

**China's Emergence in Asia and Implications for U.S. Relations
With Southeast Asia**

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Thank you for this invitation to appear before the Committee to discuss China's emergence in Asia and its impact on U.S. relations with Southeast Asia. My views on this subject are informed by my work as an adjunct professor of Southeast Asian politics, security and international relations at Georgetown University and The George Washington University. In addition, I co-edit the *Georgetown Southeast Asia Survey*; direct the Stanley Foundation's project on "Southeast Asia in the 21st Century"; and consult with the Fund for Reconciliation and Development, which work in the countries formerly known as Indochina. Some of the findings and recommendations in this statement are derived from research conducted by these groups related to China's role in Southeast Asia.

Without doubt, China has increased its reach and influence in Southeast Asia dramatically in the past fifteen years. This is an inevitable consequence of its emergence as a global economic power, but is also the result of carefully crafted Chinese policies which couple geopolitical interests with economic incentives and opportunities in Southeast Asia, bound together by a vigorous diplomatic campaign. It is a matter of genuine debate whether China's new role in Southeast Asia supports or threatens American interests in Southeast Asia. The United States wants Southeast Asia to be prosperous and stable, and that requires China's active involvement in the region.

The issue is whether China is on a trajectory to outdistance the United States in the region's economic affairs, as well as in political and security relations with specific countries. Southeast Asia's trade with China is its fastest growing economic relationship, and in 2005 the volume of ASEAN-China trade may eclipse that with the United States. This will make China Southeast Asia's most important trading partner for the first time since 1873. Indeed, some economists believe that this is the restoration of a very old pattern of Asian economics and trade, with China reclaiming the central role it held before the colonial era.

China's ultimate intentions toward Southeast Asia are unclear. Many Southeast Asians dissent from a predatory view of China's new relationship with the region. The public posture of ASEAN governments is to express confidence that China's intentions are benign, and that it will over time prove to be a responsible power in the region. They do not credit the present generation of Chinese leadership with either the ability or the inclination to pursue broad, strategic aims in the region in a deliberate fashion. There is considerable evidence to support this view at the present time. The exception to this is China's relationship with Burma. ASEAN's apprehension over growing security ties between Beijing and Rangoon contributed to its decision to admit Burma into ASEAN in 1997, in the face of strong resistance from the United States.

More to the point, Southeast Asian as a whole does not want to be the object of competition between the United States and China. The larger and richer states in the region – Indonesia, Thailand, Singapore, and Malaysia – will be able to balance relations

between the two countries well into the future. Because of its history, Vietnam has taken a particularly studied approach to developing relations with global and regional powers. Hanoi seeks an omni-directional foreign policy and it is adamant that it is not attempting to use one power as a “counterweight” against another. Relations between the U.S. and the Philippines, a treaty ally, have strengthened measurably since the September 11 attacks; at the same time, Philippine-Chinese relations have also expanded. Late last year the Philippines entered into a “strategic dialogue” with China when President Arroyo made her first state visit to Beijing. If there is an obvious imbalance, it is in China’s relations with the poorer countries of mainland Southeast Asia. In recent years Beijing has quickly established itself as the primary economic patron in Burma, Laos and Cambodia, and as Rangoon’s closest political partner.

The United States and China bring different strengths to their relations with Southeast Asia. Although China has improved security relations with Southeast Asia, it cannot supplant the United States as the security guarantor for the region. The tsunami relief effort demonstrated the rapid response capability of the U.S. military, and U.S. economic aid to the region was ten times larger than China’s contribution. However, it would be a mistake to view the tsunami effort through the lens of triumphalism. China’s role in the relief represented its first major international humanitarian effort, and Beijing received credit from Southeast Asia accordingly.

Beyond its market for exports, China has location on its side. Its proximity to Southeast Asia enables Beijing to dispatch an “A team” of leaders to the region on short notice. Diplomatically, Premier Wen Jiabao holds the ASEAN portfolio. Moreover, ethnic Chinese in Southeast Asia, whose numbers are vaguely estimated at 20 to 40 million, have helped open economic and political doors with China for their adopted countries. China also has cultural roots in common with many Southeast Asian societies, which extends to popular culture in the present day. In many younger generation Southeast Asians, kung fu easily tops hip hop. These factors combine in Chinese policy to stress the “family” aspects of China’s relations with Southeast Asia, which the United States cannot as easily claim.

