SECTION 2: CHINA AND SOUTHEAST ASIA

Introduction

China's relations with Southeast Asia are complex and dynamic. Some of China's strongest and weakest bilateral relationships are with Southeast Asian countries, and Southeast Asia is a useful prism through which to observe how Beijing perceives its place in the Asia Pacific and in the world. Currently, China-Southeast Asia relations are characterized by seemingly contradictory trends: China is aggressively advancing its territorial claims in the South China Sea at the expense of its Southeast Asian neighbors while simultaneously seeking to strengthen relations with the region, often through economic diplomacy.[1]

Since December 2013, China has expanded seven land features it controls in the Spratly Islands, which the Philippines and Vietnam also claim, by more than 2,900 acres—the equivalent size of more than 2,000 football fields.[2] The scale and speed of these activities have far outpaced the activities of other claimants on the land features they control, and China intends to use its enhanced land features for military and other purposes. At the same time, however, China has sought to improve relations with Southeast Asian countries, primarily through economic initiatives and engagement with the Association of Southeast Asian Nations (ASEAN).* China established the Asian Infrastructure Investment Bank (AIIB), which all the countries in ASEAN joined, and the "21st Century Maritime Silk Road," a massive (and thus far largely conceptual) initiative that aims to enhance regional connectivity through infrastructure and other projects, traversing all of Southeast Asia and beyond once it is established.[3] China appears to view economic cooperation through such initiatives as a way to ease tensions arising from China's actions in the South China Sea.[4] Moreover, China uses its engagement with ASEAN as a means of improving its relations with Southeast Asian countries and trying to reassure them that it seeks to be a peaceful and cooperative partner, while also promoting its own economic development.[5] Among other ASEAN and ASEAN-related fora, China participates annually in the ASEAN-China Summit, the ASEAN Plus Three Summit, the ASEAN Regional Forum, and the East Asia Summit.† At the

*ASEAN is comprised of Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

†In these fora, representatives of the member countries discuss regional and international issues and promote economic, political, and security cooperation and people-to-people and cultural exchange, among other things. The ASEAN-China Summit is attended by the heads of state of ASEAN member countries and China's premier. The ASEAN Plus Three Summit consists of ASEAN member countries and China, Japan, and South Korea. The ASEAN Regional Forum is comprised of the ASEAN Plus Three member countries as well as Australia, Bangladesh, Canada, the EU, India, Mongolia, New Zealand, North Korea, Pakistan, Papua New Guinea, Russia, Sri Lanka, Timor-Leste, and the United States. The East Asia Summit consists of the ASEAN Plus Three member countries as well as Australia, India, New Zealand, Russia,

China-ASEAN Summit in November 2014, Chinese Premier Li Keqiang announced that China would provide loans and development aid to Southeast Asia and take further steps to develop the China-ASEAN Investment Cooperation Fund, which is focused on investment in natural resources, energy, and infrastructure in ASEAN countries.[6] He also promoted the idea of a "China-ASEAN Treaty on Good Neighborliness, Friendship and Cooperation," which he said would "provide an institutional framework and legal guarantee for the peaceful coexistence of both sides from generation to generation."[7]

This section explores this dynamic of competition and cooperation, discussing the South China Sea disputes, China-Southeast Asia economic relations, and China's security cooperation with Southeast Asia. The findings in this section are based on a May 2015 Commission hearing on the security, diplomatic, and economic elements of China's relations with Southeast Asia; the Commission's July 2015 fact-finding trip to China and Vietnam; and open source research and analysis.

The South China Sea Disputes: New Developments and China's Relations with the Southeast Asian Claimants

Among security and geopolitical challenges in Southeast Asia, the South China Sea disputes are the most contentious.* In the past six years, China has taken a more assertive approach to its territorial claims in the South China Sea.† China has largely employed a gradual, "salami-slicing" approach to consolidating its claims, which Bonnie Glaser, a senior adviser for Asia at the Center for Strategic and International Studies, describes as "using small, incremental actions, none of which by itself is a casus belli."[8] Starting in late 2013, however, Beijing's efforts took on increased urgency as it began to use land reclamation and construction on the land features it controls to vastly expand its civilian and military presence in contested waters (see Figure 1).

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and the United States. Association of Southeast Asian Nations, "Chairman's Statement of the 17th ASEAN-China Summit," December 27, 2014; Association of Southeast Asian Nations, "ASEAN Plus Three Cooperation," January 22, 2014; ASEAN Regional Forum, "About the ASEAN Regional Forum"; and Association of Southeast Asian Nations, "Chairman's Statement of the Ninth East Asia Summit," November 13, 2014.

*Six countries have overlapping claims to territory in the South China Sea: Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam. China delineates its claims on its South China Sea maps using a nine-dash line, which encompasses almost all of the South China Sea (see Figure 1). China occupies the Paracel Islands, though Taiwan and Vietnam also claim them. All the claimants, except Brunei, have military outposts in the Spratly Islands. (See Chapter 3, Section 3, "Taiwan," for further discussion of Taiwan's role in the South China Sea disputes.)

†For an in-depth look at China's growing assertiveness in the South China Sea since 2009, see U.S.-China Economic and Security Review Commission, *2009 Annual Report to Congress*, November 2009, 123–124; U.S.-China Economic and Security Review Commission, *2010 Annual Report to Congress*, November 2010, 132–137; U.S.-China Economic and Security Review Commission, *2011 Annual Report to Congress*, November 2011, 166–172; U.S.-China Economic and Security Review Commission, *2012 Annual Report to Congress*, November 2012, 215–240; U.S.-China Economic and Security Review Commission, *2013 Annual Report to Congress*, November 2013, 266, 268–276, 278–284; and U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 244–252, 411–412.

The United Nations Convention on the Law of the Sea

The United Nations Convention on the Law of the Sea (UNCLOS) specifies up to four main sovereign territorial or jurisdictional zones to which coastal states are entitled. A coastal state is entitled to a "territorial sea" of no more than 12 nautical miles (nm) extending out from its coast, over which the state has full sovereignty, subject to the right of innocent passage. Extending out an additional 12 nm is a "contiguous zone," in which a coastal state can prescribe and enforce customs-related laws.[9] A coastal state is also entitled to an "exclusive economic zone" (EEZ), a 200-nautical-mile zone extending from its coastline within which that state can exercise exclusive sovereign rights and jurisdiction over living and nonliving resources, but not full sovereignty.[10] In addition, if a state's continental shelf extends beyond its EEZ, it can submit a claim for an outer limit to its continental shelf to an UNCLOS governing body, which will provide recommendations on its delimitation.[11] According to UNCLOS, "The continental shelf of a coastal State comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin. . . ." [12]

UNCLOS stipulates that only a country's coastline and islands may generate an EEZ and a continental shelf.[13] Islands, as defined by UNCLOS, must be above water at high tide and be capable of sustaining human habitation or economic activity of their own.[14] Rocks, which are defined as being above water at high tide but unable to sustain human habitation or economic activity, only generate a 12-nm territorial sea.[15] "Low-tide elevations," which are submerged at high tide, do not generate a territorial sea (unless they are located within the territorial sea of an island or mainland coastline).[16] Artificial islands, with the exception of those that are built on rocks, do not generate a territorial sea.[17]

Under UNCLOS, foreign civilian and military ships may transit through a country's territorial sea according to the principle of "innocent passage." Passage is innocent so long as it does not involve activities that are "prejudicial to the peace, good order or security of the coastal State," such as military exercises or intelligence gathering.[18] Foreign aircraft do not have the right of innocent passage above a country's territorial sea.[19] China asserts that it has the right to require foreign ships to obtain permission or provide notification before conducting innocent passage, though UNCLOS does not include such a provision.[20]

UNCLOS also entitles both foreign military ships and aircraft to conduct freedom of navigation and overflight and "other internationally lawful uses of the sea" such as conducting military exercises and collecting intelligence in the EEZ.[21] In contrast, China and a minority of other states [22] assert a right to restrict military activity in their EEZs.[23] Although China does not object to foreign military vessels or aircraft merely transiting through

The United Nations Convention on the Law of the Sea—*Continued*

or flying over its EEZ, China rejects their right to conduct military activities, including intelligence gathering, while in the EEZ.[24]

U.S. law and practice is generally compatible with UNCLOS, but the United States has not ratified the treaty due to concerns in Congress. Proponents of ratifying the treaty argue that doing so would be economically beneficial and, by giving the United States a "seat at the table," would enable the United States to have greater influence over international discussions and negotiations related to the treaty.[25] Opponents of ratification argue that the treaty would impinge on U.S. sovereignty, and that signing it would be detrimental to U.S. economic interests.[26]

Figure 1: South China Sea Map

Source: Economist, "The South China Sea: Making Waves," May 2, 2015.

China's Land Reclamation and Construction Activities in the Spratly Islands

China's recent land reclamation activities in the Spratly Islands began in late 2013.[27] Since then, China has conducted land reclamation activities on Johnson South, Cuarteron, Gaven, Subi, Mis-

chief, Hughes, and Fiery Cross reefs (see Table 1).* Although the land reclamation phase appears to be nearing completion, China continues to build, expand, and upgrade infrastructure on these reclaimed sites.[28] At the time of the writing of this Report, available satellite imagery and reporting suggests this infrastructure includes at least one and up to three airstrips, helipads, port facilities, radars, and satellite communication equipment.[29] The *New York Times* reported in May 2015 that, according to U.S. officials, two mobile artillery vehicles had been observed on one of China's artificial islands. Another U.S. official said that these weapons were detected about a month before and that China later removed or hid them. That official also noted that some islands occupied by other countries were within range of these weapons, but they could not threaten U.S. ships or aircraft.[30] In July 2015, Admiral Harry Harris, commander of the U.S. Pacific Command, said China is "building revetted aircraft hangars at some of the facilities there that are clearly designed, in my view, to host tactical fighter aircraft."[31] Although China built structures on some of these reefs prior to 2014, the structures were small and could not accommodate combat aircraft or major surface combatants, as Fiery Cross Reef appears able to do now.[32]

Table 1: China's Recent Land Reclamation and Construction Activities in the Spratly Islands

Land Feature	Approximate Date Reclamation Began	Change in Size	Preexisting Infrastructure (Selected)	New Infrastructure (Selected)
Mischief Reef	Early 2015	5,580,000 square meters	Two military facilities and a shelter for fishermen.	Reinforced seawalls, and airstrip (potential).
Subi Reef	July 2014	3,950,000 square meters	Helipad, military facility, and probable radar facility.	Reinforced seawalls and airstrip (potential).
Fiery Cross Reef	August 2014	2,740,000 square meters	Oceanic observation station, communications equipment, helipad, pier, air-defense guns, and garrison for approximately 200 soldiers.	Airstrip, administrative facility and support building, harbor, port, a second helipad, radar tower (potential), and circular antenna array.
Cuarteron Reef	Summer 2014	231,100 square meters	Military facility and satellite communication antenna.	Helipad, sensor array, and support buildings.
Gaven Reef	Spring 2014	136,000 square meters	Military facility.	A second military facility, port, and helipad.

*Since beginning land reclamation on Fiery Cross Reef in August 2014, China has multiplied the size of that land feature by 11. Mira Rapp Hooper, "Before and After: The South China Sea Transformed," *Center for Strategic and International Studies*, February 18, 2015.

Table 1: China's Recent Land Reclamation and Construction Activities in the Spratly Islands—*Continued*

Land Feature	Approximate Date Reclamation Began	Change in Size	Preexisting Infrastructure (Selected)	New Infrastructure (Selected)
Johnson South Reef	January 2014	109,000 square meters	Military facility, pier, helipad, communications facility, and garrison building.	A second military facility, harbor, port, fuel dump, desalination pumps, radar tower, and defensive towers.
Hughes Reef	Summer 2014	76,000 square meters	Lighthouse and helipad.	Harbor, port, military facility, and defensive towers.

Source: Center for Strategic and International Studies, "Island Tracker" (Last accessed on October 8, 2015); Victor Robert Lee, "South China Sea: Satellite Imagery Shows China's Build-up on Fiery Cross Reef," *Diplomat* (Tokyo), September 16, 2015.

