Order Code RL32688

CRS Report for Congress
Received through the CRS Web

China-Southeast Asia Relations: Trends, Issues, and Implications for the United States

Updated April 4, 2006

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Summary

Southeast Asia has been considered by some to be a region of relatively low priority in U.S. foreign and security policy. The war against terror has changed that and brought renewed U.S. attention to Southeast Asia, especially to countries afflicted by Islamic radicalism. To some, this renewed focus, driven by the war against terror, has come at the expense of attention to other key regional issues such as China's rapidly expanding engagement with the region. Some fear that rising Chinese influence in Southeast Asia has come at the expense of U.S. ties with the region, while others view Beijing's increasing regional influence as largely a natural consequence of China's economic dynamism.

China's developing relationship with Southeast Asia is undergoing a significant shift. This will likely have implications for United States' interests in the region. While the United States has been focused on Iraq and Afghanistan, China has been evolving its external engagement with its neighbors, particularly in Southeast Asia. In the 1990s, China was perceived as a threat to its Southeast Asian neighbors in part due to its conflicting territorial claims over the South China Sea and past support of communist insurgency. This perception began to change in the wake of the Asian financial crisis of 1997/98 when China resisted pressure to devalue its currency while the currencies of its neighbors were in free fall. Today, China's "charm offensive" has downplayed territorial disputes while focusing on trade relations with Southeast Asia which are viewed by some as the catalyst for expanding political and security linkages. In November 2004, China and the Association of Southeast Asian Nations (ASEAN includes Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam) agreed to gradually remove tariffs and create the world's largest free trade area by 2010. China is also beginning to develop bilateral and multilateral security relationships with Southeast Asian states.

This report explores what is behind this shift in China-ASEAN relations and how it may affect American interests in the region. The key policy issue for Congress is to assess how the United States should view China's expanding posture in Southeast Asia and decide what is the best way to react to this phenomenon.

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America's global and regional interests are linked in Southeast Asia. Decision-makers have observed that "the most important bilateral relationship of the 21st century is likely to be that between China and the United States" and that "the likelihood of conflict and economic trauma will be great" if it is poorly managed, but that "the benefits in terms of economic prosperity and world peace," will be great if it is handled well.[1] Moving from the global to the regional level of analysis, others have observed the following with regard to Southeast Asia.

> China's ultimate strategic purpose remains a subject of debate and speculation among interested observers. Southeast Asia, however, is the sole region adjacent to China in which Chinese influence can most easily expand. A benign interpretation would see China as simply cultivating the sort of stable, peaceful, and prosperous regional environment that China requires for its own successful modernization. A more skeptical view sees China playing a long-term game designed to curtail American influence and weave a close-knit economic and security community with China at the center.[2]

China's economic growth is dramatically changing its economic and political relations with the world, including Southeast Asia, an area where the United States has strong economic, political, and strategic interests. This report will discuss issues related to China's rapidly expanding ties with Southeast Asia.

Few major international relationships have changed as much or as quickly in recent years as has the relationship between China and the Association of Southeast Asian Nations (ASEAN).[3] Many observers see that relationship as having been transformed from one of suspicion and fear, driven at first by ideology and then largely by ongoing territorial disputes, to one of increasing cooperation and collaboration, particularly in the area of trade.[4] This shift in the geopolitical

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[1] Prepared Statement of the Honorable James Leach, Chairman, Subcommittee on Asia and the Pacific, House International Relations Committee, "The United States and Asia: Continuity, Instability, and Transition," March 17, 2004.

[2] Catharin Dalpino and David Steinberg, *Georgetown Southeast Asia Survey, 2003-2004*. (Washington: Georgetown University, 2003), p.15.

[3] ASEAN was founded in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. It has since expanded to include Brunei (1984), Vietnam (1995), Laos, Burma (1997) and Cambodia (1999). The 10 ASEAN states have a population of approximately 500 million and a GDP of approximately $737 billion.

[4] Alice Ba, "China and ASEAN: Renavigating Relations for a 21st Century," *Asian Survey*, (continued...)

orientation of Southeast Asia is part of what some see as a larger shift in the international balance of power which puts the rise of Asia in general, and China in particular, on a scale equivalent to the rise of Western Europe in the 17th century or the rise of the United States at the beginning of the 20th century.[5] Some view the United States as unprepared to deal with this restructuring of the global balance of power. Others have observed in the Southeast Asian context that there has not been a time "when the U.S. has been so distracted and China so focused."[6] This distraction is largely due to the U.S. focus on the war in Iraq. Such fundamental change has the potential to affect American interests.

Many analysts expect that China's history and culture will play a key role in shaping China's external relations. In this view, China is engaged in a drive to regain its "rightful place." This drive has two key components. The first is the drive for unity, which involves the control of Taiwan, Tibet, and Xinjiang, which are outside the scope of this report. The second drive is to restore China's traditional influence among its neighbors. China appears to view Southeast Asia as "potentially the most fruitful and receptive region for the projection of Chinese influence."[7] This drive could potentially, but not necessarily, bring American and Chinese interests into competition and/or conflict in Southeast Asia. China's relations with Southeast Asia have been described by some analysts as either part of a traditional "Confucian tribute system" or, more recently, as part of a more Western concept of a "sphere of influence."[8]

The United States has both sought to engage China and viewed China as a strategic competitor. The George W. Bush Administration moderated its initial view which emphasized China as a strategic competitor. This shift has been explained by the need for China's cooperation in the war against terror and on other issues. While the war against terror has changed the dynamics of the relationship, it has not changed the underlying factors that led many in the United States to view China as a strategic competitor. Also, while the United States has adopted a more cooperative policy towards China in recent years, Japan, the principal U.S. ally in Asia, appears to be increasingly wary of China's power, with some in Japan viewing it as a potential military threat.[9]

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[4] (...continued)
July/August 2003.

[5] Fareed Zakaria, "America's Big Challenge: Asia," *The Washington Post*, October 19, 2004.

[6] U.S.-ASEAN Business Council President, Ernest Bower, as quoted in John McBeth, "Taking the Helm," *Far Eastern Economic Review*, October 16, 2004.

[7] Martin Stuart-Fox, "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations," *Contemporary Southeast Asia*, no. 1, 2004.

[8] Marvin Ott, US-Indonesia Society and The Sigur Center for Asian Studies' conference on "China-Indonesia Relations and Implications for the United States," Washington, November 7, 2003.

[9] James Brooke, "Japan to List China as a Major Threat," *The New York Times*, September 16, 2004.

China's embrace of market-led economic development may mitigate against past assertive postures in the region and lead to more multilateral and cooperative approaches. China's increasingly active diplomacy towards Southeast Asia can be viewed as a benign outgrowth of its efforts to achieve economic development for the betterment of its people or as part of an assertive foreign policy. China's embrace of multilateral initiatives, such as the 2003 Treaty of Amity and Cooperation with ASEAN, the East Asia Summit, and efforts to forge a China-ASEAN Free Trade Area, which was advanced in November 2004, are variously viewed as evidence of a non-threatening trade-focused China or as part of an evolving grand strategy that will rely on "formal and informal mechanisms (strengthened multilateral institutions and strong economic ties, respectively) of interdependence as a de facto strategy for restraining the United States."[10] (For further information see CRS Report RL33242 *East Asia Summit: Issues for Congress,* by (name redacted).)

China's rise also creates concern about how Beijing will use its growing economic and military power. Militarily, China is the dominant regional power in Asia and one of the world's emerging great powers. Some analysts view the emergence of a new great power onto the world stage as causing likely disruption to the existing balance of power which could lead to conflict. Others see the potential to manage such a shift in the balance of power in a peaceful manner. How China engages Southeast Asia may tell us much about the nature of China's rise. In the view of one analyst, "... with regard to Asia, China seeks to promote an image of being able to handle its greater economic and strategic clout responsibly ... China wants to play a constructive role in regional economic and political affairs, perhaps with a view to building a stable foundation for greater influence in the future."[11] For others, there is concern that as China's power grows, so too will China's ambition and assertiveness.[12] There are some recent signs that China may seek to expand its economic and political influence in Southeast Asia into the security realm as well. While Chinese efforts to expand its economic and political influence are regarded as benign by many, views of China's overall posture in the region may change if it seeks to develop new military-to-military relations with Southeast Asian states. Some analysts feel that such an expansion of influence would likely raise broader concerns in defense policy circles and could be viewed as a challenge to America's posture in the region.

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[10] Yong Deng and Thomas Moore, "China Views Globalization: Toward New Great-Power Politics?" *The Washington Quarterly,* Summer 2004.

[11] Michael Vatikiotis, "Catching the Dragon's Tail: China and Southeast Asia in the 21st Century," *Contemporary Southeast Asia,* April, 2003.

[12] Statement of Angel Rabasa, Policy Analyst with RAND Corporation Before the Committee on International Relations, House of Representatives, "Southeast Asia After 9/11: Regional Trends and U.S. Interests," December 12, 2001.

America's Interests in the Region

How China's growing assertiveness may impact American regional interests in Southeast Asia depends on how U.S. interests are defined. The following are traditionally considered to be America's key regional interests.[13]

- Promotion of stability and balance of power: with the strategic objective of keeping Southeast Asia from being dominated by any hegemon
- Prevent being excluded from the region by another power or group of powers
- Freedom of navigation and protection of sea lanes
- Trade and investment interests
- Support of treaty allies and friends
- Promotion of democracy, rule of law, human rights, and religious freedom

Another more recent addition to the list is preventing the region from becoming a base of support for terrorists.

The U.S. National Security Strategy Statement calls on China to "act as a responsible stakeholder that fulfills its obligations and works with the United States and others to advance the international system...." It goes on to state that if China pursues a "transformative path of peaceful development" the United States will "welcome the emergence of a China that is peaceful and prosperous and that cooperates with us to address common challenges and mutual interests."[14] To promote its interests relative to China in Southeast Asia, the United States has generally followed a strategy that maintains a "balance of power in the region through our alliances and military presence" while also engaging China to "encourage simultaneously its responsible integration into international affairs ..."[15]

Assistant Secretary of State for East Asian and Pacific Affairs James Kelly, in testimony before the House International Relations Committee in June 2004, stated that "this is a time of transition" in the region and emphasized that "at the top of our list of policy priorities is waging the war against terror" before he identified the Philippines and Thailand (as well as Japan, South Korea and Australia) as "traditional allies [and] strategic partners in and beyond the region." Singapore was also identified as an effective partner for building regional security. He also

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[13] See also Robert Kerrey, Chair and Robert Manning, Project Director, *The United States and Southeast Asia: A Policy Agenda for the New Administration,* Report of an Independent Task Force Sponsored by the Council on Foreign Relations, 2001, and Michael McDevitt, "U.S. Strategy in the Asia Pacific Region: Southeast Asia," in W. Lee, R. Hathaway and W. Wise, *U.S. Strategy in the Asia-Pacific Region,* (Washington: Woodrow Wilson International Center for Scholars, 2003), p.44.