The Centrality of Trade

Questions of immediate and serious competition with China in Southeast Asia pertain to trade. Although the United States has made considerable strides in trade with Southeast Asia in recent years, China has pulled ahead much more quickly. The underlying issue is whether such a pattern represents a gravitational pull toward an Asian economic community that excludes the United States. This is underscored by China’s agreement with ASEAN to form a regional Free Trade Area by 2015. While still in the early stages, if it is completed the China-ASEAN FTA would be the world’s largest free trade area.

To be sure, ASEAN has strong interests in maintaining high levels of trade with the United States. Most Southeast Asian exports to China are in raw materials, while the

U.S. is the established market for more high tech manufactured goods. Moreover, the United States is theoretically working toward a concert of free trade agreements in the region through the US Enterprise for ASEAN Initiative, a ladder of steps intended to culminate in FTA's with each Southeast Asian country. However, these ladders are too steep for the weaker economies of the region, and FTA's with the U.S. are not tangible possibilities.

China's primary goal in its trade with Southeast Asia is to use the region's natural resources and markets to fuel domestic Chinese development, particularly in the southern province of Yunnan, which borders Southeast Asia. In Burma and Laos in particular, much trade is private and local and therefore likely to be underreported. Migration into these countries accompanies the increase in trade, particularly in the northern half of Burma, which some analysts have dubbed "Yunnan South." Chinese trade is also changing the physical face of mainland Southeast Asia, as roads are built in Laos to connect China to Thailand, and as China builds dams on the Mekong for energy and widens the river's shoals to permit barges to pass through. Southeast Asian NGO's and some governments are beginning to question the ecological costs of this process, but have few levers against Beijing to control it.

For its part, Southeast Asia views increased trade with China as an opportunity to recycle some of the trade and foreign direct investment the region has lost to the economic giant to the north, especially after China entered the World Trade Organization. Some analysts forecast that Southeast Asia could lose as much as \$400 billion to China over the next 15 years. It is unlikely that the proposed China-ASEAN FTA will stem that loss to a great degree; indeed, there are likely to be economic dislocations that come with economic integration with China. Beijing has set 2010 as the target date for the reduction of tariffs with the original six ASEAN states, and 2015 for the four new members. However, early experience is showing that Chinese goods can overwhelm indigenous products in Southeast Asian markets. In Thailand, as the result of an agreement with China on fruits and vegetables, a kilo of Chinese garlic costs 5 baht (15 cents), versus 35 baht (\$1.05) for a kilo of Thai garlic.

Security Shifts Below the Radar

China's intentions toward Southeast Asia appear to be overwhelmingly commercial at this time. However, this does not negate an increased interest in security in the region. Chinese leaders view a stable external environment as essential to achieving their internal economic and political objectives. In that regard, Beijing has attempted to project the image of a responsible power in Southeast Asia, and has taken steps in recent years to reduce tensions over the Spratly Islands in the South China Sea. Improved security with Southeast Asia also facilitates trade with the region, although greater dependence on Southeast Asia's energy and raw materials also creates a greater security imperative for China.

Beijing has been slower to improve security relations with Southeast Asia than diplomatic or trade ties. In 1992, after the withdrawal of U.S. bases from the Philippines, China issued a unilateral claim of sovereignty over the South China Sea. This policy resulted in a clash with the Philippines over Mischief Reef in the Spratlys in 1995. The incident was a red flag to both China and ASEAN that tensions over the Spratlys could derail broader progress in relations. In 2002, China and ASEAN negotiated a Declaration on the Conduct of Parties on the South China Sea, which called for greater consultative mechanisms. The Declaration had echoes of Chinese rivalry with the United States, however, when Beijing tried unsuccessfully to get ASEAN to agree to forbid foreign military exercises in the region. In the past year, Beijing has further reduced tensions by inviting Vietnam and the Philippines to join it in exploration of oil resources on some of the disputed Spratlys, although such cooperation did not include the renunciation of competing claims.