Although China correctly points out that other countries in the region have also engaged in land reclamation and construction on land features in the South China Sea, China's activities differ from those of the other claimants in the pace at which they have occurred and the amount by which they have enlarged the features. For example, in contrast to the more than 2,900 acres China has reclaimed since 2013, Vietnam's reclamation activities in the South China Sea since 2009 have yielded around 60 acres of land.[33] Although the Philippines military developed a plan to upgrade facilities on the eight Philippines-controlled islands and reefs in the Spratly Islands, it apparently did not carry out these plans.[34]

The number of land features in the Spratly Islands that are occupied by each of the claimants is as follows: China, 8; Malaysia, 5; the Philippines, 8; and Taiwan, 1. Reports vary as to the number of features occupied by Vietnam, with the number ranging between 22 and 27.*[35] Available information indicates that at least Fiery Cross Reef (China), Gaven Reef (China), Mischief Reef (China), Johnson South Reef (China), Subi Reef (China), Swallow Reef (Malaysia), Thitu Island (Philippines), Itu Aba Island (Taiwan), Spratly Island (Vietnam), and Sand Cay (Vietnam) are inhabited by military or coast guard personnel. Civilians not affiliated with government agencies also live on several of these islands.[36] Reporting on the human population of the Spratly Islands is limited; a comprehensive listing of the number of people living on each land feature is unavailable. Among the facilities the other claimants have built or are building on the land features they administer in the Spratly Islands are airstrips, port facilities, lighthouses, a surveillance facility, radar and communications equipment, hangers, helipads, gun emplacements, schools, and medical clinics.[37]

*According to a map of the Spratly Islands produced by the U.S. Department of Defense, Vietnam occupies 48 "outposts," but this refers to the number of structures that Vietnam has built on the land features it controls. U.S. Department of Defense, *Asia-Pacific Maritime Security Strategy*, August 2015, 7; Gregory Poling, "Sophistry and Bad Messaging in the South China Sea," *Center for Strategic and International Studies, Asia Maritime Transparency Initiative*, July 1, 2015.

The Contentious China-Philippines Dispute and the Philippines' South China Sea Arbitration Case

The China-Philippines dispute is among the most volatile of the South China Sea disputes. In recent years, China has taken advantage of its superior maritime presence and greater economic, political, and military footprint in the region to gain the upper hand in the competition for territory. China-Philippine relations came under stress in 2011 with a tense encounter between Chinese maritime law enforcement ships and a French ship conducting seismic testing in oil and gas fields for the Philippines government.[38] In 2012, after a standoff between Philippine and Chinese ships, China effectively secured control of Scarborough Reef,* a contested fishing ground approximately 500 nm from Hainan Island, China's southernmost province, and 124 nm from the Philippines' province of Zambales.† [39] Although accounts of how the standoff ended differ widely, U.S. officials assert that in a meeting with Chinese counterparts in June 2012 they reached an understanding for both sides' ships to simultaneously withdraw from the reef.[40] According to China's Vice Foreign Minister Fu Ying, who participated in the meeting in June 2012, there was no such understanding. U.S. officials told the *Financial Times* "there was a clear understanding at the 2012 meeting that the Chinese would take the idea of a mutual withdrawal from Scarborough [Reef] back to senior leaders in Beijing. They say it is unclear whether Ms. Fu really tried to sell the agreement in Beijing or whether the foreign ministry was overruled by more hawkish elements in the Chinese system, including the military." [41] The Philippines later accused China of reneging on this "agreement." [42] According to one report, the Chinese ships initially left Scarborough Reef, but they returned shortly thereafter.[43] In 2014, China Coast Guard (CCG) ships attempted to block the Philippines from resupplying its South China Sea outpost aboard the *Sierra Madre*, a navy ship the Philippines intentionally grounded in 1999 to mark its claim to

* For an in-depth examination of the Scarborough Reef standoff, see U.S.-China Economic and Security Review Commission, *2012 Annual Report to Congress*, November 2012, 231–233.

† Chinese maritime law enforcement ships continue to patrol the vicinity of Scarborough Reef. According to a spokesperson for China's Ministry of Foreign Affairs, "Chinese government vessels perform guard duty in waters off the Huangyan Island [the Chinese name for Scarborough Reef] to maintain the normal order of these waters in accordance with the law." The Philippine government claimed the China Coast Guard rammed Filipino fishing boats in Scarborough Reef in January 2015 and deployed a water cannon against Filipino fishing boats there in April 2015. Regarding the events of January 2015, a spokesperson for China's Ministry of Foreign Affairs said, "The Chinese coast guard sent a dinghy to lawfully drive away the Philippine vessels, and the dinghy slightly rubbed against one of the vessels during its operation." When asked about the events of April 2015 during a regular press conference on April 22, 2015, a spokesperson for the Ministry neither confirmed nor denied the allegations. Will Englund, "For Some Filipino Fishermen, the South China Sea Dispute Is Personal," *Washington Post*, June 7, 2015; U.S. Department of Defense, *Annual Report to Congress on the Military and Security Developments Involving the People's Republic of China 2015*, May 2015, 4; China's Ministry of Foreign Affairs, *Foreign Ministry Spokesperson Hong Lei's Regular Press Conference on April 22, 2015*, April 22, 2015; Manny Mogato, "Philippines Accuses China of Turning Water Cannon on Its Fishing Boats," Reuters, April 21, 2015; Philippines' Department of Foreign Affairs, *Statement on Recent Incidents in the Philippines' Bajo de Masinloc*, February 4, 2015; and China's Ministry of Foreign Affairs, *Foreign Ministry Spokesperson Hong Lei's Regular Press Conference on February 5, 2015*, February 5, 2015.

The Contentious China-Philippines Dispute and the Philippines' South China Sea Arbitration Case—*Continued*

Second Thomas Shoal. Since then, CCG ships have continued to patrol in that area, and the Philippine Navy has air-dropped supplies by parachute or delivered supplies by small boat.[44]

Economically, diplomatically, and militarily outmatched by China, the Philippines turned to legal arbitration. In 2013, the Philippines, among other requests, asked an arbitral tribunal at the Permanent Court of Arbitration in The Hague to: (1) declare whether China's claims based on the nine-dash line * are invalid under UNCLOS; (2) declare whether certain land features in the South China Sea are rocks rather than islands and whether certain features are low-tide elevations; and (3) declare whether China has interfered with the Philippines' right to exploit resources within the Philippines' EEZ and continental shelf.[45] Before the tribunal can rule on the Philippines' case, it must first decide whether it has jurisdiction over such a case.† In July 2015, the tribunal convened and the Philippines' delegation presented its arguments in support of the tribunal's jurisdiction.[46] The Philippines' legal consul estimated the tribunal would issue a ruling on the question of jurisdiction by October 2015.[47] At the time of the writing of this Report a ruling had not been issued. Should the tribunal decide it has jurisdiction over the Philippines' case, it is expected to rule on the case by June 2016.[48]

China's land reclamation may complicate the ability of the tribunal to rule on the status of the land features. Mira Rapp Hooper, then director of the Asia Maritime Transparency Initiative at the Center for Strategic and International Studies, told the Commission that "while China will surely not convince the [arbitral tribunal of the Permanent Court of Arbitration in The Hague] that these artificial features deserve to be treated as full-fledged islands under UNCLOS, its rapid-fire building may make it more difficult for the tribunal to rule on their previous status."[49]

Beijing has rejected the arbitration process as "manifestly unfounded" under UNCLOS and declined to participate, rejecting the involvement of third parties.[50] China's leaders likely fear the tribunal will rule, at least partially, in the Philippines' favor, and seek to avoid tacitly affirming the arbitration's legitimacy by participating in the case.

China's rapid land reclamation and construction activities appear to be driven by several factors: China's desire to unilaterally im-

* Although China's claim in the South China Sea is often depicted by a nine-dash line, Beijing in recent years has issued new maps with ten dashes. Ishaan Tharoor, "Could This Map of China Start a War?" *Washington Post*, June 27, 2014; Euan Graham, "China's New Map: Just another Dash?" Australian Strategic Policy Institute (*The Strategist* blog), September 17, 2013.

† If the tribunal decides the Philippines is seeking a ruling on territorial sovereignty, a question over which the tribunal does not have jurisdiction, it will refuse to allow the case to proceed. Center for Strategic and International Studies, Asia Maritime Transparency Initiative, "Arbitration on the South China Sea: Rulings from The Hague."

pose its claims and avoid arbitration or negotiation with other parties over the disputes; China's ambition to enhance its ability to project power into the South China Sea; and, potentially, China's intention to establish an air defense identification zone (ADIZ) over part of the South China Sea.* †

China's land reclamation and construction projects present the other claimants with a fait accompli.[51] Regardless of the protestations of other countries, once the work is completed China will have significantly enhanced its control over these features and its presence in the South China Sea.

China will be able to use these land features to bolster its ability to sustain its military and maritime law enforcement presence in the South China Sea. Currently, the ability of the People's Liberation Army (PLA) Air and Naval Aviation forces to conduct combat air patrols near the Spratly Islands is limited not only by the long distance from China's airbases, but also by the PLA's nascent aircraft carrier aviation capability and its limited capacity for aerial refueling.[52] The recently completed airstrip on Fiery Cross Reef is 10,250 feet (3,125 meters) in length, which should allow it to accommodate most PLA combat and support aircraft.‡ [53] There are indications that China also may be preparing to build airstrips on Subi Reef and Mischief Reef.[54] In addition, China appears to be building a seaport at Fiery Cross Reef, with a harbor that could be large enough to allow large Chinese naval and maritime law enforcement ships to dock to replenish supplies.[55] The newly upgraded islands also enable the PLA Navy and maritime law enforcement entities to enhance maritime domain awareness and improve intelligence, surveillance, and reconnaissance capabilities farther from China's coast.[56] At a November 2014 international defense forum in China, a senior PLA officer said, "There is a need for a base [in the Spratly Islands] to support our radar system and intelligence-gathering activities." [57] China appears to already have or to be building radar facilities on Fiery Cross, Johnson South, and Subi reefs, and Fiery Cross Reef will be able to accommodate surveillance aircraft once the airstrip is completed.[58]

China also may use the facilities it is building on these land features in the Spratly Islands to establish an ADIZ over part of the South China Sea.[59] In December 2013, after China declared an ADIZ over the Senkaku Islands in the East China Sea, China's then ambassador to the Philippines responded to questions about whether China might declare an ADIZ in the South China Sea, saying China was entitled to decide "where and when to set up the new air identification zone." [60] During the International Institute

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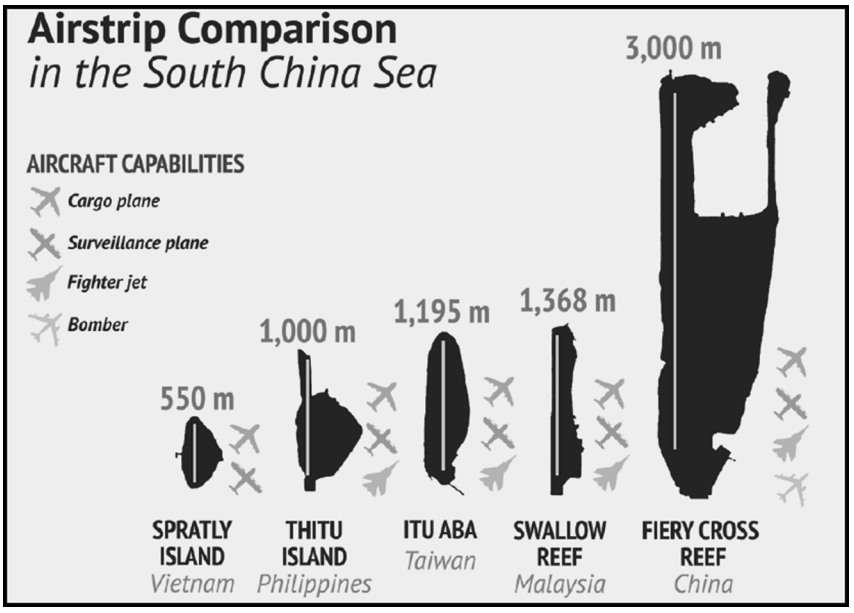
*For more information on the drivers of China's approach to the maritime disputes in the South China Sea, including nationalism and natural resources, see U.S.-China Economic and Security Review Commission, *2013 Annual Report to Congress*, November 2013, 270–272.

†An ADIZ is a publicly declared area established in international airspace adjacent to a state's national airspace, in which civil aircraft must be prepared to submit to local air traffic control and provide aircraft identifiers and location. Its purpose is to allow a state the time and space to identify the nature of approaching aircraft prior to entering national airspace in order to prepare defensive measures if necessary. For an in-depth examination of China's East China Sea ADIZ, see Kimberly Hsu, "Air Defense Identification Zone Intended to Provide China Greater Flexibility to Enforce East China Sea Claims," *U.S.-China Economic and Security Review Commission*, January 14, 2014.

