in China about a so-called "demonstration effect" of the Burmese democratization in Asia. From the Chinese perspective, Burma could very possibly become a catalyst for a domino effect on political liberalization in countries such as Cambodia, Laos, Vietnam, and even North Korea. Burma's military government designed and carried out its democratic reform rather smoothly and without major political backfire. The safety and wealth of the military leaders have been largely preserved and protected. That in itself could turn into a powerful example for authoritarian leaders in other countries and convince them that democracy could be a viable, or even desirable way out for them without prohibitive cost. China was also worried whether the democratization of a country so close to the China could affect China's own internal political trend by raising questions about China's own much delayed political reform.

Furthermore, there is competition between the Chinese approach and the American approach to political and economic development in less developed countries such as Burma. China promotes a model that prioritizes economic development at the cost of political liberalization, while the U.S. places more emphasis on the governance, the capacity-building, the social justice in which that development itself is achieved. The different approaches and priorities allow China the luxury of steering clear of governance and human rights issues that are sore spots for the Burmese government and catering instead to the NLD government's political/economic needs and pursuing transactional relations that serve China's strategic, political and economic interests. The Chinese approach forms a powerful alternative source of political and economic capital to the Burmese government. It undermines the U.S. interest and efforts to build a true democratic, transparent and accountable government in Burma.

China continues to maintain close ties with the Burmese military despite the military's interference in civilian affairs and record of human rights abuses. Having learned the importance of developing diverse relations with various political forces in Burma, China has paid special attention not to alienate the military while it pursues good relations with the civilian government and the ethnic armed groups. China continues to be one of the largest providers of military aid, training and arms to the Burmese military. It directly undercuts the U.S. interest in the professionalization of the Burmese military and its eventual subjugation to civilian control.

### **3. On sustainable and socially responsible economic development**

Drawing lessons from local opposition to Chinese projects in Burma, the Chinese government and companies have become more sensitive to and adept at consulting public opinion and formulating better corporate social responsibility programs for their projects in Burma. Nevertheless, popular complaints and demonstrations against Chinese investments, especially in the hydropower industry, run rampant in the Kachin and Shan states. The locals bear strong grievances against the lack of public participation in the decision-making process for these projects, and are generally suspicious about the authenticity and credibility of the social and environmental impact assessments commissioned by the investors. In this sense, the economic development that Chinese investments generate is far from being sustainable, inclusive, fair or socially and environmentally

responsible.

### **Burma/Burmese Perception of China**

The perception of China in Burma is closely associated with the Chinese political and economic involvement in the country. Before the political reform improved Burma's external relations in 2011, the military government had to resort to Chinese political and economic patronage internally and externally due to its international isolations. While the military successfully maintained its rule in Burma, it came at a high price of overwhelming Chinese influence in the Burmese economy and society. The high level of Chinese influence eventually generated fears even within the military government about the sovereignty and independence of their nation. This fear has been a main factor in the Burmese military's decision to pursue reform so as to improve its relations with the international community.

Burma's reform and opening up left China in an awkward position. Due to China's close relations with and support of the previous military government, many Burmese citizens saw China as an accomplice to the military government's poor governance and human rights abuses. In their perception, China exploited Burma's vulnerability, looted its natural resources and undermined its national security- all in the name of "win-win" and friendly cooperation. In particular, some of the largest and most important Chinese investment projects are believed to have been reached with the military government through corrupt deals and bribery. These negative perceptions of China directly fueled the anti-China sentiment in Burma, which peaked in the early years of the previous Thein Sein government.

On a social level, Burmese public opinion towards China has been negatively influenced by two perceptions. First of all, it is widely believed in Burma that China has been supporting the ethnic armed groups and consequently undermining the ethnic reconciliation process of Burma. This view is particularly popular among the Burmese elites. Secondly, at least before the Chinese government took serious measures to manage the behavior of Chinese investors, Burmese considered them to be racist and discriminating in their treatment of local employees. In order to repair the damaged ties and China's poor image in Burma, Chinese government agencies, including the Ministry of Foreign Affairs, Ministry of Commerce, Department of Propaganda and National Development and Reform Commission, among others, orchestrated broad public relations campaigns in Burma.

Since the NLD government assumed power, China's image in Burma has somewhat improved. For her part, Aung San Suu Kyi has clearly recalibrated Burma's relations with China, attested to by the frequent senior level visits, including two by herself to Beijing in the past ten months. Given the lack of attention given to Burma by the U.S. during the same period, such recalibration is understandable given the NLD government's need for support in the peace process and economic development in order to deliver democracy dividends to the Burmese people. Given Aung San Suu Kyi's popularity among the Burmese people, her attitude towards China has played an important role in shaping a more positive popular perception of China. China's efforts in public relations campaigns, in corporate social responsibility programs, and in catering to the NLD government's needs and demands, have also contributed to the improvement of China's image in the country.

A key determining variable in Burmese public opinion of China hinges on the fate of the suspended Myitsone dam project. The mega project was planned for the upstream of the Irrawaddy river-Burma's "mother river". It has been a highly controversial, contentious and emotional issue for the Burmese people since the day of its conception. In response to people's will, former President Thein Sein suspended the project in September of 2011 and China has been eagerly pushing for a resolution of the suspended project. It is worth noting that although at one point China lowered its bottom line to the compensation of China's disbursed investment upon the cancellation of the project, the NLD government's positive attitude toward China at least initially reignited hopes in China about the resumption of the Myitsone project.

The NLD government formed a commission to investigate the Myitsone dam project in the summer of 2016. However, no definitive assessment or decision has been announced so far, which illustrates the complex nature of the issue and the dilemma it puts the NLD government into. On the one hand, Burma's power shortage has become so critical that it not only affects the nation's economic functioning, but it also raises questions about the future effectiveness of the NLD government. And increasing voices within the NLD government and Burmese society recognize that hydropower projects might indeed be necessary for the country given the increasing power demand. On the other hand, even if the Burmese government decides to permanently cancel the Myitsone dam, it still has to resolve the debt the dam has created and quell the anger in China.

Foreseeably, given the emotional baggage and public sentiment associated with the Myitsone dam in Burma society, if the NLD government decides to resume the project based on perceived merits, it would encounter major political and public objections. While sufficient scientific evidence and thorough policy deliberations should form the foundation for any such decision, Aung San Suu Kyi will be the only one in the country with the authority to pull this through. Such a political maneuver, however, will be costly, judging by the criticism launched against her after she chaired a commission that decided to resume the Letpadaung copper mine in 2013.

### **Policy Recommendations to the Congress**

China has been regaining political and economic influence in Burma since 2016 that has a major impact on U.S. interests in peace, democracy and economic development in Burma. Given Burma's strategic location, a successful Chinese strategy to tie Burma to Chinese dominance in bilateral relations will provide a critical link in China's strategy to consolidate access to and influence in South Asia, Southeast Asia and the Indian Ocean towards a China-centric regional order.

The Trump Administration so far has not demonstrated much interest in engaging Burma, creating a perception in Burma that the intensity of U.S. engagement since 2011 has ebbed. This perception leads Burmese to conclude that prospects of political, economic and ideological support from Washington for Burma's promising but difficult reform process are dim. If the United States wants to maintain the momentum of U.S.-Burma relations, support Burma's reform process and mitigate Burma's reluctant dependence on China for its national agenda, there are steps the Congress can take.

**Urge the Administration to enhance engagement with Burma.** The Congress should make regular inquiries into Burma's domestic political development including the peace process and civil-military relations, with a keen eye to the role that the U.S. plays in shaping the policies of the Burmese government. The inquiry should cover a broad spectrum of issues beyond the traditional political arena, such as the promotion of U.S. investment in and trade with Burma. The Trump Administration should send clear signals to the Burmese government and the Burmese people that the U.S. remains firmly committed to the democracy, peace and prosperity of their country and is taking serious measures to address their needs for diverse external support.

**Include Burma in Asia Trips.** The Congress should encourage senior officials of the Administration and members of the Congress to travel to Burma during their Asia trips. This will not only send a clear signal of U.S. commitment to Burma, but will also help the U.S. executive and legislative branches to better understand the complex nature of the challenges Burma faces in order to craft effective and comprehensive policies to assist the NLD government. The officials and legislators would be wise to meet with Burmese civil society organizations and media to solicit views of the local actors and convey strong U.S. support to their nascent democracy and strenuous reconciliation process.

**Engage Aung San Suu Kyi.** Aung San Suu Kyi remains the most consequential political leader in Burma, a status achieved through her democratic credentials and unparalleled popularity among the Burmese people. The U.S. would be wise to take measures to dissipate the perception of a rift between Aung San Suu Kyi and the United States, which has undermined U.S. credibility and effectiveness in Burma. The U.S. has an intrinsic responsibility to speak out about the humanitarian situations in certain regions in Burma but it does not necessarily have to become an obstacle to the healthy and positive development of U.S.-Burma bilateral relations. Through communications and coordination, the U.S. must ensure that its principled positions on humanitarian issues in Burma does not undermine bilateral ties.

**Enhance Support for Capacity Building in Burma.** The Congress should ensure that U.S. contributions to capacity building in Burma are not sacrificed or adversely affected in the FY 18 budget. Currently, the most serious challenge to democracy, peace and prosperity in Burma lies in the lack of capacity among its institutions across the political spectrum. Without effective and sufficient capacity building, Burma could easily deviate from the path of good governance and be enticed by the Chinese model of prioritizing economic development and suppressing political liberalization. The State Department, USAID and institutions, such as US Institute of Peace and National Endowment for Democracy, will need the budgetary resources to continue building the capacity of civilian government officials and political parties, to inform and educate civil society organizations in their struggle for justice and social progress, to address the drivers of conflict, and to shepherd the peace process through the inevitable setbacks.