More generally, Beijing has recently been forward-leaning in regional security. In November 2004 China hosted first the Security Policy Conference of the ASEAN Regional Forum (ARF), attended by defense officials from twenty-four Asian countries.

Not surprisingly, China also presses Southeast Asian governments to purchase military equipment. Although some Southeast Asian defense communities see Russian equipment as the alternative to American, China has realized some success. Last year Beijing and Kuala Lumpur negotiated a deal for Malaysia to purchase mid-range missiles from China.

Southeast Asians are very frank in making clear their views that they do not fear a unilateral security threat from China, but they do fear the inherent threat in a military conflict between China and the United States, which they presume would occur over Taiwan. All of the Southeast Asian states follow a “one China” policy, although Taiwan has significant investments in the region, particularly in labor-intensive sectors. Southeast Asia occasionally feels the edge of this threat. For example, last year Beijing sharply rebuked Singapore when then-Deputy Prime Minister Lee Hsien Loong made an unofficial visit to Taiwan.

China’s “Charm Offensive” and the Importance of Optics

At a time when the United States worries about its image abroad, particularly in the Muslim world, China has mounted a winning diplomatic campaign in Southeast Asia. The primary purpose of this was to normalize relations with the ten countries of the region, which Beijing has accomplished, although there are significant differences among the ten in closeness to Beijing and levels of trust.

Although China and the United States are not in open strategic competition with one another in Southeast Asia, China has learned to capitalize on openings the U.S. has left in the region. In 1997, when the U.S. failed to offer bilateral bail-outs to Southeast

Asian countries hit hardest by the economic crisis, Beijing offered those states the first Chinese bilateral loans in the region. In 2003, after the United States tightened sanctions against Burma in the wake of Aung San Suu Kyi's re-arrest, Beijing gave Rangoon a grant of \$200 million to help cushion the economic loss.

Beijing employs two additional strategies that occasionally give it advantage over the United States. Chinese aid to Southeast Asia is conspicuously unconditional. This creates a contrast to perceptions of American aid, which are often entangled with sanctions and other conditionalities. In 2004, seven out of ten Southeast Asian countries were under U.S. sanctions or the threat of sanctions. Indeed, there were signs of a revival of the "Asian values" debate of the 1990's, when Beijing successfully lobbied to include Burma in the Asia-Europe Meeting last year, against the objection of some EU governments.

Another advantage is Beijing's regional approach to Southeast Asia. Although China has been scrupulous in developing bilateral ties, it also deals with ASEAN as a regional group to a greater degree than does the United States. This is seen not only in the China-ASEAN FTA, but also in Beijing's accession to the Treaty of Amity and Cooperation (TAC), one of the founding ASEAN treaties. Japan, India and Russia have also signed the TAC, and ASEAN has urged the United States to do so as well.

By contrast, the United States is viewed in Southeast Asia as being overly bilateral, and at times unilateral, and therefore less supportive of ASEAN's development as a regional institution. In the near-term, the United States would be constrained in its efforts to work more closely with ASEAN as a group, because of political relations with Burma. Current U.S. policy toward Southeast Asia tends to bifurcate the region into countries with significant Muslim populations (and higher terrorism threats as a result), and those without them, paying greater attention to the former group. This split corresponds to the division between "old" and "new" members in ASEAN. As well, the US Enterprise for ASEAN Initiative favors the older members over the new, and it can be argued that it exacerbates the economic gap between these two groups as a result.

The fruits of China's diplomatic efforts in Southeast Asia are increasingly evident. Chinese tourism in the region is ballooning. Each year, for example, 800,000 Chinese visit Singapore. Equally important, educational patterns are changing rapidly to favor China over the United States in some countries. Based on the number of student visas granted, Chinese educational exchange with Indonesia appeared to have increased by 51% in 2004 over the previous year. The number of Indonesian students receiving visas for China (2,563) was more than twice the number granted visas to study in the United States that year (1,333). This follows a larger pattern of plummeting levels of foreign students, Southeast Asian students in particular, studying in the U.S. In the 1980's, Malaysia sent more students to the U.S. than any other country; at present, Malaysian students don't make it into the top ten groups. According to the Institute for International Education, the number of international students enrolled in higher education in the United States was down by 2.4% for 2003-2004, the first absolute decline in foreign enrollments since 1971-72. However, the top two groups of Southeast Asian

students studying in the U.S. – from Thailand and Indonesia – have declined by more than 20% each. Many go to Australia, which is establishing itself as a regional educational hub, but the trends toward China are also dramatic.