‡China has one other airstrip in the South China Sea on Woody Island in the Paracel Islands.

for Strategic Studies' May 2015 Shangri-La Dialogue,* Chinese Admiral Sun Jianguo, the head of China's delegation to the dialogue and deputy director of the PLA's General Staff Department, said China would only establish an ADIZ in the South China Sea if faced with security threats.[61] This remark followed a similar statement by Ouyang Yujing, the director general of the Department of Boundary and Ocean Affairs of China's Ministry of Foreign Affairs. He said, "Whether China will set up an ADIZ in the South China Sea depends on whether and to what extent the security of airspace is threatened as well as other factors. Currently, the situation in the South China Sea is stable on the whole."[62] These statements indicate China is positioning itself to justify the establishment of an ADIZ as a defensive response to the actions of other countries.

Figure 2: Comparison of Airstrips by Claimant in the South China Sea's Spratly Islands



Source: Center for Strategic and International Studies, Asia Maritime Transparency Initiative, "Airpower in the South China Sea."

China has stated its land reclamation and construction activities are primarily for civilian purposes, such as providing services to Chinese and foreign ships transiting the South China Sea; facilitating oceanic research and meteorological observation; and providing fisheries services.[63] The Chinese government acknowledged in April 2015 that the islands have military purposes as well, when a Ministry of Foreign Affairs spokesperson stated that the islands are intended to satisfy China's "military defense needs" and to "better safeguard territorial sovereignty and maritime rights and interests."[64]

*The Shangri-La Dialogue is a high-profile meeting of regional defense leaders held annually in Singapore.

China has consistently argued that it has the right to conduct these activities.[65] Beijing frequently asserts that it has "indisputable sovereignty over the Nansha Islands [China's name for the Spratly Islands] and their adjacent waters" and that "the relevant construction, which is reasonable, justified and lawful, is well within China's sovereignty. It does not impact or target any country, and is thus beyond reproach."[66] In written responses to questions submitted by the *Wall Street Journal* before his state visit to the United States in September 2015, Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping reiterated China's stance that "the [Spratly Islands] have been China's territory since ancient times. This is fully backed by historical and legal evidence."[67] In fact, China argues that the United States, not China, is increasing tensions in the region through its surveillance flights and criticism of China. In addition, China regularly asserts that the United States is not acting like a neutral party in the South China Sea disputes.[68]

Perhaps recognizing the alarm the land reclamation and construction has caused in the region, China also has begun to stress how the islands help it meet its international obligations in areas such as maritime search and rescue.[69] China's Ministry of Transportation noted that its construction of lighthouses on both Cuarteron and Johnson South reefs will "immensely improve the navigation safety" in the South China Sea.[70] Ms. Glaser explained that "the Chinese are now attempting to assuage concerns about their artificial island building by claiming that these activities are aimed at providing public goods."[71]

China also appears to be seeking to legitimize some of the civilian facilities it is building in the Spratly Islands by suggesting they are endorsed by international organizations. For example, during the 2015 Shangri-La Dialogue, Admiral Sun remarked that "China has built an oceanic survey station for the United Nations on the Yongshu Jiao [the Chinese name for Fiery Cross Reef]."[72] Admiral Sun was referring to China's construction of an observation station that began in 1988 in response to a directive by the UN Educational, Scientific, and Cultural Organization for its members to build monitoring stations for a study of oceans around the world.[73]

Ecological Impacts of China's Land Reclamation

Despite China's claims about the benefits of its land reclamation and construction activities in the Spratly Islands, the damage to the coral reefs caused by China's land reclamation may have a major impact on the South China Sea's ecosystem, particularly its fish, which are a critical protein source for the populations of Southeast Asia.*[74] Since China's enhanced land features are intended in part to support Chinese fishermen,† they will lead to in-

*For example, more than a quarter of the Philippines' fishing grounds are located in the South China Sea, where around 12,200 Filipino fishermen pursue their livelihoods. Pia Ranada, "China Reclamation Poses P4.8–B Economic Loss for PH," *Rappler* (Philippines), April 23, 2015.

†A spokesperson for China's Ministry of Foreign Affairs said these land features will support "fishery production and service," and China's National Development and Reform Commission announced it will provide fishing boats with shelter during storms and repair and replenishment services. China's National Development and Reform Commission, *National Development and Reform Commission Draws up a Plan for the Construction of Civilian Infrastructure on the Islands and Reefs in the Spratly Islands*, June 17, 2015. Staff translation; Open Source Center, "Tran-

creased Chinese fishing in the South China Sea and greater depletion of local fisheries. Given the massive size of China's fishing fleet and its record of overfishing along China's coast, greater capacity for Chinese fishermen to fish in the South China Sea bodes ill for the fish stocks there.[75]

According to the Philippines Bureau of Fisheries and Aquatic Resources, China's land reclamation activities on five land features have buried 768 acres of coral reef.[76] Since the coral reefs contribute to food production as well as to "raw materials, waste treatment, erosion prevention, and tourism," Edgardo Gomez, professor emeritus at the University of the Philippines' Marine Science Institute, estimates that China's destruction of the reefs through reclamation will result in about $110 million in economic losses annually.[77] In addition, land reclamation may result in ecological damage that extends beyond the South China Sea. For example, some marine species spawn in the coral reefs of the South China Sea and the young fish then swim to adjacent seas and the coastal areas of Southeast Asia. Moreover, the reefs in the South China Sea are home to significant biodiversity and China's activities could lead to the extinction of some marine species.[78]

China's land reclamation activities also may have violated its obligation as a signatory to UNCLOS to "protect and preserve the marine environment."[79] China dismisses concerns about the environmental impact of its land reclamation activities.[80]

Different Claimants, Different Approach

China tailors its approach to its maritime and territorial disputes depending on the claimant. As discussed previously, China's approach to the Philippines involves bullying and intimidation. China's approach to Vietnam, as discussed later, is also hardline. On the other hand, China handles its disputes with Malaysia and Brunei more quietly, and has avoided publicly clashing with these claimants. China's approach to Taiwan's claims is altogether different given the unique cross-Strait relationship (see Chapter 3, Section 3, "Taiwan," for more information regarding the South China Sea disputes in cross-Strait relations.)

China's "Soft Approach" to Malaysia

China takes a "soft approach" to Malaysia, according to Pek Koon Heng, assistant professor and director of the ASEAN Studies Initiative at American University's School of International Service.[81] In its relations with Malaysia, Beijing has not confronted Kuala Lumpur in public over Malaysia's oil and gas exploration in the South China Sea, and Kuala Lumpur has adopted a similarly low-profile approach to China.[82] The two sides appear to have reached a consensus to not air their grievances through the media.*[83] After a meeting with President Xi Jinping

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script of PRC FM Spokesman News Conference 9 April 2015," April 9, 2015. ID: CHO20150409 28753011.

*However, recent events suggest Malaysia may be departing from this approach. (See "A Change in Southeast Asia's Strategy?" later in this section.)

China's "Soft Approach" to Malaysia—*Continued*

in November 2014, Malaysian Prime Minister Najib Razak said President Xi "acknowledged that the quiet diplomacy approach adopted by Malaysia was the best method, as it stressed on discussion rather than confrontation." [84] This statement illustrates Beijing's preference to avoid "megaphone diplomacy." [85]

Concerns about indirectly pushing neighbors to enhance relations with the United States also may be a factor that moderates China's approach to its territorial dispute with Malaysia. Malaysia has enhanced its relations with the United States in recent years, especially in the security realm.[86] Beijing likely perceives it has more to lose if Malaysia, which is not a U.S. treaty ally and has more amicable relations with China than the Philippines, becomes closer to the United States than if the Philippines, which is a U.S. ally and already has rocky relations with China, enhances its relations with the United States.

China, ASEAN, and the South China Sea Disputes

Although it actively participates in and promotes multilateral cooperation in Southeast Asia, China prefers to handle the South China Sea disputes on a strictly bilateral basis.[87] China assesses it is disadvantaged by negotiating multilaterally—which could expose China to unified or near-unified opposition—rather than on a bilateral basis, where it can rely on its overwhelming economic, geopolitical, and military strength to influence outcomes.[88] China therefore refuses to negotiate a resolution to the disputes through ASEAN. It insists the disputes are bilateral, between China and individual claimants, not multilateral.[89] China even tries to limit discussion of the disputes in ASEAN fora. At the ASEAN Defense Senior Officials Meeting Plus in February 2015, China's delegation rejected ASEAN's proposal that the next ASEAN Defense Ministers Meeting Plus, which will be held in November 2015, discuss the China-ASEAN Declaration of Conduct on the South China Sea and a proposed Code of Conduct.* [90] Prior to the August 2015 ASEAN foreign ministers meeting, China's vice foreign minister said the ASEAN countries should not discuss the South China Sea during the meeting.[91]

Furthermore, China has nurtured and exploited divisions between Southeast Asian countries to prevent them from presenting a united front in opposition to China's actions in the South China Sea. Southeast Asian countries' national interests, concern about China, and level of economic development vary widely. For example, some ASEAN countries, such as Cambodia, are more closely tied to China than others, and have no claim in the territorial disputes; other countries, such as Vietnam, are claimants, and feel

*In 2002, ASEAN and China signed a nonbinding "Declaration on the Conduct of Parties in the South China Sea," and the parties intend to elevate this declaration to a binding Code of Conduct. This document, known as the Declaration of Conduct, expresses ten principles aimed to build trust and avoid escalation in disputed areas. ASEAN still seeks to sign a Code of Conduct on the South China Sea with China, but China is unlikely to agree to such a code at present. U.S.-China Economic and Security Review Commission, *Hearing on China's Relations with Southeast Asia*, written testimony of Bonnie Glaser, May 13, 2015.

threatened by China's actions.[92] At the 2012 ASEAN foreign ministers summit, disagreement over whether to include a reference to the standoff at Scarborough Reef led to a failure of ASEAN to issue its usual joint communiqué. Cambodia, which held the chair of ASEAN that year, reportedly prevented consensus in response to overtures from China not to include a statement on the South China Sea in the communiqué.[93] In what appears to have been an effort to cement Cambodia's support for China's stance on ASEAN's involvement in the South China Sea disputes, days before the ASEAN summit, then Chinese President Hu Jintao visited Cambodia and announced that China's trade with Cambodia would increase by $5 billion by 2017 and promised additional aid to Cambodia.[94]

Like Cambodia, Laos appears to be subject to Chinese influence. In her oral remarks to the Commission, Dr. Heng said, "We don't know what Laos is going to do as ASEAN chair [in 2016]. That is a concern. For Malaysia [the 2015 ASEAN chair], we know that there will be a consensus and Malaysia will uphold the consensus, and will articulate or communicate Vietnam's and the Philippines' concerns [related to the South China Sea disputes], but Laos is a different story. And that's where we're going to see problems in ASEAN."[95]

China does not have the same level of influence over most members of ASEAN. In written testimony to the Commission, Priscilla Clapp, senior advisor to the U.S. Institute of Peace and the Asia Society and former U.S. charge d'affaires in Burma (Myanmar), said even Burma, which once was widely believed to be beholden to China, "can be expected to remain a loyal, if not particularly dynamic, member of ASEAN."[96] She elaborated on this point in her oral remarks to the Commission, saying Burma "would stand by ASEAN over China on some of these issues, because ASEAN is [its] protection against China."[97] Accordingly, during the 2014 oil rig crisis between China and Vietnam, ASEAN countries—with Burma as the chair—reached a consensus on the South China Sea, issuing a statement that "expressed their serious concerns over the ongoing developments in the South China Sea, which have increased tensions in the area."[98] (For more information on the oil rig crisis, see "China-Vietnam Relations: A Case Study," later in this section.) In 2015, Malaysia presided over the strongest ASEAN statements about the South China Sea yet, despite Kuala Lumpur's preference for dealing with disputes with Beijing in private. The chairman's statement issued at the end of the April 2015 summit of ASEAN heads of state declared that China's land reclamation activities "eroded trust and confidence and may undermine peace, security and stability in the South China Sea."[99] Several months later, the joint communiqué issued at the conclusion of the August 2015 ASEAN foreign ministers meeting included the same language, with the addition of the sentiment that these activities have "increased tensions" in the South China Sea.[100]

Chinese Cyber Intrusions Targeting Southeast Asian Countries

In 2015, reports by companies that conduct cyber intelligence research revealed that China-based cyber actors have carried out intrusions into the computer networks of a wide range of targets across Southeast Asia, including ASEAN. ThreatConnect Inc. and Defense Group Inc. published a report in September that associated the activities of an advanced persistent threat (APT) group commonly referred to as "Naikon" with PLA Unit 78020, the Second Technical Reconnaissance Bureau under the Chengdu Military Region.[101] According to the report, "Unit 78020 conducts cyber espionage against Southeast Asian military, diplomatic, and economic targets. The targets include government entities in Cambodia, Indonesia, Laos, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Thailand, and Vietnam as well as international bodies such as United Nations Development Program (UNDP) and [ASEAN]."[102] Prior to the release of this report, in April, FireEye detailed the activities of another China-based APT group focused on Southeast Asia which it calls APT 30. Although FireEye could not conclusively link APT 30 to the Chinese government, it states that the group's activities are likely sponsored by the Chinese government.[103]