**Support Engagement with China in Dialogues on Burma.** The Congress should encourage the Administration and U.S. institutions to engage China in continuing Track-I and/or Track-II dialogue on Burma. Especially with regard to the peace process and the ethnic armed groups in northern Burma, the U.S. has a vested interest in promoting counter-narcotics, delivering an effective ceasefire and achieving an eventual political solution. None of these can be achieved

without China's support. The U.S. may not be able make China impose the peace process on the ethnic armed groups in northern Burma, but it should at least prevent China from becoming a spoiler. U.S. should also discuss with China the political, economic, social and environmental implications of Chinese economic endeavors in Burma and explore opportunities for cooperation to promote better, more inclusive and responsible development in the country.

As the Trump Administration crafts its policies toward Asia, Burma -- as a distinct success story of democratization and political reform -- should receive due attention and prioritization. The lack of engagement with Burma, which appears to be emerging in Washington, will only push this strategically located country toward China and boost Chinese influence in an area critical to the U.S. regional agenda. Failure to stay engaged and committed in Burma will take a toll in multiple arenas, including but not limited to: democracy and human rights, U.S. credibility and leadership, China's regional security architecture and its aspiration to regional dominance.



**OPENING STATEMENT OF DR. KARL JACKSON , PROFESSOR OF SOUTHEAST ASIA STUDIES JOHNS HOPKINS SCHOOL OF ADVANCED INTERNATIONAL STUDIES**

HEARING CO-CHAIR STIVERS: Dr. Jackson.

DR. JACKSON: All right. Thank you very much.

It's a pleasure to be here on Capitol Hill testifying once again. It's sort of nice to be home.

[Laughter.]

DR. JACKSON: No, I used to have to, I used to have to do battle with Steven Solarz on a regular basis, and Steve and I became close friends, and that was remarkable since I was representing at the time the Reagan administration, and he obviously was not a great friend of the Reagan administration.

But be that as it may, my points today are general. That is the unipolar moment, if it ever existed, has passed, at least in Asia. And that changes everything for each of the smaller Southeast Asian countries. China is the biggest source of development aid. China and Japan are the two largest, and they are definitely competing with one another.

For Southeast Asian political elites, the U.S. is seen to be irrelevant to development. If you need a railroad, if you need a road, if you need a bridge, you do not go to USAID. It's just times have changed, and USAID has changed. I remember one group of Burmese coming here and meeting with the Administrator of USAID. This was four or five years ago. The Administrator talked and talked and talked. A Burmese stuck his hand up and said, you know, the way we Burmese describe what your agency is doing is NATO, No Action, Talk Only.

[Laughter.]

DR. JACKSON: It was the most amazing moment. The poor Administrator of USAID recoiled in horror. But when the Cold War was going on and when the unipolar moment existed, we received a much better hearing in Southeast Asia than we now do.

In addition to the question of infrastructure, which is definitely the thing that Southeast Asian countries are most interested in, they are also interested in the rise of China militarily. All Southeast Asian foreign policymaking elites are keenly aware of it, and they are also keenly aware of the fact that the United States doesn't really have much of a policy toward Southeast Asia.

And they have all noted the inclination of the United States to turn inward. Also Chinese soft power diplomacy is quantitatively superior to that of the United States. When the United States wanted influence in Thailand in the 1950s, there was one year when we brought 1,000 Thais to the United States for training. Nothing like that exists anywhere in the federal budget today.

So if we want to be part of the game, we are going to have to put up more resources, but I would suggest instead of trying to compete on infrastructure, building railways to nowhere, we can compete successfully on the soft power side for fewer dollars and greater effectiveness.

The United States simply cannot call the tune anymore. Why? First of all, all of the Southeast Asian countries, even the poorest, are substantially more wealthy than they used to be. Globalization has made them less dependent on us. The American marketplace is third place for all of the countries of Southeast Asia. First is usually China. Second, Japan, and the United States is third.

Furthermore, Southeast Asians are rather curious people. That is, they don't like being

told what to do in public by foreigners. How unusual psychologically. And the poor guys and gals who are diplomats over in these countries get caught between their knowledge that an indirect approach is the one that's likely to be most effective and the necessity of keeping Washington happy. And so on subjects like human rights and democracy there is an overwhelming push to speak out publicly, and speaking out publicly is the best way to get nothing done on the subject. We need to give some thought to how we're doing this.

Now, what do I think are some of the things that we could do under these current, very difficult circumstances? First of all, recognize that there is real competition. This is a multipolar balance that's developing in Asia. Right now it's more bipolar between ourselves and China, but India is coming along, and obviously Japan remains a major player.

I would also suggest that we stop trying to dictate in public what the Thai government should be doing. A softer tone with regard to human rights violations in the Philippines will make it more difficult for Mr. Duterte rather than less difficult.

And I think we need to be patient with the rise of China. We have to wait for the Chinese to overplay their hand, and I assure you, they will. They will engage in projects that bring Chinese labor into Southeast Asia, even down to the person mixing the cement with a shovel. And for some reason, the locals resent that. Well, just be patient. But we need to be more assertive in tending our diplomatic garden. I would suggest that we should have people constantly on the road from the State Department out to the area and from the Defense Department and other departments of the U.S. government. Being present is at least nine-tenths of the game, and yet we are not terribly present these days.

Another thing I would suggest is to use my favorite currency OPM, other people's money. And I would suggest that we figure out a way to collaborate much more closely on infrastructure projects with JICA and JBIC because they are willing and they have the cash, but often they do not have the organizational capacity to pull whole projects together. They collaborate very frequently with the World Bank or the IFC, and we ought to use this as a model by which we reinforce Japan's presence and try and get a free ride financially, and yet try to make their presence more effective because we don't have the cash to compete with China on infrastructure projects, and we're not likely to have it any time soon.

And finally, we have to stay in the game. We're not perceived to be terribly relevant to the game in places like Bangkok these days.

I would also suggest that if we could move forward to a bilateral free trade agreement with Japan, all of the rest of the governments that signed up for TPP would fall into place. The administration would get what it wants in terms of bilateral agreements, and yet the essence of TPP would be assured and the United States would be seen as being back in the game.

Thank you.

HEARING CO-CHAIR STIVERS: Thank you all.

**PREPARED STATEMENT OF DR. KARL JACKSON, PROFESSOR OF SOUTHEAST ASIA STUDIES, JOHNS HOPKINS SCHOOL OF ADVANCED INTERNATIONAL STUDIES**

**Hearing on “China's Relations with Northeast Asia and Continental Southeast Asia”**

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

**June 8, 2017**

**Abstract**

You cannot begin to understand the wellsprings of Thailand’s apparent drift toward China without understanding that the international system has changed from American dominance to a multipolar Asia. There is an active competition in Asia for superiority among China and the U.S. and Japan and, in the near future, India. The existence of this competition has given new freedom of maneuver to countries like Thailand, Myanmar, Malaysia and the Philippines. A multi-polar world is more fluid, competitive, and potentially more dangerous, and the US should not be surprised when Korea, the Philippines, Thailand, Malaysia, and Burma try to maximize their national outcomes in the more competitive international system.

From 1855 to the present, Thailand has had the most successful foreign policy in Southeast Asia. Thai diplomacy allowed it to avoid direct colonization, damage during World War II, backlash from being on the losing side in the Second Indochina War (1959-75), and the possibility that Vietnam’s occupation of Cambodia (1978-1991) might have become permanent. At present, Thai diplomacy is being adjusted to the rise of China while maintaining Thailand’s military security treaty with a more distant America.

Throughout the past 160 years Thailand has maximized its national interests even while being militarily and economically weak. It has done this through astute diplomacy, convincing a succession of major emerging powers that Thailand was standing with them, when in fact, Thailand always cultivated relations simultaneously with the opposing coalitions of powers. Thailand always hedges rather than wholly committing itself to any emerging power or coalition, and this is exactly what Thailand has been doing with China and the U.S. during the 21st century. China today will be told, and Americans today may mistakenly believe, that Bangkok is bandwagoning with Beijing. As a small and militarily weak nation Thailand must live by its wits as it confronts the emergence of China while continuing to cultivate the Americans to determine whether the Yanks will remain in the game.

What do Thai foreign policy achievements look like over the last 160 years? Thailand did not become a colony like Burma, Laos, Cambodia, Vietnam, Malaysia, Singapore, and Indonesia.

- Thailand allied with the wrong side in World War II and declared war on the United States, but escaped foreign occupation or designation as a defeated Axis power.
- It became deeply allied with the United States from 1954 to the end of the Vietnam War in 1975, but escaped serious retribution from having been on the losing side.
- When Vietnam invaded and occupied Cambodia (1978-1991), Thailand felt its vital

interests threatened. Thailand rallied ASEAN and the UN General Assembly to condemn the Vietnamese, and orchestrated a Chinese-supplied insurgency that inflicted enough casualties on the Vietnamese to convince Vietnam to withdraw “from its own Vietnam” in Cambodia.