Recommendations for U.S. Policy

If the United States frames its policy in Southeast Asia as a zero-sum competition with China, that will surely become a self-fulfilling prophecy. However, the U.S. needs to pay attention to widening gaps in economic and political influence in the region that could, over the long-term, create serious imbalances. For the most part, safeguarding American interests in Southeast Asia does not require a reversal of current policies; instead, it is a matter of expanding or accelerating existing measures in diplomacy, security, trade and educational and cultural exchange.

Economics and Trade

1. *Although a comprehensive US-ASEAN Free Trade Agreement is unlikely in the near term, the United States should support economic integration in Southeast Asia by accelerating U.S. trade policies in the region.*

Participating more fully in Southeast Asia's economic integration will help prevent the marginalization of the American role at a future time. In this regard, the U.S. could pursue two paths. One would be to push for the conclusion of the Doha Development Round by 2005 or 2006, which would aid integration while it helps to reduce the potential for trade diversion due to bilateral agreements. The second would be to accelerate movement on the Enterprise for ASEAN Initiative, and attempt to ensure that the agreements it produces are compatible with one another, as well as with the FTA concluded with Australia and a potential FTA with South Korea.

2. *The U. S. should support Southeast Asia in developing the financial infrastructure to avert or minimize the next economic crisis.*

Southeast Asian leaders fear that sharp economic change in either the United States or China could spark an economic crisis in the region, and even that U.S. attempts to persuade China to revalue the renimnbi could create dislocations in Southeast Asian economies. China pays increasing attention to such worries and has made loans to prop up Southeast Asian currencies in the poorer countries, often writing off the loans. U.S. policymakers should consider support to plans for regional currency swaps to stabilize capital flows, such as the Chiang Mai Initiative, and consider offering a second line of defense if signs of an impending crisis appear. Apart from the benefit to the US economic stake in the region, such cooperation could help dispel lingering bitterness toward the United States over the 1997 crisis.

Security

3. *The United States should continue cautious multi-lateralization of its security policy in Southeast Asia, tailored to Southeast Asian interests and needs.*

This does not necessarily mean the demise of the hub-and-spokes configuration of the American security umbrella in Asia. Rather, it blunts the edge of military competition in the region while maintaining a central role for the United States. The most concrete example of this is the incremental expansion of the Cobra Gold exercises. This year Japanese Self-Defense Forces joined the United States, Thailand and Singapore as participants, and a wide range of countries were observers. It is worth noting that China has been one such observer.

4. *The U.S. should take a more active approach to the ASEAN Regional Forum.* China is carving out a leadership role in ARF, albeit as a “dialogue” partner, while the United States tends to focus more on APEC. Because ARF follows ASEAN rules of consensus, it is likely to remain a “talk shop” for the time being. However, those same rules help to reduce national sensitivities. In due course, ARF may be an appropriate vehicle to promote cooperation on maritime security.

5. *Washington should consider triangular cooperation – with Southeast Asia, the United States and China – to address transnational threats in the region.*

Beyond the obvious benefits of cooperation in such areas as epidemics (avian flu, HIV/AIDS) and transnational crime (human and drug trafficking), triangular efforts can help reduce underlying tensions about competing military exercises. Cooperation on non-military, non-traditional threats would be a tangible indication that the United States views China as a potential security partner in Southeast Asia, rather than a strategic rival.

Diplomacy and Development

6. *The United States should consider new mechanisms to step up dialogue with ASEAN as a group.*

There is little likelihood that the U.S. will sign the Treaty of Amity and Cooperation with ASEAN, not least because doing so implies an endorsement of the “Zone of Peace, Freedom and Neutrality” (ZOPFAN), which Washington has long opposed. However, the U.S. can consider two mechanisms to strengthen ties with ASEAN as a regional institution.