Southeast Asia's Response to China's Activities in the South China Sea

While each Southeast Asian claimant's approach to maritime and territorial disputes with China varies, Southeast Asian countries have reacted with increasing alarm to China's activities in the South China Sea. In response to China's assertiveness in the South China Sea and its massive military modernization program, Southeast Asian countries are enhancing their military and civilian maritime patrol capabilities and strengthening security cooperation with the United States and other countries in the Asia Pacific.[104]

Of all the Southeast Asian countries, Vietnam has taken the boldest measures to enhance its deterrent capability against China's military. Hanoi has already received 4 of 6 KILO-class submarines, and 28 of 50 submarine-launched antiship and land-attack missiles, purchased from Russia.[105] Vietnam's acquisition of land-attack missiles—which have a range of 300 kilometers (186 miles)—enhances its ability not only to hold PLA Navy ships at risk, but also to threaten PLA airfields and ports. Carlyle A. Thayer, professor emeritus at the University of New South Wales in Canberra, Australia, said by acquiring land-attack missiles the Vietnamese have "given themselves a much more powerful deterrent that complicates China's strategic calculations."[106] Vietnam is the first Southeast Asian country to acquire submarines with a land-attack capability.[107]

Among the most recent developments, in what appears to be driven in part by China's assertive actions in the South China Sea, Indonesia's Defense Minister announced in September 2015 that the country would proceed with plans to enhance military infra-

structure and capabilities on Natuna Island,[108] the surrounding waters of which are partially within China's nine-dash line.*[109] The Defense Minister said that Indonesia would build a port, lengthen its existing military runway, and station more fighter aircraft on Natuna Island.[110] Although these measures may be driven by concerns about various threats, tensions in the South China Sea appear to be one factor that is prompting this action.[111] "We are not in a war situation, but the South China Sea is very close to us. We have to be prepared," the Defense Minister explained.[112]

Japan—which is currently embroiled in a dispute with China in the East China Sea—is emerging as a key source of support to Southeast Asian countries on maritime security. In 2015, the Philippines reached an agreement to purchase ten patrol vessels for the Philippine Coast Guard from a Japanese shipbuilding company, and the Japanese government agreed to give the Philippines a $150 million low-interest loan to facilitate the transaction.[113] These ships likely will patrol Philippines-claimed waters disputed by Beijing. In 2014, Japan also pledged to give Vietnam six used patrol vessels valued at a total of $5 million, a transfer that will be completed in 2015, according to the Japanese embassy in Vietnam.[114] As of August 2015, Japan had delivered one vessel to the Fisheries Resources Surveillance Department under Vietnam's Ministry of Agriculture and Rural Development, and another vessel to the Vietnam Marine Police.[115]

Southeast Asian countries and Japan are also expanding opportunities for joint exercises, information sharing, and cooperation on defense technology. The Philippines and Japan conducted the first-ever exercise between their navies in June 2015.[116] The exercise focused on search and rescue operations and included a flight over the South China Sea by a Japanese P–3C Orion surveillance aircraft with three Philippine Navy personnel aboard.[117] Before the exercise, a Philippine Navy spokesperson explained that the two sides also planned to conduct "staff-to-staff talks" to "strengthen and institutionalize information-sharing between the [Philippine Navy] and [Japan Maritime Self Defense Force] to step-up maritime situational awareness."† Moreover, during his visit to Japan in June 2015, Philippines President Benigno Aquino said that he and Japanese Prime Minister Shinzo Abe agreed to begin talks on a potential Philippines-Japan visiting forces agreement.[118] These steps build upon a defense cooperation agreement signed by the two countries' defense ministers in January 2015.[119] Malaysia and the Philippines respectively reached agreements with Japan to initiate negotiations regarding cooperation on defense equipment and technology transfer in May and June 2015.[120]

Southeast Asian claimants are also enhancing their security relations with one another. The most notable example is the strengthened relationship between the Philippines and Vietnam, the two

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*Although Indonesia's claimed waters overlap with China's claimed waters, it does not consider itself party to the South China Sea disputes because it has no disputes with China over land features.

†In May 2015, the Philippine and Japanese navies conducted a test of the Code for Unplanned Encounters at Sea, an agreement reached by 21 Pacific countries in 2014 with the purpose of reducing the risk of accidents at sea. Uel Balenia, "Philippine Navy Confirms Upcoming Activity with Japan Maritime Self-Defense Force," *Ang Malaya Net* (Philippines), June 9, 2015; Ruser Mallari, "PHL, Japan to Hold First Full-Fledged Military Exercise in West PHL Sea," *Ang Malaya Net* (Philippines), June 9, 2015.

countries with the tensest relations with China over the South China Sea.[121] The countries are negotiating a strategic partnership agreement, a draft of which included a pledge to conduct confidence-building measures and, eventually, joint naval exercises, as well as scientific cooperation in the South China Sea.[122]

A Change in Southeast Asia's Strategy?

Rising concern in Southeast Asian countries about China's land reclamation and construction activities and intentions in the South China Sea raises questions about whether the trajectory of these countries' relations with China and the United States and their approach to the Southeast Asia-China-U.S. triangular relationship is changing. Analysts have widely noted that Southeast Asian countries pursue an "engage-and-hedge" strategy toward China and do not want to choose sides between the United States and China.[123] However, in response to China's recent activities, some Southeast Asian countries are becoming more vocal regarding their concerns about China and are enhancing their relations with the United States and with other countries in the region.[124]

Interlocutors at many governmental and nongovernmental organizations with which the Commission met during its July 2015 trip to Vietnam expressed concern about China,[125] and several interlocutors during the trip argued that the trust that had previously existed between the two countries had been broken in recent years.[126] Many interlocutors emphasized the need for the United States to provide assistance to Vietnam and other Southeast Asian countries in light of China's assertiveness in the South China Sea.[127] (See "China-Vietnam Relations: A Case Study" later in this section for more detail.)

In June 2015, Malaysia responded to the presence of a CCG ship near Luconia Shoal, which is located within Malaysia's EEZ, with rare public displeasure. Shahidan Kassim, the official in the prime minister's office who oversees the Malaysian National Security Council and Malaysian Maritime Enforcement Agency, posted photos of the ship on his personal Facebook page and declared that Malaysia was taking "diplomatic action," including that Prime Minister Najib would broach Malaysia's concern with President Xi.[128] The CCG began patrolling near Luconia Shoal in August 2013 and, according to China's State Oceanic Administration, was "on guard" there in 2014.[129] In August 2015, Minister Shahidan told reporters that Malaysia has been submitting protests to the Chinese government once a week. He said, "They have to get out of our national waters. . . . No parties should try to trespass [sic] the territorial right of this country."[130]

Singapore, which like Malaysia maintains positive relations with both China and the United States, has also expressed concerns about China's activities. At the 2015 Shangri-La Dialogue, Singapore's Prime Minister Lee Hsien Loong acknowledged that

A Change in Southeast Asia's Strategy?—*Continued*

China's behavior was alienating and alarming other countries, including the United States. He said, "Each country feels compelled to react to what others have done in order to protect its own interests." [131]

Nevertheless, despite growing worry among Southeast Asian countries about China's intentions and increased willingness to express these concerns, they still seek to preserve positive relations with China and do not appear to have chosen to align exclusively with the United States.[132] In fact, they may seek to avoid becoming too close to the United States. In his written testimony to the Commission, Patrick M. Cronin, senior advisor and senior director of the Asia-Pacific Security Program at the Center for a New American Security, asserted:

Attempts by the United States to provide military reassurance and presence, or to offer assurances to particular members [of ASEAN] such as the Philippines, incur a predictable backlash out of fear that America's stabilization efforts may also roil the region. That is why it is incumbent on U.S. officials to calibrate efforts to strengthen our access and security cooperation in Southeast Asia with a sharp understanding of how far the region will go based on the balance of political forces.[133]

Other Developments in China's South China Sea Efforts

Aside from land reclamation, China continues to use other methods to promote its interests in the South China Sea.

China Coast Guard Patrols

Beijing enforces its territorial claims through an approach in which civilian maritime law enforcement ships are at the forefront with support from naval ships.* [134] According to the U.S. Office of Naval Intelligence's 2015 report *The PLA Navy: New Capabilities and Missions for the 21st Century*:

> *When deployed, the CCG sometimes coordinates with the [PLA Navy], which, when necessary, will deploy destroyers and frigates several dozen miles from the incident to provide a nearby, but indirect presence. . . . In recent years the [PLA Navy] has reduced its overt participation in coastal patrols, law enforcement, EEZ enforcement, and territorial claim issues as the CCG assumed these operations. China prefers using its Coast Guard as the primary enforcer of its maritime claims. This approach limits the potential for confrontational incidents to escalate since most CCG ships are unarmed, and those that are have relatively light weapons. This approach also helps Beijing manage the public optic of any enforcement actions*.[135]

*For an in-depth assessment of China's naval capabilities and how they advance China's South China Sea objectives, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 299–308, 328–332.

China's commitment to this strategy is reflected in its enhancement of the size and capabilities of its maritime law enforcement forces. China has acquired around 100 new ships—including patrol combatants, large patrol ships, and support ships—over the past ten years and is expected to supplement these ships with more than 20 patrol combatants and more than 30 large patrol ships by 2015.[136] In November 2014, Chinese military websites featured images of a CCG ship based on the hull of the PLA Navy's JIANGDAO-class corvette.[137] The adaptation of the JIANGDAO hull for coast guard use suggests China seeks to increase systems compatibility between the CCG and the PLA Navy, likely to cut costs and increase interoperability. Furthermore, media reports from October 2014 showed images of two coast guard ships under construction, with displacements over 10,000 tons.[138] The CCG's acquisition of these larger, more capable ships will increase the range, seaworthiness, and firepower of its fleet. Furthermore, according to an article on the website of *People's Daily*, a Chinese state-run publication, China's new-generation 12,000-ton coast guard ship "has the power to smash into a vessel weighing more than 20,000 tons and will not cause any damage to itself when confronting a vessel weighing under 9,000 tons. It can also destroy a 5,000 ton ship and sink it to the sea floor." [139] Most of the Philippines' and Vietnam's maritime law enforcement ships are between 500 and 1,000 tons.[140]

Filipino and Vietnamese fishermen complain they have been harassed by Chinese ships, threatening not only the fishermen's livelihood but also their personal safety. For example, Filipino fishermen say they are no longer able to fish at Scarborough Reef because Chinese ships block their access or harass them, ramming their fishing boats or spraying them with water cannons.* [141] In June 2015, Vietnamese fishermen said Chinese ships used water cannons to spray Vietnamese fishing boats near the Paracel Islands (which China administers but Vietnam claims), breaking the leg of one of the fishermen.[142] Vietnamese fishermen also allege that a few days later, Chinese vessels confronted them and the individuals on board took away their communications devices and other equipment, as well as their fish.[143] Such instances of harassment, if true, may increase as China's maritime law enforcement forces' ability to operate in the Spratly Islands grows due to the land reclamation and construction activities.[144]

The Role of Fishermen

Chinese fishermen also play an increasingly important role in the South China Sea disputes. Fishermen on Hainan Island have been encouraged by the Hainan provincial government to fish in disputed waters.[145] Fishing boat captains also receive government subsidies for fuel and at reduced price can purchase satellite navigation systems that connect to Chinese authorities with the push of a button.[146]

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*In September 2015, 16 Filipino fishermen submitted a petition to the United Nations requesting the organization ask China to allow them to fish in Scarborough Reef. Gabriel Cardinoza, "16 PH Fishermen Sue China at UN over Sea Dispute," *Inquirer* (Philippines), September 23, 2015.