How did the Thais attain all of these outcomes? At no point in time did Thailand achieve its ends by generating and applying its own military power. The underlying principles of Thai foreign policy for the last 160 years have been:

- Maximize Thai national sovereignty by being self-confident but non-confrontational and by channeling more powerful external forces to attain Thai national ends.
- Neither ideological commitments, nor friendships with other nations, are permanent. Only Thai national interests are perennial and alliances must be changed to accommodate shifts in the international balance of power. An axiom of Thai foreign policy is: always accommodate a rising power but never so completely as to eliminate Thailand’s ability to shift in the opposite direction.
- In maintaining sovereignty, Thailand can act boldly when an opportunity presents itself. However, when confronted militarily, Thailand has acted non-confrontationally. During the colonial era it resisted politically when it could, crawled when it had to, but preserved its sovereignty when all others lost theirs. When Japanese troops landed in Thailand on December 8, 1941 Thailand sided with the rising power (Imperial Japan) but while taking other actions to convince the US government to ignore Thailand’s declaration of war.
- Keep Cambodia out of the hands of those who govern Vietnam (Vietnam in 1978-91 or the French before them). Utilize outsiders, such as China and the United States, simultaneously to further Thai national interests along the easily penetrated Thai-Cambodian border.

There are several popular interpretations of Thai foreign policy:

- Thailand has “a bamboo foreign policy tradition;” bamboo bends with the wind but never breaks;
- Thailand is completely without scruples; it bends before the wind even gets there;
- When Thai national sovereignty is fundamentally threatened, as it was when the Vietnamese army stationed itself along the Thai-Cambodia border (1978-90), Thailand must stand its ground. Thailand rallied ASEAN, China, and the US to protect Thailand’s interests rather than building up its own army to do the job. As former Prime Minister Seni Pramoj said to me in 1978, “Karl, when you get back to Washington tell them we Thais are brave, we will fight to the last Cambodian.” There was nothing bamboo about Thai policy toward ending the occupation of Cambodia, but it still relied on its ability to mobilize and manipulate the resources of outside powers.

## **The Thai Tilt to China**

Thailand has been adjusting its policies toward China ever since 1975 when it began to see China, in all its enormity, begin to develop, first economically and then militarily. In Thailand regimes and constitutions come and go. But Thailand persistently hedges its bets, by tilting toward whatever power is emerging in Asia (once Great Britain, subsequently the U.S., and now China) but without abandoning relationships with other powers who might be needed to preserve Thai sovereignty in some future scenario.

Thailand's economic interactions currently favor leaning toward China because two-way trade with China is nearly twice as much as its two-way trade with the United States. One Belt One Road offers infrastructure projects from China that it cannot attain from the United States. Thailand is purchasing more weapons from China than it ever has before, and it is increasing its involvement with China in military exercises. But we should remember we have seen all of this before. Thailand has agreed to build three submarines in China, rather than in Sweden, Germany or the United States. In 1938-39 Thailand acquired four submarines from the then emerging Pacific power, Imperial Japan. These subs never saw military action and were sold as scrap in 1953. Then, as now, the non-military functions of the submarine deal are economic and political, incentivizing particular Thai naval officers to sustain an army-led government in Thailand.

### **What does China want from Thailand?**

In Myanmar and Thailand, China wants to draw these smaller but strategically placed countries into China's economic, diplomatic and cultural orbit. It wants to displace the United States as the most influential outside power in Southeast Asia. The China Dream includes using massive infrastructure projects, military sales, and the soft power advantages of access to higher education in China to accelerate Thailand's movement out of the American orbit. China has, since 2012, significantly weakened ASEAN's diplomatic identity, and China wants to displace Thailand's ASEAN-centric regional identity.

From 1945 to the end of the Cold War, the Pacific was virtually a U.S. lake. The US supplied the security structure through a series of bi-lateral alliances. At substantial cost, the US-provided security structure supplied the peace that enabled the Asian economic miracle. American-supplied security, free trade, and access to the American marketplace facilitated the greatest explosion of economic growth mankind has ever witnessed. Since the mid-1970s, the world has witnessed the greatest expansion of wealth, in the shortest time, in the history of mankind, and most of this took place in Asia. First Japan, then Korea, Taiwan, and Hong Kong emerged. These countries were then followed by the Southeast Asian economic tigers: Singapore, Malaysia, Thailand and Indonesia, and lately even the Philippines. When I first went to Southeast Asia as a young graduate student in the late 1960s these places were war-torn, backward and impoverished. Now Southeast Asia has been mostly at peace since 1993 and it has become unrecognizably prosperous. Almost no one would have predicted in the 1960s a peaceful Southeast Asia generating an annual combined GDP of USD \$2.4 trillion for its 640 million inhabitants in 2016.

China, from the 1950s through the late 1970s, was a negative factor, known mainly for exporting revolution or for following utterly wrong-headed Maoist macro-economic models that sustained poverty and cultivated economic and social catastrophes like the Great Leap Forward and the Cultural Revolution. The giant in the North was to be feared, but not emulated, respected primarily because of what China might do to you, not for what you might learn from it. China armed and trained rural insurgents capable of threatening weak and impoverished governments in Burma, Malaya and Singapore, Indonesia, Thailand, South Vietnam and Cambodia. As Mao said, "China had stood up" but she was mainly a negative example of what to avoid: isolation, low growth, troublesome politics, and interference in internal affairs.

A combination of events changed the US, China, and Southeast Asia, and, at the end of

the day, weakened the relative position of the United States in Asia, both economically and militarily. The United States abandoned its ill-fated nation building efforts in South Vietnam, Cambodia, and Laos in 1975 and exited its military bases in the Philippines in 1993. The Association of Southeast Asian Nations came into being in 1967 after the fiery, expansionist President of Indonesia, Soekarno, was pushed out of power by the subdued and non-expansionist, Suharto. The unification of Vietnam and the ASEAN principle of non-interference in the internal affairs of member states calmed the borders of Southeast Asia.

The ideologically driven Mao Tse-tung died in 1976 and was replaced by Deng Xiaoping, the pragmatic developer. With the exception of Vietnam's invasion and occupation of Cambodia in 1978 and China's six-week invasion of northern Vietnam in 1979, Southeast Asia, once known as the Balkans of Southeast Asia, was becoming more peaceful and beginning rapid, export-led expansion. Under Deng, China entered the outside world and stopped trying to export revolution to Southeast Asia. China adopted state centered but export led growth that brought astonishing levels of economic growth and social change under an unapologetically authoritarian one-party state. Although history supposedly ended with the end of the Cold War with the dominance of liberal democracy and market capitalism, apparently the Chinese "didn't get the memo." China's combination of authoritarian rule and state-led, market-driven growth began to fascinate Southeast Asia. China made itself even more attractive to Southeast Asia by generating unprecedented demand for Southeast Asian commodities. When explosive growth began to dominate the largest country in the world, the smaller nations of Southeast Asia began to understand that China was more of a prospect and less of a problem.

When the Cold War ended with the implosion of the Soviet Union, the United States seemed like the only power in the world, a Rome-like colossus poised to dominate world affairs for an indefinite period. The unipolar world, if it ever really existed, died from the combination of American exhaustion in Iraq and Afghanistan and the rapid economic growth of China, and China's modern military power. Over the last three hundred years, all nations that have experienced sustained and rapid economic expansion have immediately built serious power-projection capabilities: Great Britain after the industrial revolution, Germany after its unification, Japan in the late 19th and early 20th centuries, and now China is doing so in the wake of attaining status as the second largest economy in the world. Just as rapid American economic growth in the late 19th century created the Great White Fleet and German industrialization made possible a fleet of dreadnaughts, China's double digit economic growth fed China's military expenditures and its nationalist dream of dominating all waters near China, including the South and East China Seas.

### **US Policy Moving Forward?**

- The uni-polar world is gone and the US needs to recognize that its capacity to compel conformity from alliance partners has already declined, that its regional monopoly of force is seriously eroded and that it must concentrate on our central national security missions. This means ratcheting down, but not abandoning, the emphasis on human rights and democracy building that came to dominate US foreign policy during the unipolar interval. The US must recognize that the era of unusual American predominance (under Clinton, George W. Bush, and Obama) has passed and that it needs to rebuild its now faded Southeast Asian alliance system. The multi-polar balance of power will

require bidding for support from undemocratic or even unsavory partners with whom the US would not have trifled during the period when it thought history had ended.

- Be patient and allow China to overplay its hand. Myanmar, under military rule, was perceived by outsiders as a virtual satellite of China. China supplied all of Myanmar's weapons and foreign assistance as well as much of its legal economic trade. Chinese State Owned Enterprises (SOEs) provided the engineering know-how and capital to plan and undertake infrastructure projects, some of which were completed while others like the massive Myitsone dam project alienated people at both the local and elite levels. Myanmar resolutely refused "to stay bought" and took advantage of the more fluid multi-polar world to move out of China's orbit.
- Keep as many bi-lateral US-Thai relationships alive as possible. It is particularly important to maintain US relations with the Thai military elite which, whether the US likes it or not, has run Thailand for most of the years since the 1932 abolition of the absolute monarchy.
- USAID funded scholarships should be re-instituted on a large scale, perhaps 50-100 per year to Thailand. At their high point in the late 1950s thousands of Thai officials were brought to the US for training and this American soft power profoundly influenced positive US-Thai relations for several generations.
- Much to US dismay, the Thai military again dominates political power but the US should not confront Thailand publicly over its system of government. Most Thais perceive US public criticism as an affront to Thailand's national sovereignty. The U.S. government should send its best to Thailand. US officials should be instructed to support a return to democracy in private, but refrain as much as possible from public criticism. The US should underline its confidence in Thailand's ability to resolve its domestic political difficulties. The US should look forward to Thailand's return to democratic rule but at a pace that is Thai-prescribed rather than American-prodded. Criticizing Thailand in public is simply counter-productive to US national security interests, and US public criticism is a boon to China.
- Encourage Japan to compete with China in supplying infrastructure grants and low cost projects to Thailand. Burden sharing is an established principle in the US-Japan security arrangement and Japan should be encouraged and praised publicly for expanding its infrastructure foot print in Thailand.
- This is no time to retreat from involvement in Asia. The US should fill the gap created by withdrawal from TPP. If the US immediately completed a bi-lateral trade agreement with Japan (creating the largest consumer market in the world) and made it open to other TPP nations to join it, the US could again exercise economic predominance and remain in the game in Asia.
- Above all, do no harm. Lose no opportunity to express confidence in Thailand and in the history (and mythology) of positive US-Thai relations.