[14] *The National Security Strategy Statement of the United States of America,* March 2006.

[15] Prepared Statement of Richard Ellings, President, National Bureau of Asian Research, for the Committee on International relations, House of Representatives, Hearing on "The United States and Asia: Continuity, Instability and Transition," March 17, 2004.

discussed the ASEAN Cooperation Plan and the Enterprise for ASEAN Initiative (EAI) which seeks to strengthen America's relations with ASEAN. Under EAI the United States is seeking to develop free trade agreements with Southeast Asian states. Singapore was the first to sign an agreement with the United States.[16] Discussions with Thailand have followed.

Despite these initiatives and statements of U.S. goals, some analysts perceive the United States as distracted by Iraq and Afghanistan and, as a result, not sufficiently focused on Southeast Asia beyond its status as the second front in the war against terror. This has led some to view U.S. policy as unnecessarily narrow in focus.[17] In the view of one observer, "China is seen by some to be slowly filling the vacuum left behind by the United States in the political, economic and security spheres in the region."[18] These perspectives differ with official U.S. pronouncements. U.S. officials have stated "our relationships in the region, including five treaty allies and numerous friendships, are as strong as ever."[19]

Chinese Interaction with Southeast Asia

China's historical involvement in Southeast Asia, as well as cultural affinity for China in many Southeast Asian states, will likely influence how China is viewed by regional states.[20] Historically, China has exerted much influence in Southeast Asia. This can be seen in China's past cultural influence in, and past dominance of, Vietnam as well as today through its increasing presence in Burma. While Chinese influence has extended through its contiguous borders with continental Southeast Asia, there was a brief period from 1405 to 1433 when China sent vast fleets under the command of Zheng He through Southeast Asia and into the Indian Ocean littoral to exact tribute for the Ming Dynasty.[21] The Chinese diaspora has also led to significant ethnic Chinese minority populations in Burma, Thailand, Malaysia, the Philippines, and Indonesia. Vietnam's relationship with China differs from other ASEAN states. Unlike other Southeast Asian states, Vietnam was ruled by China for a lengthy period of its history. During the Cold War, China supported communist parties or insurgencies in every Southeast Asian State with the exception of

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[16] James Kelly, Assistant Secretary of State for East Asia and Pacific Affairs, "An Overview of U.S.-East Asia Policy," Testimony before the House International Relations Committee, June 2, 2004.

[17] Simon Tay, p.2.

[18] "U.S. Influence in Asia Under Bush Waning," *Agence France Presse*, August 29, 2004.

[19] Admiral Fargo, United States Navy Commander, U.S. Pacific Command, Testimony Before the House Armed Services Committee, U.S. House of Representatives, Regarding U.S. Pacific Command Posture, March 31, 2004.

[20] Martin Stuart Fox, "Southeast Asia and China: The Role of History and Culture in Shaping Future Relations," *Contemporary Southeast Asia*, no. 1, 2004.

[21] Louise Levathes, *When China Ruled the Seas: The Treasure Fleet of The Dragon Throne*, (New York: Simon and Schuster, 1994).

Singapore and Brunei. China ended such support over time with the last support being given in Burma. This was ended in the 1980s.[22]

Currently, between 30 and 40 million ethnic Chinese reside in Southeast Asia.[23] The degree to which ethnic Chinese have been integrated into Southeast Asian societies has varied greatly across the region with Chinese being relatively better integrated in non-Muslim states than Muslim majority states. While ethnic Chinese have been subject to past abuses and discrimination, the trend line for earlier waves of Chinese immigration has been towards greater levels of integration into their respective new homelands. Most of the Chinese of Southeast Asia come from Guangdong and Fujian Province. The over two million ethnic Chinese in Singapore make up approximately eighty percent of Singapore's population and make it the only country in Southeast Asia with an ethnic Chinese majority. Ethnic Chinese are largely assimilated in Thailand, a predominantly Buddhist country whose ethnic Chinese population of over five million constitutes over 10% of the population.

Ethnic Chinese have not assimilated to the same degree in the Muslim states of Southeast Asia as they have in Thailand or Cambodia. While ethnic Chinese in Malaysia, which also number over 5 million and constitute 28% of the population, have prospered, they are subject to laws that discriminate in favor of *Bumiputeras* who are the ethnic Malays and indigenous peoples of Malaysia. It is reported that much of the anti-Chinese sentiment has subsided in Southeast Asia.[24] Events such as the recent opening of a new Chinese language University demonstrate increasing acceptance of ethnic Chinese in Malaysia. Indonesia has the largest ethnic Chinese population in Southeast Asia with some 8 million having Chinese ancestry. Between 500,000 and 1.5 million Indonesians were killed in the wake of a failed coup in the 1965. Many of these were ethnic Chinese members of the communist party of Indonesia. A1967 law subsequently banned public displays of Chinese culture. This abuse and negative attitude towards ethnic Chinese in Indonesia has been reversed with the Chinese New Year officially recognized in Indonesia in 2003.[25]

Recent waves of Chinese immigration into Southeast Asia, particularly in Burma and Thailand, are playing a key role in China's economic engagement with Southeast Asia. In recent years, the Chinese community in Burma has grown to over two million out of a total population of approximately 50 million.[26] Twenty percent of the population of Mandalay and half the population of Lashio are thought to be

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[22] Dalpino and Steinberg, 2002-03, p.48.

[23] Catharin Dalpino and David Steinberg eds, "Southeast Asia Looks North," in *Georgetown Southeast Asia Survey, 2002-03*, (Washington: Georgetown University, 2003).

[24] Eric Teo Cheow, "China's Rising Soft Power in Southeast Asia," *Pac Net* 19A, May 3, 2004.

[25] The above paragraph is drawn largely from Karl Malakunas, "Southeast Asia's Chinese Winning Freedoms," *Jakarta Post*, January 21, 2004.

[26] Mathea Falco, *Burma: Time for Change*, (New York: Council on Foreign Affairs, 2003)

ethnic Chinese from Yunnan.[27] These more recent immigrants to the region are thought to have closer ties to China than earlier waves of the Chinese diaspora.

China's dispute with Taiwan is perceived as driving a new naval build-up that will also influence China's maritime posture in Southeast Asia. China's increasing dependance on energy imports may also lead it to seek the naval capability to secure those supplies. China's navy conducted its first circumnavigation of the globe in 2002, which coincided with Russia's final withdrawal from the former U.S. naval base at Cam Ranh Bay, Vietnam.[28] Some see these developments as not only focused on Taiwan but also as the beginning of China's efforts to develop a "blue water" navy that can defend its strategic sea lines of communication which transit Southeast Asian waters.

China's Regional Objectives

China's regional objectives in Southeast Asia appear to be tied to China's overall strategic posture. While some analysts take a "zero sum" approach to rising Chinese power and American power in the region, others point to the emphasis in China on the policy of a "peaceful rise" or "peaceful development"and take a more benign view of China's objectives, both globally and within a regional context in Southeast Asia.

China's peaceful rise potentially represents a significant departure from earlier policy which sought to erode America's power in the region.[29] Evidence of Chinese unease with America's presence in Asia continues. To some Chinese commentators, America's expanded international posture since the September 11 terror attacks has led to an American encirclement of China.[30] Others take a view that China's foreign policy towards Southeast Asia is a derivative of its traditional imperial tribute system.[31]

Since the mid 1990s China has been actively seeking to develop its relationship with Southeast Asia through more cooperative approaches. This is particularly evident in the period from the financial crisis of 1997/98 to the present. The following regional objectives for Southeast Asia are seen to stem from China's larger strategic agenda:

- Maintain a stable political and security environment, particularly on China's periphery, that will allow China's economic growth to continue

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[27] Dalpino and Steinberg, 2002-03, p.49.

[28] Gary Klintworth, "China's Blue Water Naval Aspirations," *Asia-Pacific Defence Reporter*, October 2002.

[29] Robert Sutter, "Asia in the Balance: America and China's "Peaceful Rise," *Current History*, Sept. 2004.

[30] Yuan Zhibing, "Challenges Facing China," *China Daily*, August 14, 2004.

[31] Eric Chu Cheow, "The Sino-Singapore Row and Sino-U.S. Rivalry," pacnet@hawaiibiz.rr.com.

- Maintain and expand trade routes transiting Southeast Asia
- Gain access to regional energy resources and raw materials
- Develop trade relationships for economic and political purposes
- Isolate Taiwan
- Gain influence in the region to defeat perceived attempts at strategic encirclement or containment

China's 2002 accession to the ASEAN code of conduct on disputes in the South China Sea, the shift in emphasis to ASEAN plus three (China, Japan and South Korea), as opposed to the Asia Pacific Economic Cooperation (APEC) framework which includes the United States, and movement towards an ASEAN-China Free Trade area all mark a fundamental shift in relations between China and ASEAN. This emphasis on economic and diplomatic ties is a significant departure from previous military confrontation as demonstrated by past border and territorial disputes. China's offer of aid to Thailand in the wake of the Asian financial crisis of 1997 and China's decision not to devalue its currency during the financial crisis were key events that began to more positively affect regional perceptions of China.

China's actions indicate to some that it is interested in more than just expanded economic and trade ties with the region. China has been working to establish a Security Policy Conference within the framework of the ASEAN Regional Forum (ARF). Such a conference would establish a new security forum where China could be a key player. Further, such a grouping would have a multilateral focus and "present an alternative to an Asian security architecture that has traditionally been dominated by U.S. bilateral alliances."[32]

China-ASEAN Trade and Economic Relations

Some analysts are becoming concerned that China and Southeast Asia may form a bloc that will have the effect of excluding U.S. trade with the region. What appears from the data is that China's trade has been rising rapidly, though from a low baseline, while America's trade, though still high in absolute terms, is relatively stagnant. China's trade with ASEAN increased by an average 75% per year over the period 1993 to 2001.[33]

In November 2002, ASEAN and China signed the *Framework Agreement on Comprehensive Economic Co-operation*, to create an ASEAN-China Free Trade Area (ACFTA) within 10 years.[34] In November 2004, the two sides signed *the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's*

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[32] International Institute of Strategic Studies, *Strategic Survey 2003/4: An Evaluation and Forceast of World Affairs*, (London: Oxford University Press, 2004), p. 226.

[33] Dalpino and Steinberg, 2002-03, p.50.

[34] The agreement included an "early harvest" provision to reduce and eliminate tariffs on a number of agricultural products (such as, meats, fish, live animals, trees, dairy produce, vegetables, and edible fruits and nuts). The agreement called for both parties to begin implementing the cuts beginning in 2004. Thailand negotiated an agreement with China to eliminate tariffs for various fruits and vegetables, effective October 2003.