Furthermore, according to U.S. Naval War College associate professor Andrew Erickson and research fellow Conor Kennedy, China under President Xi is "strengthening its maritime militia, a dual-hatted force of specially registered fishing vessels with fisherman-soldier crews. Portions of these coastal militias are organized by local military and government officials along the nation's many ports, providing China with small tactical units designed to execute specific missions in support of the country's more professional military and maritime interests." [147] China's maritime militias receive military training, including in the use of light weapons.[148] China is training these maritime militias to support the activities of the PLA Navy and China's maritime law enforcement forces in the South China Sea.[149] Among its duties, the Tanmen Village Maritime Militia Company on Hainan Island encourages fishermen to upgrade their fishing boats, activities that Dr. Erickson and Mr. Kennedy assert "have expanded Chinese patriot fishermen fleets multifold in recent years." [150] The company also transports building materials, water, and food to Chinese outposts in the Spratly Islands, and conducts maritime search and rescue and reconnaissance, gathering information for the PLA.[151] These militias are well-resourced, with subsidies provided by the central and local governments to build new fishing boats; 29 new boats were ordered for the Tanmen Maritime Militia, and 17 of these boats have been delivered.[152]

Large-Scale PLA Navy Exercise in the South China Sea

The PLA Navy in July 2015 conducted a live-fire exercise in the South China Sea involving more than 100 ships, dozens of aircraft, and several Second Artillery Corps battalions.[153] The Vietnamese government protested the exercise, which took place near Hainan Island and the disputed Paracel Islands, asserting that it violated Vietnam's sovereignty.[154] A PLA Navy spokesperson described the exercise as a "regular, annual drill" and called for observers to refrain from "excessive interpretations." [155] Xu Liping, a researcher at the Chinese Academy of Social Sciences, said the drill is "a normal exercise of sovereignty. China wants to modernize its navy to make sure it has the capability to protect its islands and waterway." [156] However, Rory Medcalf, the head of the Australian National University's National Security College, said "an exercise on this scale in the South China Sea seems a needlessly excessive show of force," and that the drill "reinforces the view that China's wish to control the South China Sea is in large measure about seeking strategic advantage." [157]

China's Economic Engagement with Southeast Asia

China's Economic Assistance to Southeast Asia

China's economic assistance to Southeast Asia is an increasingly important component of its engagement strategy with the region. With the announcement by President Xi and Premier Li that China will construct a 21st Century Maritime Silk Road, China has accelerated its economic engagement with Southeast Asia in what many have called a "charm offensive" focused on development assistance.[158] At the 2014 East Asia Summit, Premier Li said China would be extending more loans and investments to ASEAN mem-

bers, with assistance targeting infrastructure development and poverty alleviation.[159] China hopes its enhanced economic aid and investment will not only garner goodwill among its Southeast Asian neighbors, but also achieve "favorable outcomes" on politically contentious issues such as the South China Sea disputes.[160]

Although some Southeast Asian countries are reportedly welcoming greater aid from China, many are concerned about the political and security implications of accepting China's money. According to a report from the Center for a New American Security, Chinese foreign assistance in Southeast Asia "diverge[s] from internationally accepted norms emphasizing good governance, transparency, and conditionality."[161] Although China purports its foreign aid adheres to a policy of nonintervention toward recipient countries, the Center for a New American Security reported that in practice, "China often uses its development and investment policies to gain access to resources or achieve favorable diplomatic outcomes."[162] China is putting stock in the potential for economic aid to gain diplomatic sway in Southeast Asia, and is doing so through bilateral infrastructure investment, including via broad policy initiatives like the 21st Century Maritime Silk Road and the establishment of China-led development banks such as the Asian Infrastructure Investment Bank (AIIB).

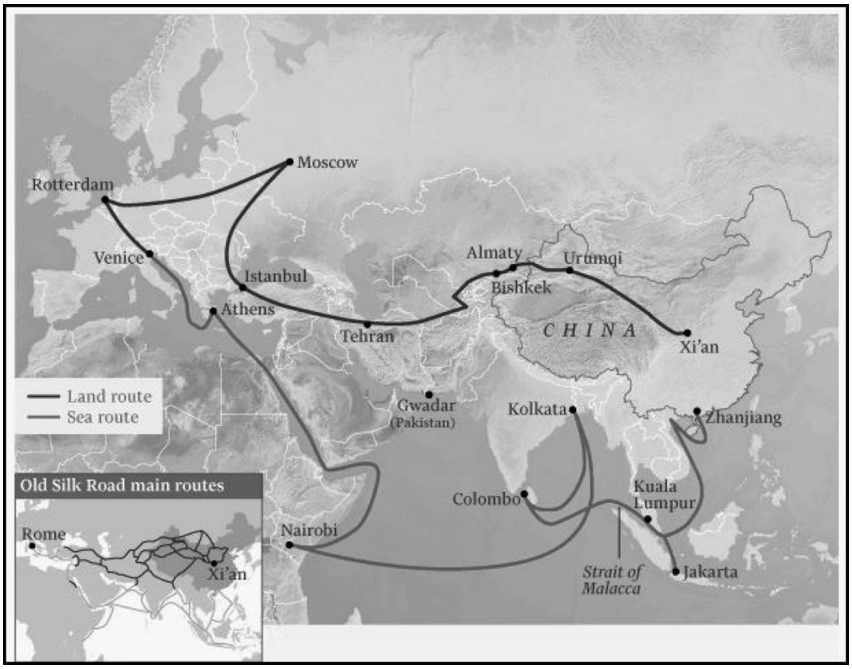
China's 21st Century Maritime Silk Road Initiative

Frequently described as a counterbalance to the Obama Administration's "rebalancing" policy in the Asia Pacific, China's 21st Century Maritime Silk Road initiative touts a vision of constructing an economic corridor stretching from its eastern seaboard through the Taiwan Strait, South China Sea, Strait of Malacca, Indian Ocean, Suez Canal, and Mediterranean Sea to southern Europe. Although many of the details of the Maritime Silk Road remain undefined, the initiative intends to develop a network of port and coastal infrastructure projects that are expected to link directly with goals set out in China's 13th Five-Year Plan, and will predominantly target Southeast Asia.[163]

At present, the Maritime Silk Road remains largely a symbolic vision linked to preexisting or tangentially related economic programs. For example, during an ASEAN Regional Forum meeting in March 2014, a representative of China's Ministry of Foreign Affairs linked the Maritime Silk Road to the $500 million China-ASEAN Maritime Cooperation Fund, established two years before the announcement of the Maritime Silk Road.[164] In addition, in a December 2014 *People's Daily* article, the author describes the Greater Mekong Subregion—a cooperative initiative established under the Asian Development Bank in 1992—as a component of the Maritime Silk Road that exemplifies concepts of a "new Asian security" and "peripheral diplomacy" advocated by China.[165] In May 2015, China's Consul General in Mandalay, Burma, said that all development projects between China and Burma could be classified as part of the "One Belt, One Road" initiatives, which encompass the Maritime Silk Road as well as the Silk Road Economic Belt that connects China to South and Central Asia (see Figure 3).[166] (For more analysis of the One Belt, One Road initiatives and the Silk Road Economic Belt, see Chapter 3, Section 1, "China and Central Asia.")

Although these statements imply some arbitrariness as to what constitutes a Maritime Silk Road project, China has taken a few concrete steps to realize its vision, primarily by pledging infrastructure investment funding for projects in Southeast Asia. For example, after declaring 2015 "the ASEAN-China Year of Maritime Cooperation," China pledged $20 billion in loans at the 2014 ASEAN-China Summit for infrastructure projects in Southeast Asia.[167] Similarly, China announced the $40 billion China Silk Road Fund in November 2014, which will fund infrastructure projects along the Silk Road Economic Belt and the Maritime Silk Road.[168] The fund's first project, the construction of a $1.65 billion hydropower station in Pakistan, is expected to be "emblematic of the kinds of medium to long-term projects that will be supported by the Fund in Southeast Asia." [169] In addition, Chinese state-owned banks are already involved in realizing the Maritime Silk Road: The state-owned Industrial and Commercial Bank of China announced it is currently funding more than 130 projects with an estimated value of $158.8 billion under the banner of the One Belt, One Road initiatives.[170] Moreover, Chinese-funded port projects in Burma and Malaysia are underway and predicted to be models for more port development elsewhere in Southeast Asia and along the entire Maritime Silk Road.[171] In addition, China and Thailand agreed in May 2015 to construct a canal through the Kra Isthmus, the narrowest part of the Malay Peninsula in southern Thailand.[172] Besides development aid, China also considers enhanced trade integration with Southeast Asia (see "ASEAN-China Trade Relations" later in this section) and the establishment of development banks such as the AIIB (see "China-Led Development Banks" later in this section) as components of the Maritime Silk Road.

Figure 3: China's Silk Road Economic Belt and 21st Century Maritime Silk Road



Source: Charles Clover and Lucy Hornby, "China's Great Game: Road to a New Empire," *Financial Times*, October 12, 2015.

Development Aid with Chinese Characteristics

Despite China's rapid growth, its official development assistance (ODA), as defined by the Organization for Economic Cooperation and Development, remains relatively low both globally and in Southeast Asia, specifically.[173] Because China does not follow the international standards defining ODA and does not disaggregate the data it reports by country, accurate data on its traditional aid to Southeast Asia is unavailable.* However, estimates suggest Chinese ODA in Southeast Asia still lags significantly behind that of the United States.† Yet, because of nontraditional forms of economic assistance, China is considered among the major donor countries to Southeast Asia. According to development experts, China's foreign assistance predominantly takes the form of export credits, non-concessional loans, and state-sponsored investment support.[174] Infrastructure financing is the main form of Chinese assistance in Southeast Asia, and, when counted as foreign assistance, makes China "one of the largest sources of economic assistance in Southeast Asia."[175]

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*In 2014, China published a white paper on its foreign aid, which stated that 31 percent, or $4.4 billion, of China's aid was provided to Asia; there was no breakdown by country. David B. Gootnick, "Southeast Asia: Trends in U.S. and Chinese Economic Engagement," *United States Government Accountability Office*, August 2015, 85.

†Between 2005 and 2013 the United States provided approximately $7.2 billion in ODA to ASEAN countries. David B. Gootnick, "Southeast Asia: Trends in U.S. and Chinese Economic Engagement," *United States Government Accountability Office*, August 2015, 82.

Because Chinese state-sponsored infrastructure financing is counted as foreign direct investment (FDI), it is difficult to measure exactly how much Chinese government funding is going to Southeast Asian economies. However, it is widely known that China's government is actively funding development projects in many Southeast Asian countries. Burma, Cambodia, and Laos have historically been major recipients of Chinese infrastructure financing. According to a report from the Congressional Research Service, "PRC government entities have financed many infrastructure, energy-related (especially hydropower), agricultural, and other high profile development projects in these countries."[176] For example, the China Export-Import Bank issued two preferential buyer's credits of $100 million each to Cambodia (for highway construction) and Burma (for a hydropower station).[177] China is also expanding its nontraditional foreign aid to other countries in Southeast Asia. It has financed railways, hydropower, and shipbuilding facilities in Vietnam as well as infrastructure, energy, agriculture, and mining projects in the Philippines.[178]

China's foreign assistance in Southeast Asia appears designed primarily to serve China's economic and diplomatic interests. By financing infrastructure projects, China can use "Chinese construction materials, equipment, technical expertise, and labor" to execute development projects.[179] This benefits Chinese firms—often state-owned—that win contracts, but limits opportunities for companies and labor in recipient countries. Moreover, China hopes by financing infrastructure and other development projects in Southeast Asia, it can win goodwill and cooperation in Southeast Asia and advance its interests in the South China Sea.[180] Some analysts argue, though, that the self-serving nature of China's nontraditional forms of foreign aid have "lessened the intended positive impact" and made recipient countries suspicious of China's underlying strategic goals.[181] Robert Sutter, professor of practice of international affairs at George Washington University's Elliot School of International Affairs, noted in testimony before the Commission that the effectiveness of China-funded infrastructure projects in Southeast Asia is largely unknown, and a "comprehensive assessment" of the achievements and failures of these projects is needed.[182]

China-Led Development Banks

The formation of new development banks—namely, the New Development Bank* and the AIIB—is another strategy China uses to achieve its economic and diplomatic goals in Southeast Asia. In 2014, Brazil, Russia, India, China, and South Africa (the BRICS countries) signed an agreement to establish the New Development Bank with an initial capital of $50 billion and an emergency reserve fund of $100 billion.[183] With its headquarters in Shanghai and a guarantee that the combined share of the five founding BRICS countries' capital will never fall below 55 percent, China will play a key role in the bank's formation and operations.[184] Analysts argue that the bank, which is considered a BRICS-led alternative to the World Bank, is a welcome addition to the options for

*The New Development Bank was formerly known as the BRICS Development Bank because it is operated by the BRICS countries: Brazil, Russia, India, China, and South Africa.

investment finance, including in Southeast Asia where funding is in high demand for expensive infrastructure projects.[185] However, many argue that the New Development Bank will—in the words of Vikram Nehru, formerly of the World Bank and now the Bakrie Chair in Southeast Asian Studies at the Carnegie Endowment for International Peace—provide "another avenue to advance the regional and global strategic interests of the bank's five founders."[186]