## PANEL II QUESTION AND ANSWER

HEARING CO-CHAIR STIVERS: Commissioner Cleveland.

HEARING CO-CHAIR CLEVELAND: You are as ever entertaining, and I have to say last night at ten o'clock when I was reading your testimony and came across the line that you and I have laughed over before with the prime minister of Thailand speaking of how brave the Thais are and they'll fight to the last Cambodian, I was reminded of your sense of humor.

I have a really sort of simple question, and it comes out of our recent trip to Burma and a conversation with one of the advisors to the NLD who talked about the port of Kyaukphyu and how basically nobody else bid on it but the Chinese, and that it put the government in a difficult position because the Chinese had the cash, were willing to commit to the investment on obviously for infrastructure on their terms, and it sort of prompted the question in my mind that if we keep talking about how important this is and the Chinese are engaging and expanding their interests, what happens if we're not in the game?

What happens if we just decide to cede that this is China's backyard, that we don't have the strategic interests, we're not willing to commit the security or economic resources? The question becomes so what?

It's for each of you, and I don't share that perspective. I mean, you know, having spent my entire life in this part of the world, I don't share that perspective, but what I'm struggling with in terms of articulating for the American public what the, what the national security and the national interests are of American engagement in Southeast Asia? I'm not talking about the North Korean problem at this point, but Burma, Malaysia, Thailand, Laos, Cambodia, what's the, what's the rationale--Indonesia--what's the rationale?

DR. JACKSON: The first answer to your question is the economic potential of Southeast Asia has barely begun to be tapped. 640 million people and 2.4 trillion in combined GDP in real terms, not in PPP, but in real dollars.

And if I am correct that we are going to be engaged, whether we like it or not, in a serious competition with China Southeast Asia remains an incredibly important area geographically simply because of proximity to China. If we cede that area and all its resources to China, we will be vastly disadvantaged, and I'm not the only one who thinks Southeast Asia was important.

Imperial Japan went to war, a war they knew they would lose, and they went to war because of Southeast Asia and its resources.

Now, the Kyaukphyu project is an interesting one. There are several projects like Kyaukphyu that Japan was interested in but was elbowed aside as a result of the excruciatingly slow decision-making process on all projects in Japan. So this is a cultural thing. But it's also because China can do certain things in the bidding process that most nations cannot, and it has to do with money, money, money and its provision in very selective ways.

Kyaukphyu is an important project. There's another called Dawei down on the other coast that the Japanese have been interested in for three or four years. It is moving very, very slowly and speed is a real problem. But my other colleagues might have things to add or subtract.

MS. SUN: Sure. Thank you for that great question.

My first reaction is it depends on, it depends on how the United States sees its role in the region and also in the world. Who do we see we are? Do we still believe that we are the leader? Or do we believe that China is already replacing us, if it has not replaced us, in certain regions?



And that's a definitional question for ourselves.

And second, the second point I'd like to make is that there is a strong desire from the region, from the countries, the governments and the people and the civil societies in the region that aspires for U.S. role in their countries. They understand that China has the cash, but they are not completely comfortable with the consequence of their close collaboration with China.

So they would like to have U.S. be there to help them and in some cases shepherd them through that negotiation process with China and also to show China that Southeast Asia is not at China's mercy because no one else cares.

The third point is whether we have a binary perception about U.S. and China's role in Southeast Asia? Is it either China or the United States? It doesn't have to be either/or. I think China does have money, but U.S. has responsible investment. U.S. has a better value. U.S. has better mechanism and approaches. So I think those are the issues that China does not bring to the region. So there is a demand, and I do believe that U.S. has a supply.

MR. HIEBERT: I'm not sure I have much to add. I agree that Southeast Asia is economically very important to the U.S. I mentioned earlier that ultimately the U.S. has far more investment in Southeast Asia than it has in China, India, South Korea and Japan put together. China gets all the headlines, but, boy, some of that U.S. investment in Singapore, Malaysia, and Thailand has been going on for 40 years, and it's still going.

So that's pretty critical for jobs. Our exports to Southeast Asia create somewhere on the order, depending on which models you use, about 500,000 jobs in the U.S.

And then, strategically, Southeast Asia lies on the South China Sea. It's the crossroads between India and China. It's at the crossroads between the Indian Ocean and Pacific Ocean. This is pretty serious stuff.

Like Yun Sun said, Southeast Asians don't want to choose. They like the fact that China has tons of money, but they do like some balance. We have seen when a country becomes too beholden, as happened with Myanmar, Burma, as happened with Laos, -- the Lao decided they had to kick out Party leaders and Burma moved very dramatically away from China because they just felt overwhelmed.

These countries, Burma and Vietnam being the prime examples, are very proud, and they really don't want to be just dependent on one country that's so very close. So, yeah, it takes a little energy, but I think these are very valuable strategic and economic countries for us to engage with.

HEARING CO-CHAIR STIVERS: Thank you.

Senator Dorgan.

COMMISSIONER DORGAN: Thank you very much.

You talk about Chinese investments in that region with military ties, equipment, and training, and energy ties, and big development projects. I think of our analysis of what is happening with respect to the growing debt of China and some of the strains and stresses that they are feeling, and then I think of our budget and what we see ahead of us with respect to our budgeting here in the United States, recommendations with respect to USAID and foreign aid and developmental projects.

So, you know, what we're talking about and seeing here seems out of step with what you suggest we should be doing to remain very active in the region. Give me your thoughts about how you see that and also your thoughts about whether China has the capability to continue in a robust way given the financial strains that we see now exist in China.

DR. JACKSON: Well, as I said in my opening statement, I think we should just be patient.

First of all, China is going to encounter very serious economic problems. There are about a trillion dollars' in worthless junk bonds issued by Chinese SOEs that are floating around, and you know a trillion here, a trillion there, pretty soon it's real money, as Senator Dirksen used to say.

And so what we're witnessing now is the inevitable slowing down of the Chinese economy. All economies that successfully develop have two characteristics: one, growth slows down after a period of very rapid growth; and secondly, no country has ever gone from being impoverished to being relatively wealthy without at least one financial crisis.

This too will come to China at some point. I can't tell you why or when, but unless the Chinese Communist Party has access to some special thing that no one has ever in the history of mankind figured out, China too will get its turn in the barrel.

Now I worry about that downturn, when it does come, because of the combination of an economic downturn and a Communist Party that doesn't have any political legitimacy anymore. The natural temptation will be to play the nationalist card, and that's a really--that's the Armageddon scenario.

If the US were to become more active in Southeast Asia, it would not necessarily require vast sums of money. It takes more skill. It takes more willingness to cede space to our diplomats and representatives abroad, and it takes being clever about the use of the resources of some of our really staunch allies, such as the Japanese with whom we could collaborate on infrastructure projects.

They've got the money, and we could simply praise them and work with them, and this kind of thing would cost us nothing except--well, it will cost something, but it will be fairly marginal because, after all, when China put together its alternative to the World Bank, the next day, Prime Minister Abe stepped up and offered that sum, plus one billion more just to make sure Japan's contribution would be larger. I think in the case of Prime Minister Abe, there's a really reliable person with whom we could cooperate, especially if we made it politically useful to him by lending some of the prestige of the government of the United States to a joint activity in Southeast Asia.

MS. SUN: On the first question, I think China's investment in Southeast Asia or generally in the Belt and Road Initiative is going to continue in the foreseeable future. There's an issue of Xi Jinping's face and his credibility because Belt and Road is his signature foreign policy or global strategy project, and he has to provide the necessary resources to see it through.

And secondly, Belt and Road is important for Xi not only because it is China's reforming of the global order, it is also seen in China as a rescue for China's own economic slowdown because Chinese market now is saturated with excess capacity accumulated in the past decades, and there is no longer the market space in China for this capacity.

That's why China is using its own investment in overseas, using its own money for overseas investment to absorb that excess capacity, and that's seen as the rescue for the Chinese, for the Chinese economy today.

Then coming to what we can do here, I think one important issue is we need to ensure the support of capacity-building in mainland Southeast Asia in countries such as Burma and make sure the contributions to capacity-building are not sacrificed or adversely affected in the government budget.

COMMISSIONER DORGAN: Thank you.

MR. HIEBERT: So, you know, you're always at risk when you're third to repeat stuff that people have said, but I'd just make a few points.