Republic of China, which included a schedule of tariff reductions and eventual elimination for most tariff lines (beginning in 2005) between the two sides.[35] For example, for the relatively more developed "ASEAN6" nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), most tariffs of over 20% fall to 20% in 2005, 12% by 2007, 5% by 2009, and zero by 2010. Certain "sensitive" products have longer phase-out periods.[36] The two sides are also seeking agreements in a number of other areas as well, such as liberalizing trade in services and investment. The agreement would create one of the world's largest trading blocs. The combined populations and economies of ASEAN and China in 2005 were approximately 1.9 billion people and $3.0 trillion (nominal U.S. dollars), respectively. Combined country exports and imports equaled $1.4 trillion and $1.2 trillion, respectively.[37]

Overview of Trade Trends

Data provided in **Tables 1 and 2** indicate the rapid rise in trade flows that have occurred between China and the ASEAN countries over the past few years.[38] China's combined exports to ASEAN countries rose by 220.0% from 2000-2005 and by 29.3% in from 2004-2005. These rates of increase are very close to the percentage increases in China's overall exports during these periods. Overall, the percentage of China's exports going to the ASEAN countries rose from 7.0% in 2000 to 7.2% in 2005. The trend in Chinese imports is somewhat different. China's combined imports from ASEAN countries rose by 239.5% from 2000-2005 (compared to 193.3% from the world as whole) and by 19.2% in from 2004-2005 (versus 17.7% from the world). China's imports from ASEAN as a percent of its total imports rose from 9.8% in 2000 to 11.4% in 2005.

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[35] The ACFTA would implement most tariff reductions between China and the ASEAN 6 nations by 2010. Cambodia, Laos, Burma, and Vietnam would complete implementation of most tariff reductions by 2015.

[36] Bureau of National Affairs, International Trade Reporter, October 6, 2005, p 1590.

[37] Source: Global Insight, *Detailed Quarterly Forecast*, February 16, 2006.

[38] For the sake of simplicity we use Chinese data on its trade with ASEAN. Note, however, Chinese data on its trade with ASEAN differ somewhat from ASEAN data on its trade with China.

Table 1. China's Exports to ASEAN: Selected Years

($billions and % change)

Overall Rank in 2005	Country	2000	2004	2005	2004/2005 % change	2000/2005 % change
8	Singapore	5,755	12,695	16,716	31.7	190.5
15	Malaysia	2,565	8,085	10,618	31.3	314.0
19	Indonesia	3,061	6,257	8,349	33.4	172.8
20	Thailand	2,244	5,800	7,819	34.8	248.4
22	Vietnam	1,537	4,260	5,639	32.4	266.9
25	Philippines	1,464	4,265	4,689	10.0	220.3
60	Burma (Myanmar)	496	939	935	-0.4	88.5
75	Cambodia	164	452	536	18.5	226.8
126	Laos	34	101	105	4.7	208.8
141	Brunei	13	48	53	11.1	307.7
	ASEAN Total	17,333	42,902	55,459	29.3	220.0
	Total Chinese Exports	249,240	593,674	762,326	28.4	205.9
	Exports to ASEAN as a % of Total Exports	7.0	7.2	7.2		

Source: World Trade Atlas, using official Chinese data.

Table 2. China's Imports From ASEAN:

($millions and % change)

Overall Rank in 2005	Country	2000	2004	2005	2004-2005 % change	2000-2005 % change
7	Malaysia	5,400	18,162	20,108	10.7	272.4
8	Singapore	5,060	14,002	16,531	18.1	226.7
11	Thailand	4,380	11,538	13,994	21.3	219.5
12	Philippines	1,677	9,062	12,870	42.0	667.4
18	Indonesia	4,402	7,212	8,430	16.9	91.5
36	Vietnam	929	2,478	2,549	2.9	174.4
72	Burma (Myanmar)	125	207	274	32.7	119.2
79	Brunei	61	251	208	-17.4	241.0
121	Cambodia	59	30	27	-7.6	-50.2
122	Laos	6	13	26	102.4	333.3

Overall Rank in 2005	Country	2000	2004	2005	2004-2005 % change	2000-2005 % change
	ASEAN Total	22,099	62,955	75,017	19.2	239.5
	Total Imports	225,095	560,811	660,222	17.7	193.3
	Imports From ASEAN as a % of Total	9.8	11.2	11.4		

Source: World Trade Atlas, using official Chinese data.

Tables 3 and **4** show U.S. trade with ASEAN over the same period. The top three U.S. ASEAN trading partners in 2005 were Malaysia, Singapore, and Thailand. U.S. exports to ASEAN countries grew by only 4.7% from 2000-2005 and by 3.6% in 2005. The share of U.S. exports going to ASEAN fell from 6.1% to 5.5%. U.S. imports from ASEAN countries grew by 12.5% from 2000-2005 and by 12.2% in 2005. The share of U.S. imports from ASEAN fell from 7.0% to 5.9% from 2000 to 2005.

Table 3. U.S. Exports to ASEAN, Selected Years

($ millions and % change)

Overall Rank in 2005	Country	2000	2004	2005	2004-2005 % change	2000-2005 % change
11	Singapore	17,816	19,601	20,646	5.3	15.9
18	Malaysia	10,996	10,897	10,451	-4.1	-5.0
29	Thailand	6,643	6,363	7,233	13.7	8.9
25	Philippines	8,790	7,072	6,893	-2.5	-21.6
39	Indonesia	2,547	2,669	3,045	14.1	19.6
58	Vietnam	368	1,163	1,192	2.4	223.9
141	Cambodia	32	59	69	18.1	115.6
151	Brunei	156	49	50	0.8	-67.9
193	Laos	4	6	10	67.3	150.0
202	Burma (Myanmar)	17	12	5	-53.1	-70.6
	Total ASEAN	47,369	47,891	49,595	3.6	4.7
	Total U.S. Exports	780,419	816,548	904,380	10.8	15.9
	ASEAN as a % of Total	6.1	5.9	5.5		

Source: USITC DataWeb, using official U.S. data.

Table 4. U.S. Imports from ASEAN, Selected Years
($ millions and % change)

Overall Rank in 2005	Country	2000	2004	2005	2004-2005 % change	2000-2005 % change
11	Malaysia	25,568	28,185	33,703	19.6	31.8
17	Thailand	16,389	17,577	19,892	13.3	21.4
21	Singapore	19,186	15,306	15,118	-1.2	-21.2
26	Indonesia	10,385	10,811	12,016	11.1	15.7
28	Philippines	13,937	9,144	9,248	1.1	-33.6
38	Vietnam	822	5,276	6,630	25.7	706.6
64	Cambodia	826	1,498	1,767	18.0	113.9
83	Brunei	383	406	563	38.6	47.0
180	Laos	10	3	4	24.0	-60.0
221	Burma (Myanmar)	471	0	0*	—	—
	Total ASEAN	87,977	88,206	98,942	12.2	12.5
	Total U.S. Imports	1,259,346	1,469,673	1,670,940	13.7	32.7
	Imports from ASEAN as a % of Total	7.0	6.0	5.9		

Source: USITC DataWeb, using official U.S. data.
*Less than $100,000.

Table 5 provides a comparison of U.S. and China trade with ASEAN in 2005. Total U.S. trade with ASEAN (U.S. data) was 13.8% higher than that of China (Chinese data).[39] The United States imported 31.9% more from ASEAN than China did, while China exported 11.8% more to ASEAN than the United States (2005 was the first year in which Chinese exports to ASEAN were larger than U.S. exports). Data indicates that China's trade with ASEAN is growing at a significantly faster

[39] These data should be interpreted with caution. Countries differ significantly in the way they measure trade data. For example, the United States reports imports on a customs value basis (which is the purchase price of the imported good), while China (and most other countries) use the cost, insurance, and freight (CIF) basis (which is includes the purchase price of the import plus the costs of bringing the good into the country, such as freight costs and insurance). In addition, China transships a significant amount of its exports through Hong Kong, a large share of which China records as exports to Hong Kong (while the country of final destination records them as imports from China, not Hong Kong). Therefore, there are likely to be major discrepancies between the level (and composition) of trade reported by United States and China with ASEAN, and ASEAN's reported trade data with the United States and China.

pace than the United States's trade with ASEAN. Should this trend continue, China's total trade with ASEAN is likely to overtake the United States's trade with ASEAN in the near future.

Table 5. Comparisons of U.S. and Chinese Trade With ASEAN, 2005

	United States	China
Total Trade With ASEAN ($ millions)	148,537	130,474
Total Exports to ASEAN ($ millions)	49,595	55,459
Total Imports From ASEAN ($ millions)	98,942	75,017
Trade Balance With ASEAN ($ millions)	-49,347	-19,558
Exports to ASEAN as a % of Total (%)	5.5	7.2
Imports from ASEAN as a % of Total (%)	5.9	11.4
Growth in Exports: 2000-2005 (%)	4.7	220.0
Growth in Imports: 2000-2005 (%)	12.5	239.5

Sources: USITC TradeWeb and World Trade Atlas (using official U.S. and Chinese government data).

Note: Trade data methodologies differ significantly across countries. Therefore, comparisons of national trade data of different countries should be made with caution.

Tables 6 and **7** list the top 5 U.S. exports to and imports from the ASEAN countries. From 2000 to 2005, U.S. exports and imports of semiconductors and other electronic components to and from ASEAN dropped by 24.9% and 30.7%, respectively. U.S. exports of aerospace products and parts to ASEAN over this period doubled.

Table 6. Top 5 U.S. Exports to ASEAN, Selected Years

($ millions and % change)

	2000	2004	2005	2004-2005 % change	2000-2005 % change
Semiconductors and other electronic components	18,071	15,486	13,577	-5.9	-24.9
Aerospace products and parts	2,460	4,989	5,073	1.7	106.2
Computer equipment	3,937	3,081	3,751	21.7	-4.7
Navigational, measuring, electro-medical, and control instruments	1,980	2,398	2,240	-6.6	13.1
Basic chemicals	1,372	1,637	1,759	7.4	28.2

Source: USITC DataWeb.

Note: Based on the North American Industry Classification System (NAICS), four digit level.

Table 7. Top 5 U.S. Imports From ASEAN, Selected Years

($ millions and % change)

	2000	2004	2005	2004-2005 % change	2000-2005 % change
Computer equipment	18,668	19,231	19,895	3.5	6.6
Semiconductors and other electronic components	25,095	14,839	17,402	17.3	-30.7
Apparel	8,317	10,966	11,776	7.4	41.6
Communications equipment	2,563	4,478	7,245	61.8	182.7
Audio and video equipment	5,385	5,175	5,352	3.4	-0.6

Source: USITC DataWeb.

Note: Based on the NAICS classification, four digit level.