While the New Development Bank could elevate China's influence in Southeast Asia, the AIIB, which is more directly under China's control, will likely be China's primary vehicle for channeling its development aid to the region in hopes of gaining diplomatic leverage.[187] According to the Harvard Kennedy School's Vietnam Program economist David Dapice, ASEAN countries need about $100 billion per year in infrastructure investment. The World Bank and Asian Development Bank currently lend about $20 billion per year for infrastructure investment in emerging economies, leaving significant unmet demand in Southeast Asia, which the AIIB hopes to meet. Dr. Dapice told the Commission that China's formation of the AIIB is a "coincidence of interests"—that is, ASEAN's interest in investing in infrastructure and China's interest in using its capital and domestic companies and resources to build projects overseas.[188] Moreover, Dr. Dapice noted that obtaining financing through the AIIB may be simpler and more efficient than doing so through traditional international financial institutions like the World Bank, which makes it attractive to ASEAN countries in need of immediate access to funds.[189]

All ten members of ASEAN have signed on to join the AIIB, reflecting Southeast Asia's interest in the prospective China-led bank.[190] Yet, some observers underscore that the AIIB is still merely an idea, and the sources of funding are not fully understood.[191] Dr. Sutter argues that with the AIIB, the Silk Road Fund, and several other large foreign assistance pledges (the funding sources of which are all unknown), China appears to be seeking momentum toward a political movement with diplomatic objectives, rather than an economic initiative with purely development goals.[192]

China and the Lower Mekong Region

The Mekong River is a lifeline and vital shared resource for southwestern China and mainland Southeast Asia. With its source in China's Tibetan Autonomous Region, the 3,000-mile-long river cuts through China's Yunnan Province before winding its way through Burma, Laos, Thailand, Cambodia, and Vietnam, where its mouth pours into the South China Sea.[193] While the Mekong has been a source of regional integration for most of mainland Southeast Asia, serving as the basis of international initiatives such as the Mekong River Commission and the Asian Development Bank's Greater Mekong Subregion, the river is increasingly a source of contention between China and the lower Mekong countries. China's activities on the Mekong show a pattern of unilateral action that is isolating China from its lower Mekong neighbors.

China and the Lower Mekong Region—*Continued*

The main point of contention between China and the lower Mekong countries has been the construction of Chinese dams along the upper Mekong River and the ecological damage they cause downstream. According to the environmental watchdog International Rivers, "Chinese dams are drastically changing the Lower Mekong River's natural flood-drought cycle, and reducing the amount of water, sediments, and nutrients that flow into the river basin and surrounding coastal areas." [194] Moreover, the UN Environment Program warned in 2009 that China's plans for eight dams along the Mekong could pose a "considerable threat" to the river and its resources.[195] According to Dr. Dapice, China's upstream dams dictate the fate of ecological systems along the lower Mekong. In testimony before the Commission, Dr. Dapice said, "How [Chinese] dams are managed . . . will in large part determine China's contribution to either stabilizing or aggravating dry season shortages" in lower Mekong countries.[196] Dr. Dapice also pointed out that while "Chinese dam construction is rightly scrutinized, it is likely to be less important than what is being done or planned by Thailand, Laos and Cambodia." [197]

China's aspirations for water diversion projects on the upper Mekong are of potentially even greater risk to the lower Mekong region than are its dams (see Figure 4). The Mekong River is the target of the third phase of China's massive infrastructure plans to divert water from its water-rich south to the relatively dry north. If fully implemented, these water diversion projects would have the most damaging impact on lower Mekong ecological systems to date.[198]

China's unilateral actions along the upper Mekong are undermining multilateral efforts among lower Mekong countries to make decisions that are mutually advantageous for all countries that benefit from the river's resources. For example, the Mekong River Commission, a multigovernment body whose members include Thailand, Laos, Cambodia, and Vietnam, has a mission to develop "an economically prosperous, socially just, and environmentally sound Mekong River basin." [199] However, as a "dialogue partner," China plays only a tangential role in the Mekong River Commission, limiting the effectiveness of the organization. For example, as a dialogue partner, China is not obligated to share data on water management with other Mekong nations, which undermines information sharing among all Mekong River Commission members.[200] Without a cohesive partnership of Mekong nations, even lower Mekong countries, which are most vulnerable to dam construction, are pursuing environmentally compromising infrastructure projects. As Dr. Dapice told the Commission, "It's like the left and right hands don't know what they are doing." [201]

Moreover, international rivers like the Mekong lack any international law or treaty akin to United Nations Convention on the

China and the Lower Mekong Region—*Continued*

Law of the Sea to regulate behavior along the river. The Mekong River Commission is the closest alternative to an international treaty, but China's lack of participation limits the organization's authority. According to the State Department Special Coordinator for Water Resources Aaron Salzberg, China should join the Mekong River Commission to more effectively address environmental and other problems faced by downstream Southeast Asian nations.[202] As in the case of the South China Sea disputes, China prefers to handle such problems bilaterally rather than via multilateral organizations like the Mekong River Commission.[203]

In the absence of China's engagement with lower Mekong countries and to enhance U.S. cooperation in the region on Mekong River issues, the State Department in 2009 established the Lower Mekong Initiative (LMI) to support environmental and social development along the lower portion of the river. Currently, the LMI includes the United States, the four member countries of the Mekong River Commission, and, since 2012, Burma.[204] U.S. funding supports the six pillars of the LMI: agriculture and food security, connectivity, education, energy security, environment and water, and health.[205] In 2012, the United States committed to provide $50 million over three years to support an expansion of the initiative, known as LMI 2020.[206]

Law enforcement along the Mekong is one exceptional area where China is cooperating with lower Mekong countries. Over the past three years, China has organized and participated in joint law enforcement patrols along the river with Burma, Laos, and Thailand.[207] Together, these countries established the Safe Mekong Coordination Center in Chiang Mai, Thailand, and engage in intelligence sharing. China's incentive to cooperate multilaterally on Mekong law enforcement came only after two Chinese cargo ships on the Thai portion of the river were hijacked in 2011. During the attack, 13 Chinese sailors aboard the cargo ships were killed, allegedly by Thai counternarcotics soldiers bribed by a drug smuggling ring.[208] Although the hunt for the Burmese leader of the drug ring was conducted jointly by Burma, China, Laos, and Thailand, China's Ministry of Public Security reportedly considered—but ultimately refrained from—using an unmanned aerial vehicle to kill the drug kingpin while he was still in Burma.[209]

China and the Lower Mekong Region—*Continued*

Figure 4: Dams along the Mekong River

Source: International Rivers.

China's Investment, Trade, and Financial Relations with Southeast Asia

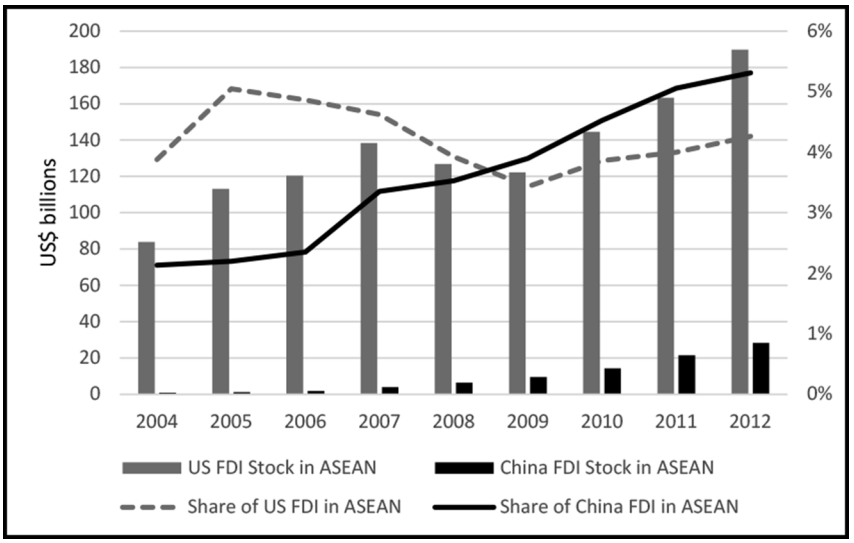
As a whole, Southeast Asia is growing more economically integrated with China, with two-way trade and investment rising significantly in recent years. China's growing economic influence in Southeast Asia has raised concerns that ASEAN countries may become overly dependent on China and are at risk of economic coercion.[210] Within Southeast Asia, lesser developed countries, such as Laos and Cambodia, have welcomed enhanced economic relationships with China, while more advanced and emerging economies are more skeptical about the risks of China's economic dominance in the region.[211] For example, ASEAN's middle-income and emerging economies, including Malaysia, Indonesia, Singapore, and the

Philippines, have expressed concern about the environmental costs of Chinese infrastructure investment, the prevalence of corrupt practices in Chinese financial dealings, and the "loss of local competitiveness due to the importation of cheap goods from [China]."[212] This diversity among individual ASEAN countries' economic relationships with China makes it more difficult for ASEAN as a group to manage the threat of excessive economic dependence or coercion. However, China's active steps toward deeper integration in trade, investment, and finance implies positioning itself as the economic core of Southeast Asia is a key part of its strategy.

Chinese Investment in ASEAN

China's outbound FDI to ASEAN countries is an area where economic dependence may be of concern in the future. Although still small in absolute terms, the stock of Chinese FDI in ASEAN has grown rapidly in recently years (see Figure 5). According to ASEAN, FDI flows from China surpassed those of the United States in 2013 (latest data available).[213] While the stock of U.S. FDI in ASEAN far exceeds China's, the ASEAN share of China's overall outbound FDI is steadily increasing and has been higher than the ASEAN share of U.S. outbound FDI since 2009 (see Figure 5).

Figure 5: Foreign Direct Investment in ASEAN



Note: Latest data available.
Source: UN Conference on Trade and Development.

China's Special Economic Zones in Southeast Asia

In addition to traditional FDI, China is also expanding its economic influence by investing in special economic zones, usually industrial estates, in some Southeast Asian countries. Organized by the Chinese government, which has clearly signaled that "the zones have political importance over and above their economic role," the zones were constructed and are being operated by Chinese companies that won contracts awarded by China's Ministry of Commerce.[214] Although officially the contracts were awarded based purely on the financial merits of the companies, China's Ministry of Foreign Affairs had to sign off on all zone projects "as they were to benefit other countries through official Chinese government subsidies."[215] China's government pledged to reimburse Chinese companies at least 30 percent of the cost of constructing the zones.[216] Chinese special economic zones exist in Cambodia, Laos, Indonesia, Thailand, and Vietnam.[217] In many of these zones, China has leased the land for 99 years, and the zones are often governed by committees of Chinese businessmen and former officials, sometimes with local citizens having to show passports to enter the area.[218] Some zones reportedly operate in China's time zone, use the renminbi (RMB) as the exclusive currency, and use Chinese phone and Internet networks. Even police forces are sometimes supplied by China, serving in cooperation with local police, but often with local police having limited jurisdiction over Chinese-owned businesses.[219]

ASEAN countries welcome Chinese investment as an essential link to the global economy.[220] Developed by China in 2007, Longjiang Industrial Park in Vietnam attracted 11 enterprises and $68.6 million in investment before development of the zone was complete. [221] Other zones in the region attracted similar levels of investment halfway through development, including the Sihanoukville Special Economic Zone in Cambodia ($32.7 million) and the Thai-Chinese Rayong Industrial Zone ($315 million).[222]

More than 95 Chinese companies have invested in Laos' special economic zones, with total investment from China at $4.2 billion.[223] In the Golden Triangle Special Economic Zone, private companies from China and Hong Kong developed entertainment centers with casinos, resorts, clubs, and golf courses aimed at attracting regional tourism. The zone, which lies in Laos' northern borderlands, previously had little economic significance, but now attracts foreign visitors from Southern and Eastern Asia.[224] Similarly, the Thai-Chinese Rayong Industrial Zone, a joint effort between Thailand's Amata Corporation and China's Holley Group, has integrated Thai companies with the world economy; around 60 percent of the estate's products, including car parts, electronics, and other machinery, are exported to markets around the world, including the United States and Europe.[225] To make Thai goods easier to transport and to bolster the Rayong zone's exports, China is also planning to build a rail network running north from Thailand through Laos and into China.[226]

China's Special Economic Zones in Southeast Asia—*Continued*

Southeast Asian countries also see the zones as engines of local growth, creating jobs for the local population and eradicating poverty. The Rayong zone, for example, employs over 10,000 Thai workers,[227] and Laos' zones employ more than 4,000 local workers.[228]

The benefits of these special economic zones do not always trickle down to the local populations. Although the zones increase employment, local workers are often discriminated against. Higher-level positions are given to Chinese workers, while local workers are relegated to low-skill jobs.[229] In addition, harmful narcotics and gambling practices are sometimes introduced into villages from the nearby casinos and clubs.[230] Construction of zones also commonly displaces local villagers, who lose their livelihoods when development begins. In resettlement agreements, governments offer extremely low compensation for locals who have to relocate their homes, and no compensation for those who lose their paddy fields and farmlands.[231]

While the increase in Chinese investment into ASEAN may be politically motivated and raise certain reservations among ASEAN countries, a wider shift in manufacturing FDI diverted from China to Southeast Asia may help diversify the portfolio of FDI hosted in ASEAN. According to global consulting firm McKinsey & Company, "As China shifts from an export-driven economic model to a consumption-driven one, its wages are rising," which is diverting some labor-intensive manufacturing FDI out of China.[232] Cambodia, Indonesia, Laos, Burma, and Vietnam are among the most attractive alternate destinations for manufacturing FDI, given their abundance of low-cost labor.[233] However, relatively low productivity and poor infrastructure may limit the ability of these countries to attract manufacturing FDI out of China.