On China, can China keep going? I mean I agree with Karl that China is likely going to have an economic crisis. The banking overhang is pretty serious. At some point it's going to bite them, but you're starting to actually see it at some points in Southeast Asia already. In Malaysia, a lot of construction has already stopped. That's mostly in real estate so far, but they're not very far along on the railroad and some of the roads that they're promising to build in Malaysia.

But if you go to Vientiane now, you see some of the overcapacity already and some projects are frozen. Part of the reason they're frozen is that the capital controls that China has put on to prevent the exodus of money is already starting to hit some of the projects in Southeast Asia. And then at the same time, in Vientiane now, there are all these shophouses that have been sitting empty for years. Their Chinese architecture in a Theravada Buddhist country doesn't fit, and nobody wants to move into them, but they used some money and cement and steel from somebody's excess.

I totally agree with Karl that we need to cooperate with Japan. It can really help us. Southeast Asian views of Japan have totally changed in the last 15 years or so, maybe longer, and they no longer have some of the negative feelings that they used to have from World War II. So Japan has a lot of the money, some of the know-how, but they don't have a lot of the soft infrastructure abilities how to design, how to implement, how to manage, and so I think for the U.S. to work in tandem would be a really good idea.

HEARING CO-CHAIR STIVERS: Thank you.

Commissioner Slane.

COMMISSIONER SLANE: We just returned from Burma, and the Burmese were very critical of the Chinese and felt that they had been abused and were encouraging us to promote U.S. investment in Burma.

It seems to me that we have a great opportunity to really pivot back by spending a lot of money on infrastructure and other U.S. investments in Burma. I'm wondering what the reaction of the Chinese would be if we started to direct USAID and incentivize American corporations to go to Burma?

Burma is the only country in the world that I have ever been in that does not have a McDonald's.

COMMISSIONER TOBIN: And you missed it.

COMMISSIONER SLANE: I don't think I did.

[Laughter.]

COMMISSIONER SLANE: Nor a Starbucks. But in any event, I just want your reaction as to whether you think this is a great opportunity for us to start to do something in Southeast Asia?

MR. HIEBERT: Well, I agree that there has been quite a bit of grumbling about China in Burma. I think, though, there is some anxiety more recently about whether the U.S. will remain that engaged and whether U.S. companies will invest now that the U.S. has lifted totally its sanctions on investment.

It did it last September when Aung San Suu Kyi visited here, but U.S. companies outside of Coke, Pepsi have really not invested very much. GE is selling stuff, but it's a very difficult

economic environment so it goes back to what Yun Sun said about needing to build capacity.

The infrastructure is weak. Electricity faces a very big deficit. The legal system isn't there. The whole land issue around building infrastructure is a complicated, and there's been so much turmoil over land acquisition that happened back in the day under the military. So the current government is really sensitive about creating more problems in that area.

I was living in Vietnam when the U.S. lifted sanctions, and you saw U.S. companies plow in there. They were much more confident, but you ask these companies now why they aren't going into Burma, and they say, well, we didn't make money for a long time in Vietnam, and these are pretty wild cowboy places, so it's really very tough for U.S. companies in Burma.

So I agree with you that we should try. We should encourage companies to invest. But the environment is really quite difficult. They don't have the civil service that you can talk to. I've watched companies go through the application process. It's very slow and very, very difficult. But the Burmese say they would like U.S. investment because the U.S. companies operate differently. There's quite a bit less under the table payments from U.S. companies.

They do have better labor practice. Quite often they transfer technology, and often the Chinese companies bring in their own workers, and there's not a transfer of technology, and so there's very little know-how that's passed along. So I would endorse it, but it's a tough environment that that we need to recognize.

DR. JACKSON: I would agree with Murray from my experience in Myanmar. When I was out in Myanmar frequently, I was always talking to U.S. businessmen and saying, hey, what does it take to get you to come here? Their reply was pretty succinct: "the ability to make money." And that's kind of logic is tough to counter.

And the problem then was American businessmen were not sure that the government in Washington would stay in the game if there were a major outbreak of violence, maybe in the Rakhine State or up in northern Myanmar. If that led to some kind of movement to re-impose sanctions, then the person who had suggested the Burma project would get fired.

There's still substantial risk. Somehow U.S. government resources would be required to incentivize the private sector to put in most of the resources. I don't think it's beyond the mind of man to conceive of an arrangement that might work that way.

After all, we invented public-private investments. The first major one was called the Transcontinental Railway. It had lots of corruption, but it tied this country together by utilizing public-private collaboration. Now it is very difficult to do because bureaucracies and private sector engagements don't mix terribly well. They are not natural cohabitants, but with a few incentives, it could work.

MS. SUN: The lack of investment in, for example, in the infrastructure market in Burma is not because there's no money in the international financial market but because the capitals refuse to go to Burma because the environment is not good enough. There's a legal environment that's not complete in the country yet, and the capacity of the government of the civil servants are relatively low, and also the society is still going through a morphing stage towards better rules and better legislation.

So compared to China, we have to acknowledge that the Chinese have comparative advantage in terms of this type of infrastructure development. They have the financing provided by the Chinese government policy banks, and they have state-owned construction companies that have sharpened their skills and their efficiency over decades of infrastructure development inside China and in other less developed countries like those in Africa.

So for us to compete with China in an area that China has already established its overwhelming advantage may not be the most efficient way to use our resources. And I think at least in the case of Burma, the Burmese people, they aspire to U.S. systems; they aspire to U.S. values. I think those are the areas that we can make a real difference and make a really big difference that has a direct impact over the kind of investment that China makes in Burma.

COMMISSIONER SLANE: Thank you.

HEARING CO-CHAIR STIVERS: Thank you.

Commissioner Tobin.

COMMISSIONER TOBIN: Thank you all.

I'm intrigued. I'm intrigued by the possibility that you suggest, Dr. Jackson. I want to get each of you to say a little bit more on it, about the United States being clever and artful in working with Japan.

Your two recommendations there related to the fact that Japan is doing infrastructure in Southeast Asia, significant infrastructure, in fact, and that we might do some burden sharing with them, and then you go on to say that this could, if we're working with Japan, it could begin to fill the gap, which we did hear about in our visit there, that TPP is no longer viable or alive.

So, in Thailand, I believe it was, the news there was that Yokohama has this program of smart cities where they're doing a lot of infrastructure investment through the very thing you talked about, Dr. Jackson, through government, and maybe since business is risky, maybe Japan is the key. Japan is already significantly in Myanmar.

So, Mr. Hiebert, Ms. Sun, and Dr. Jackson, if you want to take us a little further with the idea of the United States working to support Japan and Japan playing a role either through government or other ways? How much more specific can you get today?

MR. HIEBERT: Well, I think you've basically summarized it. There are government agencies in Japan that are already very active in Southeast Asia. Japan is developing a lot of its infrastructure West-East, so that it links more with Japan and the rest of the world, and China's infrastructure building is more North-South.

Japan is already very active in competing in this space. But there's often the capabilities that we've referred to--design, project management, these kinds of things that the U.S. is very good at. At CSIS we've tried a few times to bring people from Treasury and bring the bankers down from New York to meet with companies, to discuss the possibility of U.S. involvement in infrastructure development in Southeast Asia. The companies, just like Yun Sun said, face the difficulty of being sure you can make money on an investment, that you can get your return on investment.

And so, like Karl said, it would be really important to try and find some government guarantees that would make companies feel more comfortable. But the Japanese have the mechanisms and the projects, but the U.S. could have a big amplifier effect if it jumped on board with some of those projects.

COMMISSIONER TOBIN: Ms. Sun.

DR. JACKSON: I would only go back to something I said before. When I was in government --- 600 years ago--

[Laughter.]

DR. JACKSON: --my main responsibility was the U.S.-Japan relationship, which was in a very negative phase at the time. Pebble Beach, Rockefeller Center, et cetera, et cetera, and what I found was that if we worked intensely, and in a very personal way with our Japanese

counterparts, we were able to get through all of that, and when the First Gulf War came, I was part of Operation Tin Cup, where we were going from one country to another collecting resources to support the war. We did raise \$13 billion from the Japanese government back when \$13 billion was still a lot of money.

And the way it was done was having our diplomats constantly on the road to Tokyo, to sit down, drink sake--that was really tough duty-- with our counterparts. When the time came for the big ask, it was a Saturday morning. I was in the White House and received a call from someone in Treasury. Treasury wanted \$8 billion more, and so I called the Japanese Ambassador. It was over an open line, and so I had to be somewhat diffident. I said, Mr. Ambassador, the number is "8."

And he instantaneously knew that was \$8 billion, and his reply was "Thank you very much." And two days later, Japan committed that amount. That's an ally! This kind of cooperation could be done again if there were sufficient mutuality between the Japanese and the Americans. No one likes being talked down to, especially the Japanese, but it can be done, and we have very skillful people who work on Japan in the American Foreign Service. This would not be an impossible task.

It wouldn't be an easy one. There are no easy things in foreign affairs, but it could be done.

COMMISSIONER TOBIN: And we don't have to talk down to them at all, you know.

COMMISSIONER TOBIN: Not only would it not work, but given the size of their economy and their prior investment in being a stronger economic leader, I wouldn't be surprised if there's some readiness.

DR. JACKSON: Yes. I still communicate with my Japanese friends all the time, and if we at an official level stepped up and asked the government of Japan to collaborate with us, maybe in the way that Murray mentioned--

COMMISSIONER TOBIN: Right.