Table 8 shows the share of ASEAN's reported trade with the United States, Japan, and China as a share of its total trade with the world in 1995, 2000, and

2004.[40] These data indicate that the share of ASEAN's imports from China rose from 2.2% in 1995 to 9.4% in 2004, while the share of ASEAN exports going to China rose from 2.1% to 7.4%. The U.S. share of ASEAN's imports fell from 14.6% to 11.9% while the share of ASEAN's exports to the United States fell from 18.5% to 14.3%. The importance of Japan to ASEAN's trade (relative to total) also fell, especially in terms of ASEAN imports, which as a share of total imports fell from 24.7% to 15.8%.

Table 8. ASEAN Trade with Selected Major Partners for 1995, 2000, and 2005 as a Percent of Total Trade

(percent)

ASEAN Imports (% of total)			
	1995	**2000**	**2004**
United States	14.6	14.0	11.9
China	2.2	5.2	9.4
Japan	24.7	19.0	15.8
ASEAN Exports (% of total)			
	1995	**2000**	**2004**
United States	18.5	18.0	14.3
China	2.1	3.5	7.4
Japan	14.4	12.3	12.1

Source: ASEAN Secretariat, *2005 ASEAN Yearbook*. Excludes data for Laos and Vietnam.

Note: ASEAN trade data differ somewhat from that reported by its trading partners.

Although the importance of the United States to ASEAN trade has declined somewhat, it is still a major source of ASEAN's foreign direct investment (FDI).[41] According to ASEAN statistics, in 2004, U.S. FDI into ASEAN countries was $5.1 billion, or 23.2% of total FDI (second only to the European Union at $6.4 billion). China's FDI in ASEAN in 2004 was $225.9 million, or 1.0%. From 2000-2004, U.S. FDI in ASEAN totaled $13.3 billion, compared with $347.6 million for China.[42]

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[40] ASEAN trade data differ somewhat from data reported by China and the United States.

[41] Most economists contend that there is a strong correlation between FDI and trade. See CRS Report RS21118, *U.S. Direct Investment Abroad: Trends and Current Issues*, by (name redacted)

[42] ASEAN Secretariat, ASEAN Statistics, available at [http://www.aseansec.org].

Possible Implications for the United States of an ACFTA

The implications of closer economic ties between China and ASEAN on U.S. firms and investors that have business interests in the ASEAN countries are difficult to determine. On the one hand, some U.S. businesses may benefit if reductions in trade barriers boost economic growth (due to efficiency gains) in China and the ASEAN countries, which in turn could boost their demand for foreign imports, including those from the United States. An ACFTA could boost overall economic efficiency in both China and ASEAN, reducing their production costs, and lowering prices of various goods exported by these countries to the United States.[43] In addition, an ACFTA would benefit U.S. firms over the long run if the reduction in trade barriers agreed to by the two sides were later extended to all members of the World Trade Organization (WTO) as part of a multilateral trade agreement.

On the other hand, an ACFTA could hurt U.S. firms in a number of ways. Bilateral and regional FTAs are discriminatory by nature since they extend preferential benefits only to the parties of the agreement. Thus, for example, many U.S. exports of goods and services to ASEAN could face higher tariff and non-tariff trade barriers than those faced by similar products and services exported by China to ASEAN, thus giving Chinese firms a competitive advantage over U.S. firms. This could lead to trade diversion, where U.S. firms, even if more efficient than Chinese firms, lose some level of trade and investment opportunities in the ASEAN countries (or lose out to ASEAN firms in China). This is because the lower trade barrier (e.g., tariff) faced by a Chinese company in an ASEAN country may offset its less competitive position vis-a-vis a U.S. company, which faces a higher trade barrier. In addition, trade liberalization produces both winners and losers and there is the possibility that closer economic integration between China and ASEAN could produce economic welfare losses in some countries (both within and outside the ACFTA), thus diminishing their growth.[44] Finally, such regional FTAs could produce large trading blocs that seek to promote further internal economic integration, rather than seek multilateral agreements within the WTO.[45] For example, Japan and South Korea are also attempting to form trade agreements with ASEAN. In addition, in December 2005, ASEAN members, China, Japan, South Korea, India, Australia, and New Zealand held an East Asian summit to discuss, among other things, closer economic integration.[46]

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[43] This arguably would improve consumer welfare, but could injure some U.S. domestic firms.

[44] Economic welfare concerns the optimal allocation of inputs among industries and the optimal distribution of commodities among consumers. Hence welfare losses occur when distortions, such as tariffs, promote inefficiencies. For example, consumers pay more than they normally would, production shifts to less competitive firms, etc.

[45] See Congressional Budget Office, *The Pros and Cons of Pursuing Free-Trade Agreements*, July 31, 2003.

[46] See CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by (name redacted).

A 2001 study performed by ASEAN on the effects of an ACFTA[47] estimated that it would raise China's real GDP by 0.27%, or $2.2 billion. The analysis examining the impact on ASEAN included 6 of 10 ASEAN nations (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam). Together, combined real GDP of these six countries was projected to rise by about 0.9%, or $5.4 billion (all of the countries would experience an increase in real GDP). The study further predicted U.S. GDP would decline by 0.04%, or $2.6 billion, and total world GDP would fall by 0.02%.[48]

Combined exports of these ASEAN countries to China were predicted to rise by $13.0 billion with an ACFTA, while those to the United States were estimated to fall by $799.1 million. Chinese exports to these ASEAN countries were projected to rise by $10.6 billion, while U.S. exports to this group would drop by an estimated $2.1 million.[49] In addition, U.S. exports to China were projected to fall by $501.0 million, while Chinese exports to the United States would fall by $813.3 million.[50] Exports by the six ASEAN countries to each other were expected to decline by $3.1 billion. Overall, according to the ASEAN study, the agreement would boost the six ASEAN countries' total exports to the world by $5.6 billion (or 1.5% higher); China's overall exports would rise by $6.8 billion. Overall, total U.S. exports would decline by $279.7 million.[51] Total world exports were projected to increase by $10.5 billion. Thus, based on this model, the ACFTA boosts world exports but at the same time appears to cause some level of trade diversion away from more efficient producers outside ACFTA. While the economies of China and ASEAN would be better off, several economies outside the agreement would be worse off, such as the United States and Japan (see **Table 9**).[52]

The economic model used in this analysis has a number of limitations. For example, it does not included all ASEAN countries. In addition, the model is based on the world economy in 1995 and estimates the changes that would occur if ASEAN and China removed all tariffs. However, the economies of ASEAN and China are much different than they were 10 years ago. In particular, China, since joining the WTO in 2001, has substantially reduced its tariffs on a variety of products.

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[47] ASEAN-China Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Economic Relations in the 21st Century*. October 2001. Data reflect changes to the baseline 1995 world economic model.

[48] Japan was projected to suffer the largest absolute decline in GDP (-0.9% or -$4.5 billion).

[49] U.S. exports to Indonesia, Malaysia, and Singapore increased, but those to the Philippines, Thailand, and Vietnam decreased.

[50] China would also see a decline in its exports to Japan (-$511.5 million) and the rest of the world ($-1,557.1 million).

[51] While U.S. exports to China and ASEAN as a whole declined, U.S. exports to Japan and the rest of the world increased by a total $223.4 billion, and exports from Japan and the rest of the world to the United States increased by a total of $875.7 million.

[52] For example, under this model U.S. exports would decline by $280 billion. This implies that, if the ACFTA were open to all countries, real world GDP would increase, and possibly those of the United States, Japan, and others as well.

Table 9. ASEAN Estimates of the Trade Effects of an ACFTA on Various Countries and Regions

($ millions)

	ASEAN*	China	United States	Japan	Rest of World	Total
ASEAN*	-3,166,8	13,008.2	-700.1	-1,011.2	-2,461.2	5,569.0
China	10,614.0	-889.9**	-813.3	-511.5	-1,557.1	6,842.2
United States	-2.1	-501.0	—	123.4	100.0	-279.7
Japan	-324.8	-823.8	393.4	—	472.2	-282.4
Rest of World	-475.5	-2,679.3	482.3	467.7	844.0	-1,360.8
Total						10,489.1

Source: ASEAN-China Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Economic Relations in the 21st Century*. October 2001.

*Includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam

**It is not clear why the model reports China's trade with China. It may include Hong Kong's trade or some element thereof (such as transshipments through Hong Kong).

The economies of ASEAN and China continue are likely to be of considerable concern to U.S. policymakers in the years ahead, due to their current and projected economic growth, as shown in **Table 10**. Because most of the ASEAN countries and China are expected to grow faster than the world average, their demand for foreign imports will likely rise rapidly as well.

Table 10. Actual Real GDP Growth and Projections for ASEAN Countries, China, the United States, and the World, Various Years
(Percent)

Country	2001-2005 (Average)	2005	2006-2010 (Average
Singapore	3.4	6.4	4.6
Malaysia	4.9	5.3	5.1
Thailand	5.0	4.5	5.3
Philippines	4.2	5.1	4.4
Indonesia	4.7	5.6	5.0
Vietnam	7.4	8.4	7.3
Cambodia	6.0	4.5	5.8
Brunei	2.8	3.1	1.7
Laos	5.9	7.0	6.4
Burma (Myanmar)	2.3	2.2	4.7
United States	2.7	3.5	3.4
China	9.5	9.9	8.6
World	2.7	3.6	3.4

Source: Global Insight, Comparative World Overview Tables (Interim Forecast, Monthly), March 14, 2006.

Major Sea-Lanes Transiting Southeast Asia

China's rapid economic growth has led it to become increasingly dependent on seaborne resources that transit key choke points in Southeast Asian waters. China's GDP has grown four times since 1978, making China the world's sixth largest economy by some measures.[53] China is now the world's second largest importer of oil[54] and consumes half the world's cement, a third of the world's steel, a quarter of the world's copper, and a fifth of the world's aluminum.[55] This trade transits key

[53] Ted Fishman, "The Chinese Century," *The New York Times*, July 4, 2004.

[54] Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, The Strategic Implications of China's Energy Needs, *The International Institute for Strategic Studies*, Adelhi Paper No. 346, July 2002, p.12.

[55] Peter Goodman, "Booming China Devouring Raw Materials," *The Washington Post*, May (continued...)

strategic maritime choke points such as the Malacca, Sunda, Lombok, and Makassar Straits as well as the South China Sea. Some 50,000 ships carrying a quarter of world seaborne trade, including half of the world's seaborne oil, pass through the Straits of Malacca annually.[56] The shipping lane is only 1.5 miles wide at the east end of the Strait.[57] It is estimated that over half of China's oil imports transit the Straits of Malacca.[58] These imports will likely rise as China accounts for only 2.1% of the worlds known oil reserves.[59] Ninety percent of China's imported oil is estimated to come by sea.[60] It is forecast that China's oil imports will increase from 6.2 million bpd in 2004 to 12.7 million bpd in 2020.[61] Though China has large coal reserves, the burning of coal is leading to environmental and health problems that may lead China to seek cleaner alternative sources of energy which may increase its reliance on imported energy.[62] As a result, China is likely to be increasingly dependent on energy passing through Southeast Asia.