The first is a regular U.S.-ASEAN Summit, perhaps on the margins of the annual APEC meeting. Obviously, the problem of Burma’s participation would have to be resolved in such a meeting. A second measure is the establishment of a U.S. Ambassador at large to ASEAN, similar to American envoys to the European Union, the Organization of American States, and APEC. However, the appointment of an ambassador would need

to be matched with the resources to expand and strengthen the regional office of the State Department's Bureau of East Asian Pacific Affairs.

7. The United States should help develop human capital in Southeast Asia by expanding programs to strengthen educational ties.

Education is often used as a sop in foreign relations, a "soft" area to offset other policies that domestic populations may find controversial. In the case of Southeast Asia, however, it is very much a "hard" area of policy, albeit a long-term and potentially expensive one. Strengthening education will boost the region's economic competitiveness; address some socioeconomic "root causes" of extremism and terrorism; and improve ties between the United States and Southeast Asia at the societal level. In several Southeast Asian countries, particularly the poorer ones, more than half the population was born after 1975, when U.S. presence in the region began to recede.

Educational programs promised for Indonesia and the Philippines when President Bush visited those countries in 2003 have been slow to come to fruition. These should be expedited. More broadly, beyond increasing funds for in-country education and U.S. scholarships, policymakers need to address the visa problems which discourage Southeast Asian students from study in the United States.

8. U.S. policymakers should avoid exacerbating the gap between "old" and "new" ASEAN members and offer initiatives to increase American influence in the "new" states.

Taking steps to strengthen economic integration in Southeast Asia would go far in helping to close this gap. However, additional political and cultural measures can help shore up U.S. bilateral ties with these poorer countries. Some possibilities include:

- Approving the Tariff Relief Assistance for Developing Economies Act (S191/HR 886), which would boost trade with Cambodia and Laos, and help compensate for lost income in the garment sectors of these countries due to abolition of textile quotas for WTO members.
- Addressing the lingering effects of Agent Orange in Vietnam, which have created an ongoing political problem in the relationship. This could also have a positive effect on military-to-military relations, since many high-level Vietnamese defense officials are war veterans.
- Establishing bi-national public-private educational partnerships for Laos and Cambodia, to provide scholarships for study in the United States.
- Establishing Peace Corps programs in Vietnam and Cambodia and, when appropriate, in Laos. The U.S. has reached agreement in principle to place volunteers in Vietnam and Cambodia, although their precise

use is still under discussion. Negotiations for a Peace Corps program in Laos foundered at the eleventh hour in the late 1980's, but the U.S. might explore the possibility of resuming talks, particularly if programs are initiated in Vietnam and Cambodia.

- Supporting the work of field-based American non-governmental organizations in these countries. For example, The Asia Foundation works in Laos with a broad range of institutions, from the National Assembly to women's groups to business councils.

8. *Washington should avoid an over-reliance on "surrogates" in Southeast Asia in favor of a more direct and activist policy in the region.*

As the world's only global superpower, Washington's attention is often diverted from Southeast Asia to crises in other regions. Some policymakers and analysts assume that U.S. interests are protected by like-minded Asia-Pacific powers: Japan, Australia and India. Although there is commonality with these countries (and partnership in some areas with Japan and Australia), there is also competition for markets and influence. Moreover, Tokyo, Canberra and New Delhi have their own limitations in Southeast Asia that Washington should not borrow. In particular, despite the implications of Secretary Rumsfeld's remarks in Singapore last week, the U.S. should not assume that India will balance China in the region in the foreseeable future.

Beyond the substance of a more activist approach to Southeast Asia, some of which is outlined above, the United States should seek a higher profile in the region. The U.S. is unlikely to match the level of Chinese attention with Wen Jiabao as the designated point for ASEAN. However, President Bush should follow through on plans to attend the APEC Summit in Hanoi in 2006, and Secretary Rice should participate in annual ASEAN Ministerial Meetings. In addition, Southeast Asian leaders have suggested that cabinet-level officials in functional areas – health, labor, education – visit the region. Lastly, Southeast Asians also believe that increasing the number of Congressional delegations to the region would strengthen U.S. policy toward Southeast Asia.