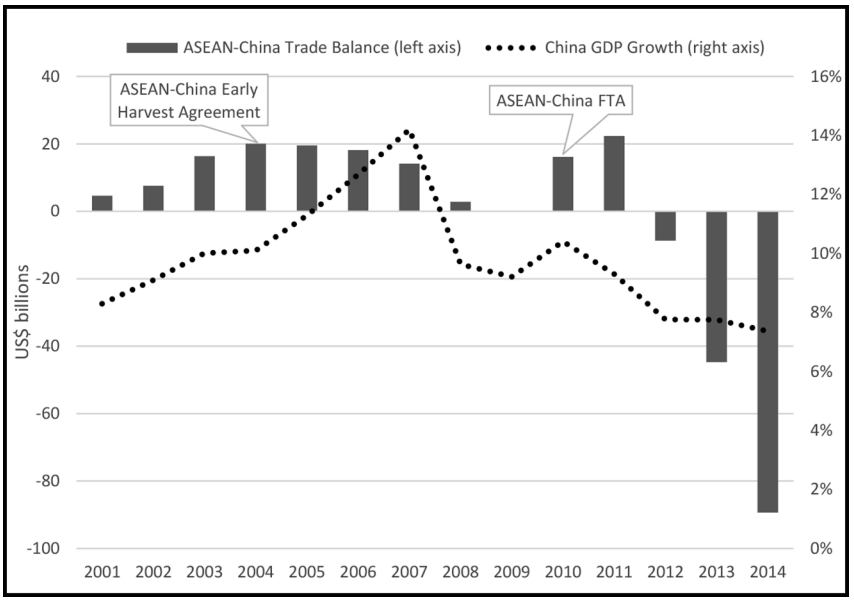
ASEAN-China Trade Relations

Trade liberalization has been an important element of China's economic engagement with Southeast Asia. Following the 1997–1998 Asian financial crisis, China sought to forge a closer economic relationship with Southeast Asia by forming the ASEAN-China Free Trade Area (FTA).[234] Although the ASEAN-China FTA touts mutually beneficial economic relations, the reality has been a dramatic shift in ASEAN-China trade relations in China's favor. Prior to 2004, when an Early Harvest* version of the ASEAN-China FTA went into effect, ASEAN countries collectively enjoyed a growing trade surplus with China (see Figure 6). With implementation of the Early Harvest agreement, ASEAN's surplus began a steady decline until the 2008–2009 global financial crisis, when it disappeared altogether.[235]

*An "early harvest" program allows negotiators in trade talks to immediately lower trade barriers to certain goods and services even before negotiations on the final agreement have concluded.

In 2010, the full ASEAN-China FTA went into effect and saw a temporary rebound in ASEAN's trade surplus with China over the next two years. However, analysts did not attribute this temporary shift to the ASEAN-China FTA, but rather to growing Chinese demand for imports bolstered by its 2008 $586 billion stimulus package and for imports of components from elsewhere in Asia to assemble final products for export to the world as it recovered from the financial crisis.[236] Since 2012, in the absence of large economic stimulus and with a gradual slowdown in China's economy, ASEAN has seen a large and rapidly increasing trade deficit with China, reaching nearly $90 billion in 2014.[237]

Figure 6: ASEAN-China Trade Balance



Source: China General Administration of Customs, via CEIC database; Tradingeconomics.com.

ASEAN's rapidly increasing trade deficit with China has coincided with the slowdown of China's economy, as shown in Figure 6.[238] Some ASEAN countries have raised concerns that trade liberalization with China has led to ASEAN's growing vulnerability to fluctuations in China's economy. For example, Indonesia, which exports coal, tin, rubber, cocoa, and palm oil to China, saw these exports decline and prices fall as Chinese demand weakened.[239] Even more advanced economies that are less dependent on China economically, such as Singapore, are worried that some high-value exports (like electronics and pharmaceuticals) as well as its investments in China may be affected.[240]

Despite these concerns, ASEAN has been leading negotiations toward a Regional Comprehensive Economic Partnership (RCEP), which would combine five of its individual FTAs with Australia and New Zealand, China, India, Japan, and South Korea, and would further advance trade liberalization between China and ASEAN.

RCEP negotiations were launched in November 2012, and are officially slated for completion by the end of 2015, though it seems unlikely the parties will meet this deadline given the current state of the negotiations. Proponents of RCEP argue it could deepen economic integration in Asia, the region that has been the focal point of global trade growth over the past decade. Skeptics claim that despite China's official policy to defer to ASEAN as the leader of the arrangement, China may come to dominate the development of RCEP. Critics also counter that RCEP is likely to be a shallow agreement amenable to ASEAN's heterogeneous member states, and as such will not make a major impact on regional economic ties. RCEP excludes many of the advanced trade provisions promoted by the United States, such as those governing regulatory convergence, digital goods and services, and intellectual property.[241] Yet, according to Senior Vice President of Trade, Economic, and Energy Affairs at the National Bureau of Asian Research Meredith Miller, "For ASEAN, RCEP is important not only in terms of the potential economic gains and engagement with China, but also because . . . it helps to solidify their position as the organizer of broader regional cooperation."[242]

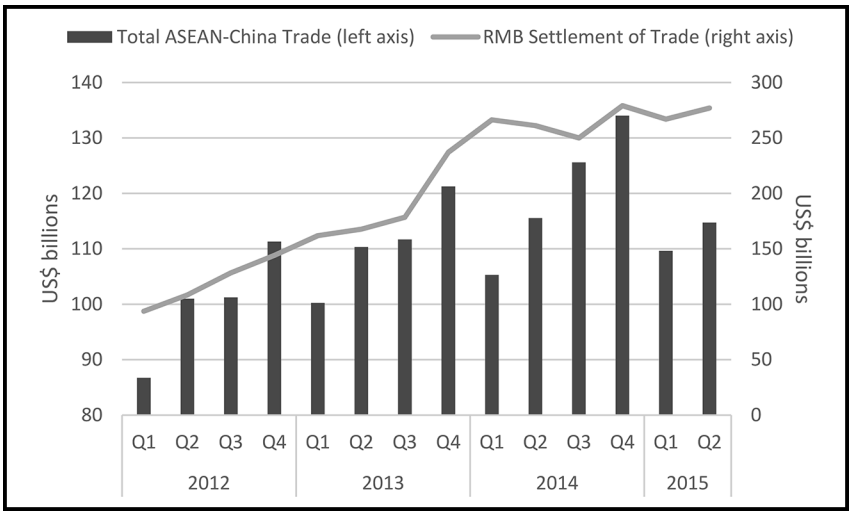
The Trans-Pacific Partnership (TPP) is another prospective FTA that may afford ASEAN countries the opportunity to diversify the organization's trade liberalization strategy beyond an exclusive focus on China. Four ASEAN countries—Brunei, Malaysia, Singapore, and Vietnam—are party to the TPP negotiations. As Ms. Miller told the Commission, TPP is envisioned to have greater scope, depth, and coverage than RCEP, and notably does not include China.[243] While some observers argue that RCEP and TPP are mutually exclusive (or potentially complementary), others claim the agreements are a competition between China and the United States to win diplomatic leverage in Southeast Asia. According to Ms. Miller, "It's very important at this juncture for the [United States] to continue to support ASEAN's [trade] diversification strategy."[244]

Regional Financial Relations

China is also gaining greater monetary influence in Southeast Asia. ASEAN's increased trade and investment with China has expanded the use of the RMB in regional economic transactions. In a study by the Peterson Institute for International Economics, researchers found that seven out of ten Asian currencies* move more closely with the RMB than with the dollar, which is attributed to regional trade integration.[245] Figure 7 illustrates the correlation between growing ASEAN-China trade and the frequency of RMB-denominated cross-border transactions worldwide. According to the Asian Development Bank, in addition to the increase in RMB-denominated trade and investment, RMB internationalization has been a result of targeted Chinese government policies such as increased offshore RMB-denominated bonds (also known as dim sum bonds) and bilateral currency swap agreements, including those with Thailand, Malaysia, Singapore, and Indonesia.[246]

*Five of the seven currencies were Southeast Asian currencies: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The other two were South Korea and Taiwan.

Figure 7: Cross-Border RMB Settlement and ASEAN-China Trade



Source: People's Bank of China and the China General Administration of Customs, via CEIC database.

Although monetary integration is not considered a near-term goal in Southeast Asia,[247] the region has taken steps toward an Asian financial architecture in which China would be only one of several key players. The region's first major step toward monetary cooperation came in the aftermath of the 1997–1998 Asian financial crisis, when five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) established bilateral currency swaps with one another.* In 2000, the remaining ASEAN members as well as China, Japan, and South Korea joined the arrangement in what became known as the Chiang Mai Initiative.[248]

In March 2010, the bilateral currency swap mechanism was converted into a multilateral reserves pooling mechanism known as the Chiang Mai Initiative Multilateralization.† The Chiang Mai Initiative Multilateralization's initial value was $120 billion, which was doubled in 2012 to $240 billion.[249] Under the Chiang Mai Initiative Multilateralization, China is an equal with Japan and is one of several contributors to the fund. China and Japan are the largest contributors, with 32 percent shares each; ASEAN as a whole contributes 20 percent, while South Korea contributes 16 percent.[250] However, in their combined 15-year history, the Chiang Mai Initiative Multilateralization and its predecessor, the Chiang Mai Initiative, have never been used by any member country. Moreover, the Chiang Mai Initiative Multilateralization is not a common, centralized fund; it is merely a set of promises among the members to lend funds as needed in a crisis, with the majority of reserve funds disbursable only after the requesting member has al-

*Under a reciprocal currency swap arrangement, a country's central bank agrees to provide liquidity to another country's central bank.

†A crisis prevention mechanism known as the Chiang Mai Initiative Multilateralization Stability Fund was also established to provide short-term liquidity support to address sudden but temporary liquidity shortages.

ready appealed to the International Monetary Fund.[251] The procedures for borrowing funds are cumbersome, and the amounts that members may borrow are still very low in comparison to other sources of finance.[252]

Although it is a major contributor to the Chiang Mai Initiative Multilateralization, China appears to have few incentives to improve upon the effectiveness of the fund or use it as a basis for future monetary cooperation with Southeast Asia.[253] With the increase in RMB-denominated transactions in Southeast Asia, China does not need to rely on existing arrangements such as the Chiang Mai Initiative Multilateralization, which has ties to the International Monetary Fund, to elevate its own currency. Moreover, given China's equal status to Japan in the currency swap, some claim China worries a strong Chiang Mai Initiative Multilateralization would curb the growing influence of the RMB (relative to the Japanese yen) and "preclude future Chinese currency hegemony in East Asia."[254] In addition, through the BRICS-led New Development Bank, China has pledged to finance more than 40 percent of a $100 billion emergency swap fund, a mechanism that could shift emergency borrowing away from the International Monetary Fund and Chiang Mai Initiative Multilateralization and toward a more China-centric arrangement.[255] (For more analysis of China's financial statecraft, including the New Development Bank, see Chapter 1, Section 1, "Year in Review: Economics and Trade.")