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[55] (...continued)
21, 2004.

[56] "Shipping in Southeast Asia," *The Economist*, June 12, 2004.

[57] John Noer with David Gregory, *Chokepoints: Maritime Economic Concerns in Southeast Asia*, (Washington: Institute for National Security Studies, National Defense University, 1996), p.2.

[58] CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by (name redacted).

[59] Simon Henderson, "China and Oil," The Washington Institute, September 15, 2004.

[60] "China Sails Troubled Waters Over Oil," *South China Morning Post*, July 17th, 2004.

[61] "Burmese Give China's Import Pipe Bid Boost," *Upstream*, October 8, 2004.

[62] Andrew Batson, "China's Choke-Hold Over Asia," *Far Eastern Economic Review*, July 8, 2004.

Figure 1. Map of Strategic Straits of Southeast Asia

Source: Information based upon *Chokepoints: Maritime Economic Concerns in Southeast Asia* by John H. Noer with David Gregory. Map Resources. Adapted by CRS. (K.Yancey 10/26/04)

It has been observed that China will likely have the ability to project substantial force beyond its immediate littoral on a sustained basis in 10 to 20 years.[63] Some view this as driven, at least in part, by the need to secure sea lanes upon which China will be increasingly dependent for energy imports. At present, oil accounts for 22% of China's energy consumption, with a third of that coming from imports. It is projected that oil will rise to 31% of China's energy consumption by 2020. This will likely lead to increasing naval modernization and continued expansion of energy related trade deals with regional states.[64]

South China Sea Dispute

In addition to the fact that the main sea route from Europe and the Middle East to Asia transits the South China Sea, this vast body of water is also rich in fish and

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[63] Marvin Ott, "Watching China Rise Over Southeast Asia," *International Herald Tribune*, Sept. 16, 2004.

[64] Jane Macartney, "China Vaunts Precedent of 15th Century General," *Reuters News*, July 8, 2004.

is thought to have extensive hydrocarbon resources beneath its surface.[65] China, Taiwan, Vietnam, Malaysia, the Philippines, and Brunei have conflicting territorial claims to various parts of the South China Sea.[66] Indonesia could also potentially become embroiled in the dispute.

Disputes over the islands and reefs of the South China Sea were a major cause of tension between China and Southeast Asia in the 1990s. Conflicting claims over islands in the Spratly group led to a naval clashes between Vietnam and China in 1988 that killed 70 Vietnamese naval personnel. In 1995, China seized Mischief Reef which is claimed by the Philippines. More recently, China has acted in a more cooperative fashion than it did in the 1990s. The ASEAN Regional Forum played a limited role in trying to defuse the situation in the South China Sea which led to China signing the Declaration on the Conduct of Parties in the South China Sea in 2002.[67] In March 2004, both Vietnam and China reasserted their sovereignty over the Islands through public statements.[68]

China's increasing demand for energy resources may lead to increasing pressure to develop plans to exploit reserves in the South China Sea. This may be done in a cooperative fashion, as appears to be the case with the Philippines, or it may be done in a return to a more assertive posture. Joint peaceful exploitation of natural resources can be done while agreeing to disagree on issues of sovereignty. China's strategic outlook may lead it to seek to more directly secure the raw materials that will fuel continued economic growth. This could lead it to once again take an confrontational stance in the South China Sea.[69] Recent developments in China's dispute with Japan in the East China Sea, where China has recently begun drilling in the Shunqiao Gas Field, has led to increased air and naval patrols in the area and to what some analysts have described as a rare demonstration of resolve by Japan to confront China on what Japan views as an encroachment by China on its Exclusive Economic Zone.[70]

China's Relations with Key Regional States

Although the ASEAN states, share certain common perspectives, each has a different relationship with China. Some are more concerned than others that China's

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[65] For a comprehensive look at the issues see CRS Report RL31183, *China's Maritime Territorial Claims: Implications for U.S. Interests*, by (name redacted) et al.

[66] See for example CRS Report RL31183, *China's Maritime Territorial Claims: Implications for U.S. Interests*, by (name redacted) et al.; John Baker and David Wiencek, *Cooperative Monitoring in the South China Sea* (Westport: Praeger Publishers, 2002); L. Odgaard, *Maritime Security Between China and Southeast Asia* (Aldershot: Ashgate Publishers, 2002); Bob Catley and Makmur Keliat, *Spratlys: The Dispute in the South China Sea* (Aldershot: Ashgate Publishers, 1997); and Mark Valencia, "China and the South China Sea Dispute," *Adephi Paper 298*, International Institute for Strategic Studies, 1995.

[67] Dalpino and Steinberg, 2002-03, p.49.

[68] "Vietnam Affirms Sovereignty Over Disputed Spratly Islands," *Korea Times*, March 26, 2004.

[69] David Hale, "China's Growing Appetites," *The National Interest*, Summer, 2004, p. 141.

[70] Martin Fackler, "Japan Will Face Off with China," *Wall Street Journal*, October 21, 2004.

rise may offer unwanted security or economic challenges. Some may view China's growing regional position as playing a useful balancing role relative to the influence of the United States, Japan, or India while others may react to the rise of China by seeking to develop closer relations with the United States or other regional powers.[71] Generally speaking, ASEAN states appear to be seeking to maximize the benefits of engagement with China while guarding against the possibility of a more assertive China in the event that engagement fails.[72]

Burma. Burma's position between South, East, and Southeast Asia is of geo-strategic importance to its neighbor China. Burma maybe viewed by some in China as key to China's efforts to prevent its potential encirclement by the United States. Burma has the potential to give China greater access to the Indian Ocean and from there to the oil rich Middle East. This is particularly valuable to China as it seeks to raise levels of development in its western interior which has experienced much lower rates of development than China's eastern coastal areas. China has helped Burma build a road linking Yunnan Province with a port on the Irrawaddy River.[73] The isolation of the military regime in Burma, due to its record on human rights, has had the unintended consequence of encouraging ties with China which could give China key strategic access, as well as economic access, to the Indian Ocean which could have an impact on the geopolitical balance with India.[74]

U.S. policy towards Burma is largely driven by human rights concerns while China's foreign policy towards Burma appears to be driven by geo-strategic and geo-economic considerations. Human rights concerns have led to legislation that restricts the extent to which the United States can engage Burma. This is in sharp contrast with the broad-based Chinese engagement of Burma. China provided Burma with a $200 million loan in the aftermath of the 2003 U.S. sanctions against Burma for human rights violations. China has also written off much of its past loans to Burma and has provided much military equipment to the regime. China is also the largest foreign investor in Burma.[75] It is thought by some that ASEAN's 1997 decision to include Burma was in part inspired by a desire to limit China's growing influence there.[76]

China has continued to develop trade and military ties with Burma. During a recent visit to Burma, China's Deputy Prime Minister Wu Yi pledged to expand trade with Burma to $1.5 billion in 2005 from its current level of approximately $1

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[71] Aileen San Pablo-Baviera, "The China Factor in US Alliances in East Asia and the Asia-Pacific," *Australian Journal of International Affairs*, July, 2003.

[72] Amitav Acharya, "Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order," *Working Paper No. 44*, Institute of Defence and Strategic Studies, Singapore, March 2003.

[73] Mark Landler, "For Many Burmese China is an Unwanted Ally," *The New York Times*, December 30, 2001.

[74] Mohan Malik, "Myanmar's Role in Regional Security: Pawn or Pivot," *Contemporary Southeast Asia*, June 1997.

[75] Joshua Kurlantzick, "Gloomy Burmese Days," *Current History*, April 2004.

[76] Mathea Falco, *Burma: Time for Change*, (New York: Council on Foreign Affairs, 2003).

billion.[77] Chinese academics also recently proposed a pipeline from Sittwe, or possibly Bhamo on the Irrawaddy River, across Burma to Kunming in Yunnan that would allow China a more direct means of accessing Middle East oil.[78] A rail link has also been contemplated along with the pipeline.[79] This proposal would provide an alternative means of getting Middle East oil to China without having to transit the Straits of Malacca through which an estimated 60% of total oil imports flow.[80] It has been estimated that Burma has up to 89.7 trillion cubic feet of natural gas which gives it the potential to become a major exporter. It has also been reported that the China National Offshore Oil Corporation is interested in developing the resource.[81] China has provided over $1.6 billion in military assistance to Burma including naval modernization.[82] China has reportedly supported the construction of naval facilities in Hainggik and Great Coco Islands and assisted with upgrades at the Mergui naval base.[83]

A series of recent high level visits has demonstrated the attention being paid to relations with Burma by China. In July 2004, Chinese Vice Chairman of the Central Military Command, State Councilor and Minister of National Defense, Cao Gangchuan, met with First Secretary of Burma's State Peace and Development Council and Chief of Air Defense Forces Soe Win in Beijing to further develop bilateral ties.[84] Former Burmese Prime Minister Gen Khin Nyunt payed a "goodwill visit" to China, and received a return delegation in Rangoon, in July 2004 to coordinate the implementation of the Sino-Myanmar Border Areas Management and Cooperation Agreements which had been agreed to in 2002.[85] Relations between Burma and China, which are described as brotherly friendship and fraternal friendship, have led to over 50 memoranda of understanding, agreements and exchanges of notes as of mid 2004.[86]

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[77] "Premier Says Burma Fostering Cooperative International Ties," *BBC Monitoring Service*, August 4, 2004.

[78] Jane Perlez, "Across Asia, Beijing's Star is in Ascendance," *New York Times*, 8/28/04.

[79] "Chinese Scholars Propose Building Oil Pipeline from Burma," *BBC Monitoring Asia*, July 15, 2004.

[80] "Burmese Give China's Import Pipe Bid Boost," *Upstream*, October 8, 2004.

[81] "Myanmar to Become Major Natural Gas Exporter," *Xinhua News Agency*, March 22, 2004.

[82] Dalpino and Steinberg, 2002-03, p.48.

[83] Lee Jae-Hyung, "China's Expanding Maritime Ambitions in the Western Pacific and Indian Ocean," *Contemporary Southeast Asia*, December 1, 2002.

[84] "Chinese Defense Minister Meets with Burma's General Soe Win," *BBC Monitoring Asia*, July 22, 2004.

[85] "Burmese Prime Minister on Common Border Issues Discussed with China's Leaders," *BBC Monitoring Service*, July 24, 2004.

[86] "Premier Says Burma Fostering Cooperative International Ties," *BBC Monitoring Service*, August 4, 2004.