DR. JACKSON: --I think they would be very receptive, especially if we framed it in terms of the U.S.-Japan security arrangement.

COMMISSIONER TOBIN: Thank you.

Ms. Sun.

MS. SUN: Yes, ma'am. Though China sees Japan as the only country in Southeast Asia in terms of long-term economic influence, Japan is the only country in China's perception that can compete with China. So like Murray just mentioned, China's desire, the regional transportation network in mainland Southeast China is constituted of three vertical lines from North to the South, from China down to mainland Southeast Asia, and Japan's vision, at least it has been a couple of years, are the horizontal transportation network from Burma all the way to Vietnam. So they're the horizontal. There's a competition.

And also in mainland Southeast Asia, Japanese ODA has been the most effective as competition with Chinese financing coming to infrastructure projects. One example is the Sino-Burma Railway Project that was aborted a few years ago, and the Burmese were very honest, at least in private meetings, that they saw the interest rate provided by the Chinese policy banks for such projects were nowhere near what Japanese ODA was able to offer them. So in the Burmese calculation, of course, Japanese offer us better deals. We're not going to go with the Chinese money.

Also there's a conviction that Japan brings better technology, more responsible investment in their country, better consideration of the community development in the locations where they invest. So, yes, I think Japan is probably in terms of the economics and the infrastructure development, Japan is the most formidable competitor to China in mainland Southeast Asia.

And for ways that U.S. and Japan can cooperate in that space, I agree with Murray on the issues of possibility of government guarantees to the joint, joint development or joint investment. I also wonder whether there is possibility for the two governments to take the lead to start conversations about how private sectors in U.S. and in Japan could cooperate in mainland Southeast Asia.

There's also the issue of multilateral development banks in the region. ADB is facing competition from the China-sponsored and China-dominated Asian Infrastructure Investment Bank, and China is promoting its own version of GMS, Greater Mekong Sub-regional Cooperation, which is an ADB project. Now China is trying to replace that with Chinese mechanism called the Lancang-Mekong Cooperative Mechanism.

So in those multilateral development banks, U.S. is a member of ADB and Japan is also a member so I hope that the U.S. will take more consideration as for what U.S. can do within the framework of ADB with Japan as well.

COMMISSIONER TOBIN: I think we all need to keep thinking on this, and as you all also have said, we've got to articulate the strategy soon.

Thank you.

HEARING CO-CHAIR STIVERS: Commissioner Bartholomew.

CHAIRMAN BARTHOLOMEW: Thank you very much. Thank you to all of our witnesses.

Dr. Jackson, I don't want to start by being contentious, but I will just say that I don't necessarily agree with you on silence on human rights, partly--

DR. JACKSON: Not silence but modulation.

CHAIRMAN BARTHOLOMEW: Yes, well, partly because I think that we all need evidence that our own government is speaking out on behalf of values, and when it is done quietly, we don't necessarily see either results or messaging, and also because I think it's an important signal about values to other people in the world.

So President Reagan's "Mr. Gorbachev, tear down this wall," was not just to me a statement to Russia. It was a statement heard by people around the Wall. So I just wanted to say that.

But while my colleagues were in Thailand and Burma, I went to Seoul and to Tokyo, and so I'd like to enlarge our conversation just a little bit beyond Japan and beyond infrastructure. What we heard in Taiwan when we were there, what we heard in Seoul, what we heard in Tokyo, was this concern, of course, that China has overplayed its hand, which we know that they sometimes do, both economically because of retaliation that they're carrying out against Seoul and have been at times against Tokyo, and also militarily. So I see opportunities to strengthen the alliance by working together on economic issues in Southeast Asia beyond infrastructure.

It was very interesting in Taiwan that while the Chinese government has cut down on tourism from the mainland to Taiwan, the people in Taiwan believe that they have actually made up those numbers-- although it's by bringing in tourists from Southeast Asia.

So I wondered if you all could talk a little bit more about potential regional alliance,

some of the demographic challenges that Tokyo is facing, that Japan is facing, that Korea is facing, that Taiwan is facing? They need workforces. They're going to need people who can take care of aging populations. How do those economic relationships grow, and how can we facilitate that and also benefit from strengthening those alliances?

DR. JACKSON: These are huge questions.

CHAIRMAN BARTHOLOMEW: They are indeed. And you have four minutes in which to answer them.

DR. JACKSON: Definitely.

[Laughter.]

CHAIRMAN BARTHOLOMEW: Indeed.

DR. JACKSON: On the whole question of Chinese retaliation against both Korea and the Philippines, I think this Chinese activity plays to our benefit in the long run because it creates fundamental distrust of the motives and means of the Chinese government. It is very painful to the people it's happening to, but it does create a diplomatic opportunity for us.

Now, moving beyond infrastructure, I think we're not really competitive in infrastructure except on the software part of it. The Japanese have the money. The Japanese have the construction firms that could do it, but if the total American USA budget was \$100, I would not put \$80 into infrastructure. I would tend to put it into some of the softer things such as bringing large numbers of people from the affected countries to the United States to study.

In the 1950s when we were really serious about getting Thailand to be our friends, we brought so many people here that virtually every director general, in every department in the Thai government, had been trained in the United States, and we reaped 20 years of benefit from that.

Now, this would cost money, especially since our universities all cost so much, but in my opinion, that might be the single-best sort of investment. It is clear China is making a huge investment in all these things.

Murray and I were in Kunming together--

MR. HIEBERT: [Off microphone comment.]

DR. JACKSON: Yeah, yeah, absolutely. How could I forget that? Well, I--well, I won't go into that.

[Laughter.]

DR. JACKSON: What impressed me was how seriously the folks in Kunming were taking the whole question of Myanmar, whereas, in this country, you're hard put to fill a panel at either an academic conference or a hearing panel with people who really have paid serious attention. If we brought more people here for educational purposes we would stimulate more attention from the American side of the equation.

Now, aging and regionalism, I can only contribute the fact that I am aging.

[Laughter.]

DR. JACKSON: But I still go to the region. Aging is going to be a problem for China is going to, is really going to age more rapidly, much more rapidly.—China will get old before it gets really wealthy on a per capita basis. And that is a nasty part of the time bomb that has to do with the development process: every country has at least one economic crisis during the development cycle.

Many Southeast Asian workers are going to other places in Asia and the Middle East. Ten percent of the Philippine GDP is from Philippine workers abroad sending money home. This



is part of how the Philippines has gathered its resources for development. Southeast Asians are searching for overseas opportunities to increase their livelihood.

MR. HIEBERT: I'm surprised that you're the first person here today that mentioned South Korea because South Korea is becoming such an important player economically in the region. Vietnam, for example, has become as we've heard from the new administration, a trading juggernaut in its own right, but its largest single export is stuff produced by Samsung, and then its textiles and footwear from Nike and others.

You're now seeing South Korea increasingly playing a role in Indonesia, in Thailand, in Myanmar, Burma. They're plowing in there and playing a pretty significant role as they try to move some of their manufacturing offshore. They don't want to have everything in China. So they're moving it into Southeast Asia so they have a China plus one strategy, and South Korea is really playing a very important role in boosting economic development.

And so, absolutely, we need to cooperate with Korea in working with these countries. I totally agree.

MS. SUN: The Burmese migrant workers are currently working in Thailand. They work in Singapore, some of them in Japan and some of them in South Korea. So Burma has a very abundant, a very young, labor resource so that in the future is what the country, where the country is looking for its future growth.

And one industry in particular, the garment industry, in Burma has created a lot of jobs based on investment from Japan, from South Korea, and from others, including Taiwanese, although Taiwanese, not the country. These jobs are far more significant in terms of its number compared to the jobs created by the Chinese investment, the infrastructure investment projects.

But for these manufacturing industry jobs or for these industries to prosper, they need training, they need capacity building, they need to learn how to invest in a difficult country like Burma responsibly, and how to create that long-term sustainable development that will be received positively by the local community, far more positively compared to some of the Chinese projects have experienced in Burma.

In terms of the issue of aging, China also has this problem. The labor cost in China has been rising, and Chinese companies are also looking at Southeast Asia for future, the transferal of their own manufacturing industries to shift them overseas.

Though currently infrastructure is a key area that China is looking at, for the future, the industrial transfer from China will potentially also become an issue.

On regionalism, we know that China promotes the RCEP, R-C-E-P, in competition with TPP. Now TPP seems to be losing some of its momentum, China seems to have less a sense of urgency to really push RCEP here. But whether we are going to change our attitude on TPP, that's a different question.

CHAIRMAN BARTHOLOMEW: Thank you.

I started by disagreeing with you, Dr. Jackson, but I'm going to actually end by agreeing with you, that I think that the aging population that we met with as government officials when we were in Seoul and in Tokyo--CSIS graduates, CSIS graduates, Fletcher graduates-- it was very clear that people had come to the United States, had gotten their educations here, had good strong relationships with people here.

So I will just go on record that I think it's unfortunate that we are in a place right now where people are talking essentially about Fortress USA, which is making it more difficult for people to come here and study and more difficult for people to come here and--

HEARING CO-CHAIR CLEVELAND: To that point, we heard both in Thailand and Burma that there are, I think, 22 Fulbright Scholars that are brought to the United States compared to 1,500 Chinese teachers that are in Burma and Thailand and students brought also back to China. So there is an asymmetric warfare going on in the soft power realm.

HEARING CO-CHAIR STIVERS: Thank you. Thank you.  
Commissioner Shea.