Thailand. Thailand appears to be relatively comfortable with expanding ties with China. According to one poll in 2003, 76% of Thais said that China was Thailand's closest friend as opposed to 9% who named the United States.[87] For several reasons, this shift has not been as much a foreign policy departure for Thailand as it has for other Southeast Asian states: in the past, Thailand has shared geopolitical interest with China on limiting Vietnamese influence in Cambodia, and Thailand has a well integrated Sino-Thai ethnic minority which includes Prime Minister Thaksin Shinawatra.[88] From the Thai perspective, China's prompt offer of financial assistance in the wake of Thailand's financial difficulties in 1997 contrasted sharply with the United States response. The lack of territorial disputes between China and Thailand also helps. Cultural ties have been strengthened as well between the two nations.[89] Thailand has sought to position itself as an energy hub to facilitate energy flows to China through a proposed Energy Land Bridge which would link the Andaman Sea with the Gulf of Thailand south of the Isthmus of Kra and thereby provide an alternative to the Straits of Malacca. Construction is expected to begin in 2005, despite discussion of an alternative route through Burma, and be completed by 2008.[90] During the 1990s, Thailand, a treaty ally of the United States, rejected an American request to preposition military equipment on ships in the Gulf of Thailand, possibly due to Chinese objections.[91] Despite this, Thailand continues to seek positive relations with the United States at the same time that it is developing ties with China. This can be viewed as part of Thailand's traditional foreign policy of seeking to balance external powers to preserve its independence.

The Philippines. Much has changed in the bilateral relationship between the Philippines and China from the 1990s when the Philippines was thought to be deeply suspicious of Chinese activity in the South China Sea and in particular on Mischief Reef. China's shift to a more conciliatory posture towards the Philippines is affecting the Philippines perceptions of China. Recent policy shifts in the Philippines, which is a U.S. treaty ally, demonstrate that the Philippines is open to expanding and redefining its relationship with China. President Gloria Arroyo stated in September 2004 after returning from Beijing that "we should credit China for sincerely wanting to become a good citizen of the world." At that time Chinese President Hu Jintao reportedly agreed to a return visit to the Philippines in 2005.

President Arroyo has also reportedly taken the position that China will play an increasingly important role not only in economic terms but also in a security context and that for these reasons it is in the Philippines interests to develop its bilateral

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[87] Phillip Pan, "China's Improving Image Challenges U.S. in Asia," *The Washington Post*, November 15, 2003.

[88] CRS Report RL32593, *Thailand: Background and U.S. Relations*, by (name redacted).

[89] Vatikiotis, p.71.

[90] Chatruddee Theparat, "Thailand's Energy Land Bridge Project to Proceed Despite New Pipeline," *Bangkok Post*, October 12, 2004.

[91] Vatikiotis, p.71.

relationship with China.[92] President Arroyo felt the need to state that this developing relationship would not mean that the Philippines would renounce its mutual defense treaty with the United States. China-Philippine trade has increased by an average 26.6% a year for the past five years with the Philippines having a $2.16 billion trade surplus. Bilateral trade is also projected to grow by $20 billion over the next three years. In the Fall of 2004, Chinese and Philippine officials were meeting to discuss an "Early Harvest" free trade agreement.[93] President Arroyo and President Hu Jintao agreed on September 2, 2004 to a three-year joint exploration of oil resources in the Spratlys. Earlier reports have estimated reserves of 100 billion barrels of oil and 25 billion cubic meters of natural gas in the region around the Spratly Islands.[94]

Indonesia. Indonesia's relations with China, while improving significantly, start from a less than close base line largely due to past ideological differences. Indonesian suspicion of China was fueled by the latter's support of the Communist Party of Indonesia in the 1960s and former President Suharto's belief that Indonesian communists were behind an attempted coup in 1965 that subsequently led to the killing of over 500,000 Indonesians, many of whom were ethnic Chinese affiliated with the Communist Party. Diplomatic relations, which had been severed in 1967, were reestablished in 1990. Inter-communal tensions arose again during the transition from the Suharto regime when anti-Chinese rioting occurred in 1998. In 1999, then President Wahid sought to improve relations with China as part of a strategy to balance America's preeminent position in the world. Diplomatic relations between Indonesia and China were further strengthened by former President Megawati's 2002 visit to China.[95] China's educational exchange with Indonesia increased 51% last year. As a result, there were 2,563 Indonesians granted visas to study in China last year as compared to 1,333 who were granted visas to study in the United States.[96]

Former President Megawati focused on closer economic relations with China. A memoranda of Understanding was signed in 2002 that established an Indonesia-China Energy Forum. This was followed by Petro China's moves to secure oil fields in Indonesia. China's National Offshore Oil Corporation has also invested in Indonesia's energy sector. In 2002, Indonesia won a contract to supply liquid natural gas to China's Fujian Province. From 1992 to 2002 bilateral trade between Indonesia and China increased from $2 billion to $ 8 billion while Chinese investment in Indonesia has grown from $282 million in 1999 to $6.8 billion in 2003.[97] Despite

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[92] "China to Play Key Role in Philippines Economic, Security Future: Arroyo," *Agence France Presse,* Sept. 7, 2004.

[93] "China Trade Forecast to Grow $20 bill in Three Years," *Manila Bulletin*, September 8, 2004.

[94] "China and Philippines Cooperating - For Now," *Economist Intelligence Unit,* Sept. 7, 2004.

[95] "China - Indonesia Relations and Implications for the United States," U.S.-Indonesia Society, conference notes, November 7, 2003.

[96] Jane Perlez, "China's Reach: Chinese Move to Eclipse U.S. Appeal in South Asia," *New York Times,* November 18, 2004.

[97] This paragraph is drawn from remarks made by Hadi Soesastro before the US-Indonesia

(continued...)

growing economic ties, some analysts see Indonesia's desire to play a leading role within Southeast Asia as potentially creating geopolitical rivalry with China.[98] There is also the potential that the developing economic relationship between Indonesia and China may not deliver the benefits to Indonesia that some have come to expect. It has been estimated that there is an 83% export overlap between Indonesia and China.[99]

Vietnam. The history of the bilateral relationship between China and Vietnam continues to influence their interaction in a way unlike China's relations with other Southeast Asian states. Vietnam gained its independence from China in the year 939 after over 1,000 years of Chinese rule. China again ruled Vietnam briefly, from 1407 to 1428, during the Ming Dynasty.[100] During the Cold War, China sought to limit Vietnamese influence in Cambodia. Vietnam had close relations with the former Soviet Union at a time when relations between the Soviet Union and China were cool. Tensions rose to a height in 1979 when China and Vietnam fought a border war. Relations improved somewhat with the normalization of diplomatic relations in 1991. Despite these improvements, tensions have remained over conflicting claims to the Spratly and Paracel islands in the South China Sea over which Vietnam and China came into conflict in 1974 and 1988.[101] Talks were held in early 2004 to resolve outstanding border demarcation issues.[102] That said, trade relations between China and Vietnam are adding new weight to the bilateral relationship. China's exports to Vietnam increased by 20% while imports from Vietnam rose by 80% in the first eight months of 2004.[103]

Recent action by Vietnam indicates that it is not likely to abandon its claims to the Spratlys but is focused more on developing a defense for the International Court rather than a military defense. Some interpret Vietnam's recent promotion of tourism to the Spratlys as a means of demonstrating its administration over the area. To facilitate this, Vietnam is building a 600 meter runway in the islands. In 2002 the World Court ruled in favor of Malaysia over Indonesia in awarding ownership of Ligitan and Sipadan to Malaysia based on the principle of continued exercise of

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[97] (...continued)
Society and Sigur Center for Asian Studies' conference on "China-Indonesia Relations and Implications for the United States," Washington, November 7, 2003.

[98] Marvin Ott, "An Historical Geopolitical Relationship Reasserts Itself," U.S.-Indonesia Society, Conference on the Indonesia-China Relationship, November 7, 2003.

[99] Martin Hart-Landsberg and Paul Burkett, "Contradictions of China's Transformation," *Monthly Review*, July 1, 2004.

[100] Barbara Weightman, *Dragons and Tigers*, (Hoboken: John Wiley and Sons Publishers, 2004), p.360.

[101] Sokolsky and Rabasa, p. 41. See also Marvin Ott, "Southeast Asia: The Security Context," in *U.S. Strategy in the Asia-Pacific Region*, Woodrow Wilson International Center for Scholars, Washington, DC, 2003.

[102] Lyall Breckon, "A Lull and Some Complaints," *Comparative Connections*, Pacific Forum, CSIS,1st Quarter, 2004.

[103] David Murphy, "Softening at the Edges," *Far Eastern Economic Review*, November 4, 2004.

authority over the islands.[104] This could be used as a precedent in the dispute over the islands of the South China Sea.

Singapore. China's recent posture towards Singapore indicates that Taiwan and the United States remain issues that appear to place limits on the extent of China's increasingly cooperative posture relative to Southeast Asia. Some analysts have interpreted China's recent rebuff of incoming Prime Minister Lee Hsien Loong, for traveling to Taiwan, as a message to other ASEAN states not to follow Singapore's policy of welcoming the United States as a balancing influence in the region in addition to sending a signal on Taiwan.[105]

Some view Singapore as part of a grouping including Japan, South Korea, Taiwan, and Australia that are closer to the United States than China would prefer.[106] Some in China are thought to be concerned that such a ring of countries could be used to encircle China. Singapore reportedly sees in its relationship with China the potential for mutual gain, economic competition, and potentially conflicting strategic aims. Singapore is thought to advocate developing a constructive relationship with China while hedging against a potentially revisionist regime.[107]

The United States-Singapore relationship is thought to be closer than the United States' relationship with other Southeast Asian states with the possible exception of the Philippines. The United States and Singapore recently signed a free trade agreement. Singapore also has port facilities at the Changi Naval Base that can accommodate U.S. naval ships, including aircraft carriers. The U.S. Air Force also reportedly has access to Singapore's Paya Lebar airbase. The increasing use of Singapore as a forward operating site by U.S. military forces is part of an ongoing re-posturing of U.S. force structure to have greater flexibility through an expanded network of small outposts.[108] According to Tony Tan, Singapore's Minister for Security and Defense, "We will deepen our engagement with the United States on security."[109]

China protested then Deputy Prime Minister Lee Hsien Loong's visit to Taiwan in July 2004 prior to his becoming Prime Minister of Singapore in August 2004. The degree of pressure that China brought to bear on Singapore — they canceled senior level visits and reportedly threatened to postpone free trade talks scheduled for November, 2004 — demonstrates that China will still use negative pressure to try to

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[104] "Island Holiday Anyone?" *Far Eastern Economic Review,* Sept. 9, 2004.

[105] Michael Vatikiotis, "Military Alliances: A Diplomatic Offensive," *Far Eastern Economic Review,* August 5, 2004.

[106] Eric Chu Cheow, "The China - Singapore Row and Sino-U.S. Rivalry."

[107] Evelyn Goh, "Singapore's Reaction to Rising China: Deep Engagement and Strategic Adjustment," *Working Paper, 67,* Institute of Defence and Strategic Studies, Singapore, May 2004.

[108] Robert Burns, "Pentagon Moving Troops to Lilly Pads," *Journal Gazette,* September 23, 2004.

[109] "Singapore Minister: Negotiating Security Pact with the U.S." *Dow Jones International News,* August 17, 2004.

influence its Southeast Asian neighbors, at least over the issue of Taiwan. It has also been reported that Singapore conducts military training in Taiwan and that this displeases China. One Singaporean official reportedly stated "They [China] are trying to make us define our core interests subordinate to their core interests."[110]

Australia. There are signs that one of America's closest allies, Australia, is re-calibrating its external posture in a way that places increased emphasis on Asia, and in particular China.[111] This, it appears, is being driven by the growing geo-economic importance of China to Australia as well as domestic Australian public opinion that is perceived to have grown less comfortable with the Australian Liberal government's extremely close identification with President Bush's foreign policy, including Iraq.[112] It should be noted that Australia's growing relationship with China is based on trade, while its relationship with the United States is based on shared values, the ANZUS alliance, and a largely common world view. Australia's exports to China rose from $1.2 billion in 1990 to $5.9 billion in 2003 while its imports over the same period rose from $1.5 billion to $10.3 billion.[113] As a result, it appears to be the aim of Australian foreign policy to avoid a situation where the United States and China are in conflict because Australia wishes to pursue enhanced economic ties with China while preserving its close strategic alliance relationship with the United States.

Events that point to this potential shift include Australia's desire for a free trade agreement with China, the 2004 statement by Foreign Minister Downer on Taiwan, the 2003 visit of Premier President Hu Jintao to Australia, and desire by the Australian opposition Labor Party to not be perceived as an unthinking and uncritical subordinate of the United States by regional countries. While this re-calibration does seek to establish a degree of independence, it starts from a baseline of almost no major foreign policy differences between the Government of John Howard and the Administration of George Bush, which is built on a strong personal relationship between the two leaders and national elites.

The decision to give Chinese President Hu Jintao a platform in parliament the day after President Bush addressed the Australian parliament is viewed by some as "a symbolic repositioning of Australia in the world"[114] that gives the appearance of increasing parity in Australia's relations with China relative to the American alliance. This may be driven by the growing importance of China to Australia in economic terms. Australia's exports to China increased from $1.2 billion in 1990 to $5.9 billion

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[110] Barry Wain, "Singapore: A David and Goliath Tussle," *Far Eastern Economic Review*, August 5, 2004.

[111] Rowan Callick, "Carry on John," *Far Eastern Economic Review*, October 21, 2004.

[112] Robert Sutter, "Thirty Years of Australia-China Relations: An American Perspective," *Australian Journal of International Affairs*, Vol. 56, 2002.

[113] In billions as adjusted for inflation. Jane Perlez, "Across Asia, Beijing's Star is Rising," The *New York Times*, August 28, 2004.

[114] Paul Kelly, "The Challenge of China," *The Australian*, August 14, 2004.

in 2003.[115] Australia's raw material exports have grown significantly over recent years in large part to growing Chinese demand.[116] China is reportedly responsible for much of the 50% increase in The Economist Commodity Price Index over the past three years.[117] Bilateral trade between Australia and China doubled over the past five years.[118] Australia's manufactured exports to China also increased by 134%, as compared to an overall increase of 13%, over the period 1999 to 2003.[119]

Recent high level visits also attest to the new importance being placed on the relationship. Prime Minister Howard has traveled to China four times, which is more than any other Australian Prime Minister, and Chinese Presidents Hu Jintao and Jiang Zemin have both been to Australia.[120] During his visit to Beijing in August 2004, Australian Foreign Minister Downer remarked that the ANZUS Treaty did not require Australia to fight with the United States in the event of a conflict over Taiwan.[121] This is potentially a significant departure for Australia, a nation with a record of fighting along side the United States in almost all of its conflicts, and can be viewed as an example of how regional states are influenced by China to take political and strategic positions pleasing to China as they seek to develop trade relations. Australia is currently seeking a Free Trade Agreement with China.

China's Integration with the Greater Mekong Sub-Region

The Mekong river begins high in the mountains of southwest China, where it is known as the Lancang River, and winds through Yunnan Province before crossing Southeast Asia to complete its 4,800 mile journey in the South China Sea. The Mekong basin includes some 70 million people of which 80% depend on the river for their subsistence. [122]

The Greater Mekong Subregion (GMS) was formed in 1992 with encouragement and assistance from the Asian Development Bank. Its members include China, Burma, Laos, Thailand, Cambodia and Vietnam. The GMS does not have a regulatory function. This is a distinct organization from the Mekong River Commission (MRC) formed in 1995 that includes Cambodia, Laos, Thailand, and Vietnam. China's decision not to join the MRC is thought to stem from its reluctance to give downstream nations a voice in its decisions to dam the upper Mekong.

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[115] Institute for International Economics statistics as referenced in Perlez p. A5.

[116] "The Dragon and the Eagle," *The Economist*, October 2, 2004.

[117] "A Hungry Dragon," *The Economist*, October 2, 2004.

[118] Hamish McDonald, "Welcome Mat is out for China Plate," *The Sydney Morning Herald*, August 12, 2004.

[119] Rowan Callick, "Now it's China's Time," *The Financial Review*, August 21, 2004.

[120] "Australian PM Notes 'Admiration' for China's Economic Progress," *BBC Monitoring Service*, August 16, 2004.

[121] Hamish McDonald, "Welcome Mat is out for China Plate," *The Sydney Morning Herald*, August 12, 2004.

[122] Milton Osborne, *The Mekong: Turbulent Past, Uncertain Future*, (New York: Atlantic Monthly press, 2000).

Regional integration between southern China and Southeast Asia holds the prospect of bringing the nations of Southeast Asia and China closer together through regional economic development. Environmental concerns stemming from the damming and channeling of the Mekong river may become a source of tension between China and its downstream neighbors.

One issue that may provide insight into China's attitude towards Southeast Asia is the damming of the upper Mekong in Yunnan with little regard to the impact on its downstream neighbors. Two hydroelectric dams have been completed with an additional two under construction while four more are planned. These dams are part of China's attempt to meet its energy needs and to develop its relatively underdeveloped Western interior. Problems associated with these dams have angered some downstream, as fish habitat is reportedly being degraded. Dam construction also limits the flow of silt which is needed to replenish the fertility of downstream agriculture on Mekong flood plains. Some have called for the issue of water resource management to be made part of the ASEAN-China agenda.[123]

The heads of Government of the Greater Mekong Subregion signed a memorandum of understanding on cross border transport and agreed on a plan to establish a regional power grid that would coordinate the various hydroelectric projects in the river system at the November 2002 summit in Phnom Penh.[124] Expanding transportation links between Yunnan and Southeast Asia will likely enhance China-Southeast Asian interaction. China is building roads south from Yunnan's capital Kunming which will link up with three routes from Laos and Burma.[125] Air routes are also being established, such as between Chiang Mai and Jinghong.[126] It is envisaged that the linkage of these roads and air routes will serve to create a north-south economic corridor from south central China into Southeast Asia. One possible consequence of higher levels of regional integration could be increased levels of drug and human trafficking and the spread of AIDS throughout the region. Greater levels of economic integration between China and Southeast Asia in the Mekong region hold the prospect of improving the standard of living of millions. It may also lead to China's enhanced regional influence.

Cambodia's environmental concerns over China's upstream dam building are quite significant. An estimated 70% of Cambodian's protein comes from fisheries related to the river. Many of the fish in the Mekong River are migratory fish that spawn upstream. Projected dam construction in China will limit the ability of fish to spawn upriver. In addition, the Great Lake of Cambodia, the Tonle Sap, is connected to the Mekong by a tributary of the same name. During the flooding season the tributary which normally runs from the Great Lake reverses flow and empties in to the Great Lake. This greatly expands and deepens the lake and creates a vast

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123 Barry Wain, "River at Risk," *Far Eastern Economic Review*, August 26, 2004.

124 Lyall Breckon, "China Caps a Year of Gains," *Center for Naval Analysis*, December, 2002.

125 M. Sirluk, "Sino-Thai Economic Development in the GMS," *Contemporary Southeast Asia*, August 2004.

126 "Thai launches New Route," *Thai News Service*, August 19, 2004.

breeding ground for fish that make their way back to the Mekong. The fish catch in Cambodia in both the 2001/02 and 2002/03 fishing seasons declined by 15%. This was followed by a further decline of 50% in 2003/04.[127] Some have speculated that China's upstream manipulations of the flow of the Mekong, which led to unprecedentedly low river levels in 2004, may lead to the collapse of the Mekong system fishery.[128] Some view such large scale declines, when combined with Cambodia's reliance on the resource, as not only an environmental problem but also a security problem.

Cambodia's displeasure with the situation with the Mekong may be in part offset by Chinese assistance. In November of 2003, China and Cambodia signed an agreement for military training and equipment. China is also reportedly helping Cambodia build a railway that will help link Yunnan to the sea.[129]

Regional Security Architectures

Some observers fear that the future evolution of regional security architectures in Southeast Asia will lessen the central role of the United States while enhancing that of China. None of the "multilateral machinery"[130] that deals with security issues in Southeast Asia has the degree of coherence as the North Atlantic Treaty Organization. That said, there has been much effort devoted to regional security over time. The United States' now defunct Southeast Asian Treaty Organization (SEATO) was an early attempt to forge such unity in a way that gave the United States a central role. The Five Power Defense Arrangements (FPDA), which include The United Kingdom, Australia, New Zealand, Malaysia and Singapore, is another security grouping. On the periphery of Southeast Asia is the 1951 ANZUS Treaty. It includes the United States, Australia and New Zealand, though the New Zealand leg of the alliance has lapsed since nuclear disputes in the mid 1980s.

More recent fora, such as the ASEAN Regional Forum (ARF), the ASEAN Europe meeting (ASEM), the ASEAN post ministerial meeting, and the "track two" Council for Security Cooperation in the Asia Pacific (CSCAP) have all dealt with regional security issues. ASEAN's difficulty in dealing with regional security was demonstrated by its limited response to the crisis in East Timor. It has been asserted that the "ASEAN way" principle of non-intervention has limited ASEAN's ability to play an active role in preserving regional peace and security. As a result, ASEAN's neighbor Australia played the leading role in containing the violence associated with East Timor's independence in 1999.

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[127] Milton Osborne, "Sold Down the River," *Financial Review*, October 8, 2004.

[128] Milton Osborne, *River at Risk: The Mekong and the Water Politics of China and Southeast Asia*, Lowy Institute for International Policy Paper 02, 2004, Sydney, Australia.

[129] Michael Vatikiotis, "A Too Friendly Embrace," *Far Eastern Economic Review*, June 17, 2004.