VICE CHAIRMAN SHEA: Thank you.

I'm glad we talked about soft power. Now we'll talk about hard power. I mean we heard, let's say there are four components of a relationship with a country or a region. There's diplomatic. We heard we need to sort of flood the zone with more diplomats to just show up at these regional and conferences. We heard some ideas about economics, partnering with the Japanese on development aid. We heard stuff on cultural, more student exchanges.

What about security? How could we--what are the opportunities to deepen the U.S. security relationship with Southeast Asia?

DR. JACKSON: Anyone want to go first?

MR. HIEBERT: On the four countries we're talking about--

VICE CHAIRMAN SHEA: You can go beyond that.

MR. HIEBERT: Go beyond that. Okay. But I'm going to start with those. One issue, of course, is there's a lot of anxiety, on the Hill particularly about boosting military ties with Myanmar because of what it did over the country's recent history.

I think in some ways that's a little shortsighted. You know we can't always deal with angels, and these guys have obviously done some pretty bad stuff, but they are really critical to getting the country to move toward democracy, to get the peace process going, to dealing with very awful Rohingya issue in Rakhine State, and just cooperating with the civilian government. So I would say doing a little more engaging with the military might be useful.

I'm not calling for anything like training officers here in the U.S. or providing them kinetic equipment, but maybe more engagement would be helpful.

Cambodia in the last few months has really moved very dramatically away from the U.S. They kicked the Seabees out that were building maternal clinics and build schools, and they have suspended military exercises with the U.S. until 2019 while doing them with China.

In Laos, mil to mil engagement is tough. But in Vietnam, you're seeing now the U.S. really stepping up with Vietnam and the Philippines on maritime domain awareness, which is to address the issues in the South China Sea, but generally I think the U.S. has really, in a macro sense, stepped up engagement in the region.

In Indonesia, military relations have really come a long way since the U.S. lifted the final sanctions in 2011. With Malaysia, there's much more cooperation, joint mil-to-mil exercises, much more Intel sharing. It really is increasing throughout the region.

And China's military engagement with Southeast Asian countries is really nascent. It's now starting to do some exercises with Cambodia. It provides Cambodia quite a bit of equipment, and it's selling a little bit to Thailand.

But really the ASEANs for the most part feel that the U.S. is there pretty actively in a security sense. There are lots of navy vessels sailing around the South China Sea. A lot of joint exercises. What the ASEANs really want is economic engagement with the U.S. to balance China, that's sort of an adage you hear over and over again in the region.

MS. SUN: What the Chinese perceive in the issue of U.S. security relations with the

countries in mainland Southeast Asia is a dilemma or is a conflict between U.S. national interests in promoting human rights and promoting issues of principles and more practical strategic and security interests.

In the case of Burma, if we want to, if we see Burma as a strategically important location in the countries that we need to have a security cooperation with, we need to work with their military, but that's given the political climate and some of the historical issues and the current ongoing human rights violations by the Burmese military, it's just not going to happen.

So that's a difficult--that's a difficult dilemma. And the issue doesn't only exist in Burma. So in China what you do see is the perception that the Chinese feel that the engagement, the political and security engagement between U.S. and these--Vietnam, Cambodia, Laos, and Burma--is essentially going to be limited because of the difference in the political systems.

So, for example, on the case of Vietnam, I know that there have been signs of rapprochement between Hanoi and Washington, but for China, their perception is, well, if Vietnam Communist Party gets too close to the U.S., they will have to make significant political sacrifice to really substantially change that, improve that relationship, and they don't believe that the Vietnamese Communist Party will be willing to make that compromise. Therefore, they don't believe that the substantial improvement is in the horizon.

DR. JACKSON: I would just say that I think that we have a false dichotomy when we look at IMET training versus human rights. If you want to have Myanmar officers be more clued in about human rights, bring them to the United States. Give them the opportunity to behave like professional officers and at least some of them will take it.

If instead you continue to isolate them, it will have the opposite effect from what you intend. I was in Nay Pyi Taw several years ago. Just outside of NayPyiTaw there is an officer training academy. On five minutes notice, I was invited to give a talk. What was very interesting was these colonels were talking about when was the last Burmese officer trained in the United States? Oh, it was such, and such and such and such. It was an incredible note of pride that these officers had. They would jump at it if there were an opportunity, and it wouldn't make them more nasty to the Rohingya.

[Laughter.]

DR. JACKSON: And as a result of training, they might be less nasty. This is an old argument that we have in Washington, that whenever we have a problem, we should cut off military aid, and I just think it tends to achieve the opposite of what we intend.

VICE CHAIRMAN SHEA: I just want to follow up, Dr. Jackson, with what Chairman Bartholomew said. You said speaking out publicly is the best way to get nothing done, and I think what you had on your mind, and correct me if I'm wrong, was the situation in Thailand. You know, because we spoke up in Burma, and I think that has endeared us to some degree to the people during the years of the military junta.

In Thailand, we heard quite the opposite from some quarters about, about the U.S. reaction to the coup. And I was wondering what you think, what your thoughts are on, since I know you're an expert on U.S.-Thai relations, what your thoughts are on the U.S. reaction to the coup?

DR. JACKSON: If we had criticized the Thai elite and particularly the Thai military elite in private, it would have been entirely acceptable. It's when you try to do it in public, then it is rejected because it is considered to be an affront to national sovereignty.

If you want to move the Thai government, you do it quietly and behind closed doors, and

we used to do that quite well in Thailand, but in recent years, the particular people carrying out our policies have felt compelled to say it in public, and it's usually counterproductive when you do it.

I think that continuing to have mil-mil relations with Thailand makes a great deal of sense from the point of view of U.S. national interests and is more likely to pull them in the direction where we want them to go, that is towards going back to elected governments. It's going to be a slow long haul in Thailand. As you know, the military has been in control of almost all the governments since 1932. We are fighting a trend, not just a particular government.

VICE CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR STIVERS: Thank you.

I'd like to talk about Laos for a moment, Mr. Hiebert. I guess I can focus on you for this. As we all know, President Obama went to Laos last year for the ASEAN summit. It was quite a remarkable visit. I played a small part in that visit, working at USAID. We unveiled new investments. We unveiled a new USAID office. New investments on nutrition and basic education. I thought it was a very successful visit, and a big moment in U.S.-Laos relations for sure.

The question I have--I mean Laos is also very important because it's upriver from millions of people on the Mekong River. There are development issues regarding nutritional stunting, infectious diseases there. It is a very important country in Southeast Asia, despite its size.

The question I have I guess for you or anyone else on the panel is do you think that Laos is ready to be open to U.S. engagement, investment, and does its dependence on China play a role there?

MR. HIEBERT: Well, after the Vietnam War ended, the Indo-China War ended, Laos was ultimately much closer to Vietnam back then, but that has changed because Vietnam didn't have as much money to support Laos.

So when they did the Party leadership change last January, January 18 months ago, the new leadership implemented two tendencies. One tendency was to be closer to Vietnam than to China and put in leaders who were Vietnam educated, and the other tendency was to be more internationalist. The current Prime Minister, Thongloun, who was the former foreign minister, is very much of an internationalist. They didn't have much confidence in dealing with the U.S. after being isolated from the U.S. so long and not having a presidential visit until last September, but they certainly were very positive about that.

I was talking recently to a U.S. embassy official visiting from Vientiane, and she was saying, boy, we just opened that new USAID office. It was the last USAID office opened. It would be totally depressing if that was the first one closed under the--

[Laughter.]

MR. HIEBERT: The other area where the U.S. has really made a mark is on the unexploded ordnance clearance program on which President Obama really ramped up the dollar numbers. Kids in Laos keep whacking these little "guava bombs" and blowing themselves up.

HEARING CO-CHAIR STIVERS: And I might mention led here on the Hill by Senator Leahy--

MR. HIEBERT: Yes.

HEARING CO-CHAIR STIVERS: --who has been the real champion.

MR. HIEBERT: Yes, he's been a real champion on that. That's great. And I hope that

can continue. That would be great.

I think in Laos you have to move really slowly. It's a pretty weak government in some ways and quite beholden to its neighbors, and beyond China, Vietnam, there's also Thailand, and so they're in a pincer from all sides.

But I think just staying engaged would give them more space. Training more people, like Karl says, having more senior people visit from the various government departments, and just involving them in more stuff would give them more space. That's what I was calling for in my recommendations that we try to keep engaging these countries that give them space. Otherwise, a little country of eight million people gets swept under the bus by 1.3 billion people living north of them.

HEARING CO-CHAIR STIVERS: Thank you. Anyone else?

DR. JACKSON: If I spoke on Laos, I would prove that I know nothing about it.

[Laughter.]

HEARING CO-CHAIR STIVERS: Thank you. Thank you.

We'll go to Commissioner Cleveland and then I'll wrap it up.

HEARING CO-CHAIR CLEVELAND: So we've been having the same argument for 40 years about the utility of IMET and mil-to-mil relations, and I will say that when we were in Myanmar, which I say reluctantly, as opposed to Burma, we met with the commander-in-chief, and I left that meeting somewhat disturbed, I confess, in terms of how we were used, and I don't think it's a lack of training, skill or understanding of human rights that afflicts the commander-in-chief.

I think self-interests and political aspirations are his principal considerations, and so I don't see if I look at just that one individual as an example, I'm not sure bringing him to the United States is going to enhance, improve or change his outlook.