[130] Ron Huisken, "Civilizing the Anarchical Society: Multilateral Security Processes in the Asia-Pacific," *Contemporary Southeast Asia*, August 2002.

Former U.S. Combatant Commander of the Asia-Pacific region Dennis Blair put forward a concept of "security communities"or "enhanced regional cooperation" in 2001 that was not well received by Southeast Asian states.[131] There was concern by states with strong bilateral relationships with the United States that such a grouping would lessen their relative relationship with the U.S. There was also concern that such a grouping would be viewed by China as seeking to contain China.

APEC, though explicitly focused on economic issues, has also played a role in the field of security as demonstrated by its role in the crisis in East Timor and more recently for its discussion of the impact of terrorism on the region. Despite this, APEC has not developed to the point where it explicitly and comprehensively is focused on regional security. This is due to a degree of resentment by some regional states of the United States' efforts to transform APEC, which is viewed by many as a economic grouping, to focus on security issues.

An ASEAN Security Community was put forward at the October 2003 ASEAN meeting in Bali, Indonesia which added new areas of cooperation, such as counter terrorism and maritime security.[132] Indonesia proposed the security community concept for ASEAN in which it would presumably play a leading role. This, and an Indonesian proposal to establish an ASEAN peacekeeping force by 2010,[133] did not receive much enthusiasm from other ASEAN member states who do not favor the evolution of ASEAN security dialogues into actual defense cooperation. Other more recent security initiatives include China's efforts to develop ASEAN + 3 and strategic relations with the region. Such a China-focused East Asian Community that would exclude the United States, would have the potential to limit the United States' future influence in the region.[134] It has been asserted that one of the reasons for recent force modernization measures by Southeast Asian States has been the need for increased self reliance due to a perceived reduction of the U. S. commitment to Southeast Asia.[135]

China is positioning itself to be able to play a more active role in Southeast Asian security. In 2003, China and ASEAN signed the Joint Declaration on Strategic Partnership for Peace and Prosperity which calls for coordination in the areas of foreign and security policy.[136] China also signed the Treaty of Amity and

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[131] Satu Limaye, "Minding the Gaps, The Bush Administration and U.S.-Southeast Asia Relations," *Contemporary Southeast Asia*, April 2004.

[132] Dalpino and Steinberg, 2003-04, p.26.

[133] Barry Wain, "Regional Security: ASEAN Apathy," *Far Eastern Economic Review*, May 6, 2004.

[134] Jane Perlez, "Across Asia, Beijing's Star is Rising," *The New York Times,* August 28, 2004.

[135] Andrew Tan, "Force Modernization Trends in Southeast Asia," Institute of Defence and Strategic Studies, Singapore, January 2004.

[136] Dalpino and Steinberg, 2003-04, p14.

Cooperation with ASEAN in late 2003.[137] The Joint Declaration has been interpreted as "an early step towards incorporating Southeast Asia in an East Asian economic, political and security community led by China."[138] Some view a China-backed ASEAN Security Community (ASC) as a means of shifting ASEAN security discussions away from fora where the United States participates, such as the ASEAN Regional Forum (ARF) or Asia Pacific Economic Cooperation (APEC).[139] While ASEAN states see benefit in developing relations with China, it does not appear that the relationship will be developed in isolation but rather in tandem with other key extra-regional relationships such as with the United States, Japan, India, and Australia. While it is not evident exactly how the new security architecture will evolve, what is of concern to some analysts is that the current direction has the potential to move towards the creation of a new Asian centric architecture, which reduces the central role that the United States has played, and may have China at its center. While it has been pointed out that such a grouping may not pose any more of a threat to the United States' regional interests than the European Union does in Europe, such a grouping could challenge American interests if "ignored or mishandled."[140]

Implications for American Interests

How one perceives the implications of the rise of China in Southeast Asia depends to a great extent on whether the rise of China is viewed in zero sum or expanding sum terms relative to American interests. A zero sum perspective holds the potential to create strategic rivalry as any gain for China, in either economic, diplomatic, or strategic terms, would be viewed as diminishing America's regional posture. Such a perspective could lead to policies by the United States that China would view as seeking to contain its rise which could lead to more assertive Chinese policies. An expanding sum approach holds the prospect of constructively engaging China in a way that would have it act without military force not only in the region but beyond. Such a perspective could focus on those areas where U.S. and Chinese interests converge such as fighting organized crime, drug smuggling, counter terrorism, stabilizing Indonesia, maintaining regional stability, and promoting energy security.[141] While China has pursued a more cooperative policy in Southeast Asia, there exists the possibility that it could revert to a more aggressive posture. Such a policy shift could be triggered by the issue of Taiwan. In such an event, China's enhanced presence in Southeast Asia could challenge American interests in the region.

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[137] "Peaceful Rise," *The Economist*, June 24, 2004.

[138] IISS, p.266.

[139] "Regionally Challenged, Asian Security," *The Economist*, July 10, 2004.

[140] Brad Glosserman, "Changing Asia Needs the U.S.-Japan Alliance," *PacNet* 47, October 21, 2004.

[141] David Shambaugh, "China's Rise in Asia & Implications for the United states," Asia-Pacific security Symposium, Fort McNair, Washington, DC, April 2004.

China's increasing dependence on imported energy, particularly from the Middle East, could serve as a key shared strategic interest with the United States as both states will place increased importance on maintaining the sea lanes through which the oil will flow. China's increasing dependence on Middle East based energy resources is demonstrated by the recent signing of a Memorandum of Understanding between China and Iran for the purchase by China of 10 million tons of liquified natural gas each year over the next 25 years.[142] Conversely, the rapid rise in oil consumption by Asia, which is projected to grow by 80% from 2001 to 2025, could lead to increasing competition for the resource.[143] Energy is a key resource for economic growth which has been a key source of legitimacy for the Chinese government.

Some analysts have taken the view that regional states view the United States as being largely focused elsewhere in the world, particularly Iraq and Afghanistan, and that to the extent to which the United States is engaged in Southeast Asia it is engaged primarily through the prism of its war against terror and to a lesser extent with human rights. China's recent foreign policy toward the region has stressed trade and not human rights. This policy stance is relatively well received in many Southeast Asian capitals. That said, some Southeast Asian states are thought to quietly welcome the balancing effect of the United States' strategic presence in the region.[144]

Some have viewed the emerging correlates of power of Asia as resting on three key "interactive forces," all of which are evident in the Southeast Asian context. These are; the ability of the United States to remain committed to the region and play a leading role in "creating a new security architecture," the rise of China, and a deteriorating arc of instability in Asia.[145] From this perspective, the ability of the United States to remain committed to the region, beyond a narrow focus on the war against terror, is an important factor which will likely influence how regional states react to the rise of China. If regional states perceive the United States as unwilling or unable to play an active role across the economic, diplomatic, and security spectrum in Southeast Asia they may be increasingly drawn to China. As China's influence grows, Southeast Asian states may seek to balance that influence in new ways, particularly if they perceive the United States as reluctant to be comprehensively engaged in the region. If American priorities, such as the war against terror, place limits on the attractiveness of renewed ties, Southeast Asian states may look to India , Australia, Japan, or to new ASEAN based initiatives, which could be led by Indonesia, to balance the rising influence of China.

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[142] Matt Pottinger, "China and Iran Near Agreement on Huge Oil Pact," *Wall Street Journal*, November 1, 2004.

[143] "Executive Summary," Pipelines and Fault Lines: The Geopolitics of Energy Security in Asia, October 21, 2003. [http://www.apcss.org]

[144] Robert Scalapino, "Asia-Pacific Security-the Current Balance of Power," *Australian Journal of International Affairs*, September 2004.

[145] Enders Wimbush, "The Shape of New Asia," *The Asian Wall Street Journal*, September 20, 2004.

Policy Implications

Past U.S. policy towards Southeast Asia has sometimes been viewed as *ad hoc*, episodic, and reactive.[146] Some feel a stronger commitment by the United States to long term engagement with the region across the full spectrum of issues of concern, not only to the United States but also to regional states, would add depth to America's regional presence and could positively shape regional states' perceptions of the United States' strategic posture. Some analysts are of the opinion that the United States could actively work to channel China's emergence as a great power along the path of the peaceful rise. In their view, the United States could reassure China that it will not oppose China's efforts to attain higher levels of development to better the lives of its people while the United States could reserve the right to promote its economic and other interests in the region.

Some regional states' displeasure over United States policies associated with the war on terror create perceived distance in Southeast Asian states' relations with the United States which, it is thought, creates space for enhanced relations between Southeast Asia and China. The region appears to some to be increasingly uneasy with perceived American unilateralism while at the same time increasingly at ease with China's concurrent shift to more multilateral approaches to security. Expanded use of multilateral and soft power approaches by the United States, by enhancing dialogue with regional states across a range of issues could, according to some, create greater levels of cooperation amongst regional states and the United States. Renewed emphasis on APEC and American involvement in Mekong Subregion development are also viewed as two possible avenues for expanded multilateral cooperation. Streamlining the visa application process for Southeast Asian students and expanding scholarship opportunities to cultivate Southeast Asia's next generation of leaders are other opinions under consideration.

Other analysts feel that greater flexibility to induce or persuade the regime in Burma to promote human rights and political freedom could be used as a way of engaging Burma, with ASEAN states, to provide Burma with an alternative to an increasing reliance on China. As one analyst has put it, "if the current relationship between the United States and China develops into a more overt competition ... the realpolitik of great power rivalry could oblige it (the United States) to change its policy towards Burma and seek a more neutral, if not closer, relationship."[147]

Others are of the opinion that the United States can expand existing military exercises with regional allies, such as exercises *Tandem Thrust*, with Australia, *Balikatan*, with the Philippines, and *Cobra Gold*, with Thailand, to enhance America's defense ties with regional states[148] and enhance American credibility as an alliance partner. The United States could also develop military to military ties, training, regional defense modernization, and regional access with other non-alliance

[146] Kerrey and Manning, p.7.

[147] Andrew Selth, "Burma and Superpower Rivalry in the Asia-Pacific," *Naval War College Review*, Spring 2002.

[148] Sheldon Simon, "Southeast Asia," *National Bureau of Asian Research*, 2001, p.291.

partners in the region.[149] Renewed emphasis on forward presence could also possibly effect regional states' perceptions of America's commitment to the region. Should it appear that China was reverting to a more assertive regional posture, the United States could work with Japan and Australia, and possibly India, to assist Southeast Asian states in balancing Chinese influence.[150] A balancing presence by other Asian states may be perceived more positively than a direct American presence in some states.

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[149] These policy recommendations have been suggested by in Angel Rabasa, Richard Sokolsky, and C.R. Neu, *The Role of Southeast Asia in U.S. Strategy Towards China*, A Report for the U.S. Air Force prepared by the RAND Corp. 2000.

[150] Sheldon Simon, "Southeast Asia," *National Bureau of Asian Research*, 2001, p.270.