I think the issue for me is it's not the history of human rights abuses in Burma. It's the ongoing abuses, and the Tatmadaw continue to engage in conduct that I don't think bringing them to Leavenworth is going to change.

And I think the reason it's not going to change is somebody said to us while we were there that where there is conflict, there are resources. Where there are human rights abuses, there are natural resources at stake. Where there are no natural resources, where there is no greed, avarice or ambition in terms of taking control of those resources by the military, there's no conflict.

So I don't--I want to put that advantage of mil-to-mil, at least in the Burma context, because we fought about it in Indonesia, and we've gone back and forth over the years in Thailand. I just, I have my doubts about the value given how sophisticated the commander-in-chief is and how much he understands the importance of the U.S. relationship in terms of his own political ambitions.

So that's my rant for the moment. And you can respond to that if you'd like. I'm more interested and if you all have a reaction to the ongoing I don't want to say criticism but concern about Aung San Suu Kyi's apparent isolation may be too strong of a word, and she's in charge of everything, but there is an ongoing concern from civil society and the press because of Article 66 about how deeply engaged she is in terms of what's going on.

And we heard some different points of view, that she's very engaged, she's really on top of the agenda, and she's, she really does have a vision for the future, and then we heard criticism that that's not the case, and that she's drifting into the Chinese camp because of criticism from

Washington about human rights.

So I'm curious about your assessment of how she's managing this transition and how well informed and engaged she really is.

MS. SUN: I think it's quite widely recognized both in Burma and also in the region that Aung San Suu Kyi as being a great democratic icon and has been a great democratic leader, but her capacity in terms of real governance experience has been limited, and we can't really blame her because as an opposition leader, she was under house arrest for so many years, and she never really had the opportunity to learn and to practice.

But then now the question is she is indeed the de facto leader of the country, how do we engage her? Do we label her as a failure and try, well, try to isolate her, criticize her, or do we try to provide her with the assistance when she requires and try to help her and shepherd her in that process? I think that's the more interesting question for U.S. policy.

I think State Department and U.S. Embassy in Rangoon has done a fantastic job in giving her that space and in providing the advice and the assistance when she needs them. But the danger of criticizing her too much is precisely what's happening today, that we are pushing her into China's arms.

DR. JACKSON: The only thing I would add is that I've met her two or three times over the last five years, and, you know, like all of us, we vary between meetings.

[Laughter.]

DR. JACKSON: And the last time I saw her, she was hitting on all cylinders. She was well briefed. She said smart, very cooperative things to say. I was very impressed because I've heard all the same criticisms that you just aired. And I agree with Yun Sun that we ought to try to provide her with help and encouragement, but we shouldn't expect her to be a well-educated person in terms of experience in government because she never had any government experience before she became the country's chief decision maker.

I tend to look back on my experience with Cory Aquino. Cory Aquino was criticized by all sorts of people in this town as well as in the Philippines, and yet you look at her legacy, she handed on this thing called democracy. Pretty impressive. And she maintained it in the Philippines until she died, and I certainly wish that Cory Aquino, who was criticized all the time as being ineffective, were in the Philippines today.

And I think that if Aung San Suu Kyi can pass along a democratic system to a country that only briefly had a semi-democratic system, she will have made an historic contribution, and we should try to encourage her to make that contribution.

MR. HIEBERT: I agree roughly with my colleagues.

HEARING CO-CHAIR CLEVELAND: I don't want to suggest that I share that criticism. It's just often the frequent refrain, and so I think it needs to be addressed. My sense in coming away from the country is there are issues like this Article 66, where the people are being harassed and detained, but--sorry--I think fundamentally it's an issue of capacity, and we heard an interesting story about why a decision on a road-building operation was so slow. The Chinese had put up \$100 million and said we're going to redo the road from Mandalay to Rangoon. It looked like a great deal until further assessment, which took a considerable amount of time.

It was \$100 million with a ten-year grace period, to be paid back \$10 million a year in hard currency, not lent in hard currency, and all of the money was going to be spent on Chinese equipment and Chinese labor. And so the comment from this person, who we were chatting with, was, yeah, it took nearly ten months to make the decision, but it was a good decision in the

end.

We don't have the capacity within the bureaucracy because she did not want to fire people. She wanted to convey safe steady hands, and this capacity issue is the one that's the most potentially vexing in terms of the future of the country.

So I, I air the criticism because I think it's important to discuss. I'm not sure I share the criticism at this point.

MR. HIEBERT: I would just add one other thing. She doesn't seem to have a strong suit in delegating, and--

HEARING CO-CHAIR CLEVELAND: Nor do I.

[Laughter.]

MR. HIEBERT: And also she's not building for the future in terms of her party.

HEARING CO-CHAIR CLEVELAND: Yes. Yes.

MR. HIEBERT: And that's a bit worrisome because she's not that young, and she might be able to run in another election in 2019--

HEARING CO-CHAIR CLEVELAND: 20.

MR. HIEBERT: 2020? 2020. Yeah. She might be able to run again, but that certainly would be the last time.

HEARING CO-CHAIR CLEVELAND: Right. I think that's a--

MR. HIEBERT: But she's not building a cadre of people, a group of rising political leaders who can follow in her footsteps. What worries me about that is there are guys--you referred to them earlier--Min Aung Hlaing that see the clock ticking. Once she's gone and with no real competition, they can basically get government control peacefully.

HEARING CO-CHAIR CLEVELAND: Right. Reinvent themselves. Yeah.

Ms. Sun, anything?

MS. SUN: I'll just say that Min Aung Hlaing at that level is probably very difficult to change his world vision and his values at this stage, but for programs I think for IMET, they target the mid-level, mid-career military officers. That probably has a better chance to give them a different perspective relatively earlier on in their career.

HEARING CO-CHAIR CLEVELAND: We'll continue to have this discussion for the next 30 years.

[Laughter.]

HEARING CO-CHAIR STIVERS: Okay. Thank you.

I think we're out of time for this outstanding panel so let me just wrap up here. When I was at USAID, a Burmese official once told me that China is like the chicken and the U.S. is like the fish. And he said that a chicken lays one egg and squawks to everyone about what it is.

[Laughter.]

HEARING CO-CHAIR STIVERS: But the fish, the fish lays hundreds of eggs that grow into multitudes of big fish but are absolutely silent.

Now I don't think this is a question of communications as much as it is to focus on strengths of the U.S. development. That is not big infrastructure, expensive infrastructure projects, as Dr. Jackson mentioned, or building palaces or government buildings. China and Japan and the ADB are doing great work, or at least Japan and the ADB are doing great work, and China questionably so. Ms. Sun mentioned more U.S. investment in ADB and I think that is the right way to go. We should also invest in U.S. strengths - health, education, agriculture, governance, environmental protection, trade capacity building, financial management, these are

the real building blocks for sustainable development that actually help people in these countries as opposed to just a deal with the governments, which I think is the focus of a lot of the Chinese projects.

In a geopolitical situation we're competing in some cases and we just want sustainable development for these countries that helps people alleviate poverty and promotes economic growth. What is the best way to fully invest in these sorts of things? I don't think we've done that as well as we should do it, but we want these societies, these growing countries, to be more stable and prosperous.

What do we want this region to look like? In the next 15, 20 years, this region, it will be middle-income and high-income countries. Burma probably will be. Cambodia and Laos are growing fast and Vietnam is already middle-income country. Thailand too. Indonesia and other Southeast Asian countries that aren't on our jurisdiction today.

These countries are growing fast and how they develop in these next ten, 15, 20 years is going to be absolutely critical to the future of the world. Are they going to look like China in terms of their development or are they going to look more like Japan and Korea and Taiwan? I think that's the fundamental question that we have here.

We know the Chinese are investing in the region. They're going to continue to do that. Will there be an alternative or a better economic strategy that's coordinated among Japan, Korea, the U.S.? I think that's a real good recommendation that I think has come from this hearing.

The fundamental question is does the U.S. want to really help this region? And is it in our interest to do so? I'd say yes because this region is the fastest growing in the world, most vibrant. Every country nowadays seems to have a Southeast Asia policy. Even Taiwan has a Southbound Asia Policy. India has an Act or Going East Policy. Everyone has a Southeast Asia policy because they know this is the key region in terms of how they grow. The region is relatively open, and they want investment, and they want engagement from the U.S. and China and anyone else who's willing to help this region grow to the next level.

You all have made recommendations that we need economic strategies, and you had some really great ideas, particular things, that we must do. Trade and TPP get all the ink these days. But really the development is what the countries are asking for and what they want, and it's not just infrastructure. It is these other initiatives--health, education--that the U.S. really has a strength in and we need to invest in it.

It's in our interest to help these countries, and I think again it is a competition with China. We have to work with them when we can. We have to compete with them when we have to, and sometimes we have to counter them on some issues where they're diametrically opposing our interests in certain places, and I think it's always a different situation depending on the country or the sector.

So I would like to again thank you all for your recommendations. Thank you for your excellent testimonies.

HEARING CO-CHAIR CLEVELAND: And the staff.

HEARING CO-CHAIR STIVERS: Oh, absolutely. I'd like to thank our fantastic staff here at the China Commission, Matt Snyder and Mike Pilger, in particular, who put together this excellent panel, and who just do just a fantastic job on this Commission. You all worked with them. Again thank you for coming, and thank you to our staff, and thank you to our commissioners.

[Whereupon, at 2:53 p.m., the hearing was adjourned.]