China's Security Engagement with Southeast Asia

Defense and security cooperation between China and countries in Southeast Asia has grown over the last 15 years, despite mistrust of China in Southeast Asian capitals arising from China's support for communist insurgencies in Southeast Asia during the Cold War and its actions in the South China Sea.[256] China and Southeast Asian countries have many shared security interests. These shared interests include maritime security, humanitarian assistance and disaster relief (HA/DR), search and rescue, countering piracy, open and secure sea lines of communication, counterterrorism, border security, and combating transnational crime and drug trafficking. China's security cooperation with Southeast Asian countries is designed largely to advance these interests; it is also designed to strengthen bilateral relations with those countries and reassure its neighbors that it seeks to be a peaceful and cooperative regional partner. Cooperation between China and Southeast Asian countries now includes joint and multilateral exercises,* military aid, training, arms sales, meetings between defense officials, educational exchanges, and cooperation in areas of nontraditional security and HA/DR.[257]

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*According to the U.S. Department of Defense, China participated in bilateral or multilateral exercises with Southeast Asian countries on 19 occasions between 2008 and 2014. These included exercises with Thailand (six), Singapore (six), Indonesia (six), Vietnam (two), Brunei (two), Malaysia (two), and the Philippines (one). During this timeframe, the only countries with which China participated in more exercises were the United States (7), Pakistan (7), and Russia (12). U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2015*, April 2015, 76–77.

China-Southeast Asia Defense Ties

China's defense cooperation with Southeast Asia is most prominent with Burma, Cambodia, Laos, and Thailand, countries that are among China's nearest neighbors and that, with the exception of Thailand, have less developed militaries, have weak defense relations with the United States, and are more economically dependent on China than are other Southeast Asian countries.[258] For example, in Cambodia, China funded the majority of the construction of the country's Army Institute building, Chinese advisors oversee the institute's teaching staff, and students at the institute are required to spend six months at a Chinese military academy. China also donated military trucks and uniforms to Cambodia and provided a loan for Cambodia to purchase Chinese helicopters.[259] According to Dr. Thayer, China's aid to Cambodia's Army Institute is "the beginning of a long-term strategy of winning influence in the Cambodian military by cultivating these people. And China keeps very, very deep intelligence files on [the Cambodian military officers with whom China interacts]." [260]

China-Thailand defense ties are particularly robust. The Chinese and Thai militaries have conducted joint exercises almost every year since 2008, more than most other Southeast Asian militaries.[261] In 2015, the two sides agreed to establish more mechanisms for defense cooperation, including educational exchanges and training. They also agreed to hold more exercises between the Chinese and Thai air forces.[262] This announcement came amid a downturn in relations between Bangkok and Washington that began after the 2014 coup that brought a military junta to power in Thailand. The Thai Navy in July 2015 announced it was considering purchasing three submarines from China in a $1 billion deal, which would amount to one of the most lucrative Chinese arms sales to date. Thai officials subsequently said the decision to procure the submarines would be postponed; however, it is unclear what prompted the announcement or Thailand's apparent reconsideration.* [263] Enhanced ties between Thailand and China may yield dividends for Beijing over time in the form of influence within the Thai military as young Thai officers receive Chinese military education and training and rise through the ranks.[264]

In Thailand and other countries in Southeast Asia, China has been quick to offer military aid when the United States withdraws its own military support. After the Thai military overthrew the government of Thaksin Shinawatra in 2006, for example, the U.S. government stopped $24 million in military aid to Thailand. Several months later, China offered Thailand $49 million in military aid.[265] In 2010, the United States stopped a shipment of 200 surplus U.S. military vehicles to Cambodia in protest over Cambodia's decision to repatriate to China 20 Uyghurs who were seeking asylum. A few weeks later, China promised Cambodia a package of 257 new military vehicles, 50,000 military uniforms, and $15 mil-

* On July 15, 2015, Thailand's Defense Minister Prawit Wongsuwan said, "We will wait for now and not introduce the deal to the cabinet for approval." He added, "For now, the navy must inform itself and educate itself on whether the submarines are worth it and how much they will add to the Thai navy." Reuters, "Thailand Puts $1 Billion Chinese Submarines on Hold," July 15, 2015; Wassana Nanuam, "Prawit Delays Sending Sub Purchase to Cabinet," *Bangkok Post*, July 15, 2015.

lion in military aid.[266] Neither of these examples likely resulted in a major loss of U.S. influence in either country, but they illustrate how China is able to nimbly exploit tensions in the United States' relations in the region to its own advantage.

China has weaker defense ties with countries in maritime Southeast Asia.[267] Most of these countries have stronger defense relations with the United States and are also involved in maritime territorial disputes with China. Nonetheless, China continues to develop its defense ties with maritime Southeast Asia. For example, China and Malaysia held their first combined military exercise in December 2014, a tabletop HA/DR exercise.[268] The PLA and Malaysian Armed Forces held an exercise in the Strait of Malacca in September 2015, focusing on operations including maritime escort, search and rescue, HA/DR, and counterhijacking.[269] According to Chinese state-run media outlet Xinhua, the exercise was "the largest bilateral military exercise between China and a country from ASEAN." [270]

China views arms transfers as a means of strengthening bilateral relations and enhancing its influence in Southeast Asia while also growing its defense export industry.[271] Chinese arms transfers to countries in Southeast Asia primarily consist of low-end Chinese equipment, and account for a small percentage of its global arms transfers. Although China has begun to sell more advanced equipment—such as C–802 antiship missiles sold to Indonesia—to Southeast Asian countries, China's sales in the region are still primarily comprised of equipment such as K–8 trainer aircraft and JIANGHU-class frigates.[272] According to data gathered by the Stockholm International Peace Research Institute, between 2010 and 2014, Burma was the largest recipient of Chinese arms in Southeast Asia, followed by Indonesia, Thailand, Cambodia, Laos, and Timor Leste.[273] During this time, China transferred $1.3 billion in arms to these seven countries, comprising 16.6 percent of the value of China's global arms transfers.[274]

China's arms sales to Burma reflect the robust military-to-military ties the two countries have enjoyed since the late 1980s, when China provided military aid and sold arms to the country after the Burmese junta's 1988 crackdown on prodemocracy demonstrations led to international isolation; these sales also speak to China's interest in encouraging stability and political continuity in its southern neighbor, with which it shares a long and often troubled border.[275,276] Between 2010 and 2014, China supplied 56 percent of Burma's arms imports (Russia provided 40 percent).[277] Although the United States and European countries have strengthened their political and economic relations with Burma in recent years, they continue to maintain restrictions on the export of defense equipment due to continuing concerns about abuses by the Burmese military. For its part, the United States has limited military-to-military engagement to meetings between senior officials and training on military legal affairs.[278]

Conflict on the China-Burma Border

China is involved in a long-simmering conflict in northern Burma between the Burmese military and several armed rebel groups. Some of these rebel-controlled territories, by virtue of their location near the Chinese border, have many connections to China. In addition to their large ethnic Chinese populations, these areas are heavily economically integrated with China's Yunnan Province, though this economic relationship is often fraught with tension. For example, some stalled Chinese-backed economic projects, like the Myitsone Dam, are symbolic of resistance to China's presence in the region. Additionally, China's massive demand for northern Burma's vast jade reserves has spawned a corrupt and predatory industry associated with rampant intravenous heroin use by miners, often enabled by Chinese precursor chemicals. As a result, HIV is a significant health concern in northern Burma.[279]

Further complicating the relationship, northern Burmese rebel groups are apparent beneficiaries of Chinese arms (although the Chinese government denies this).[280] Under then Chairman of the CCP Mao Zedong, China openly supported communist rebels in Burma, but in recent decades it has cultivated ties with the ruling Burmese government and has sought to help broker a ceasefire agreement among the Burmese government and various rebel groups. Nevertheless, it appears some of the rebel groups are enabled by some degree of Chinese military assistance—if not sanctioned by Beijing, then possibly orchestrated by Chinese officials or other actors in Yunnan Province.[281] Among Chinese arms reported to be used by rebel forces are man-portable air defense systems, armored vehicles, and infantry support weaponry.[282]

In 2015, the intermittent conflict between the Burmese military and rebels became particularly intense, leading to heightened tensions between China and Burma. In March 2015, China criticized the Burmese military for accidentally dropping bombs on the Chinese side of the border and killing four Chinese citizens.[283] China threatened a "decisive response" if Burmese bombing in China's territory continued, and sent fighter aircraft to patrol the affected area.[284] Then, in June 2015, China announced it would conduct live-fire military exercises on the China-Burma border.[285] Retired PLA colonel Yue Gang said "live-fire military exercises by the PLA are very rare in this region" and asserted that the exercises are intended to "show that there is a bottom line to China's tolerance. When [Burma] crosses the line China must strike back to defend itself, not to start a war."[286] Around this same time, as a result of growing violence, as many as 60,000 Burmese refugees reportedly crossed the border into China.[287]

It is unclear how Beijing will seek to balance what appear to be competing Chinese interests in Burma going forward. Maintaining positive ties with the Burmese government has become

Conflict on the China-Burma Border—*Continued*

even more important to China now that the United States and European countries have expanded relations with Burma. According to *Jane's Intelligence Review*, China's apparent recent support for rebel groups near the border may even be intended as a "warning" to Naypyidaw, the Burmese capital, that its thawing relations with the United States and the West "not jeopardize Beijing's long-standing strategic and economic interests" in Burma.[288]

Nontraditional Security Cooperation

Counterterrorism

Counterterrorism is an important area of cooperation for China and Southeast Asia; it has been the focus of almost half of China's military exercises with Southeast Asian countries between 2008 and 2014.[289] Terrorism is a growing security challenge for China. In addition to Beijing's concerns about domestic terrorism, new external threats such as the Islamic State in Iraq and the Levant (ISIL, also known as ISIS) are emerging. ISIL has publicly identified China as a country where "Muslims' rights are forcibly seized."* In July 2014, China's Middle East Envoy Wu Sike acknowledged that approximately 100 Chinese citizens may be fighting or receiving training in the Middle East.[290] Mr. Wu did not specify whether those individuals undergoing training are being trained by ISIL or other groups. As violent attacks on government and civilian targets in China allegedly carried out by militant Uyghurs have increased, the Chinese government is concerned that individuals within China could draw inspiration from ISIL, or that Chinese citizens fighting with ISIL or receiving training from the organization could return to China to carry out attacks.†[291] In addition, hailing from countries on China's periphery, there reportedly are more than 500 Indonesians and dozens of Malaysians fighting for ISIL.[292] More than being a source of fighters, Southeast Asia could also become a safe haven from which ISIL could initiate terror attacks, a concern raised by Singapore's Prime Minister Lee during his speech at the 2015 Shangri-La Dialogue.[293] Given these concerns, China may increase counterterrorism cooperation with Southeast Asian countries. (For a discussion of China's counterterrorism cooperation with Central Asian countries, see Chapter 3, Section 1, "China and Central Asia.")

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*In July 2014, Abu Bakr al-Baghdadi, the leader of ISIL, listed China among the countries where "Muslims' rights are forcibly seized," and called on Muslims to take action, saying, "Your brothers all over the world are waiting for your rescue, and are anticipating your brigades." SITE Monitoring Service, "Islamic State Leader Abu Bakr al-Baghdadi Encourages Emigration, Worldwide Action," July 1, 2014.

†While terrorism is a real and growing threat to peace and security in China, the Chinese government tends to employ an excessively broad definition of and approach to terrorism, often conflating terrorism with extremism, criminality, or peaceful political protest. This, along with the opacity of China's counterterrorism policies, makes it difficult to assess the legitimacy of some of China's terror threat assessments. U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress,* November 2014, 367; Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics*, Oxford University Press, 2015, 73.

In addition, the August 2015 bombing of Thailand's Erawan Shrine may mean that terrorism will become a larger issue in China-Thailand relations. In September 2015, Thai police announced that two suspects—a man of unknown nationality and a Uyghur man from China—had confessed to carrying out the attack, which killed 20 people, including tourists from mainland China and Hong Kong.[294] The police alleged that their primary motive was retaliation for the Thai government's crackdown on a network that helped to smuggle Uyghurs out of China through Thailand.[295] However, this allegation has yet to be independently confirmed.

Humanitarian Assistance and Disaster Relief

China also seeks to enhance cooperation with Southeast Asian countries in the area of HA/DR, cooperation through which Beijing can try to reassure its Southeast Asian neighbors of its intentions and support its efforts to present China as a contributor to international security. HA/DR exchanges between the PLA and regional militaries also are a relatively nonsensitive area of cooperation. In 2014, China sent military personnel to participate in an ASEAN HA/DR exercise in Thailand, and later in the year signed a memorandum of understanding with ASEAN on disaster management.[296] The agreement includes a grant from the Chinese government to support ASEAN disaster management programs.[297] Moreover, following the March 2014 disappearance of Malaysia Airlines Flight 370, on which most of the passengers were Chinese citizens, China deployed a large number of military assets, including transport aircraft, guided-missile frigates, and helicopters, to conduct search and rescue operations.[298] In 2013, China deployed the PLA Navy hospital ship the *Peace Ark* to the Philippines in response to Typhoon Haiyan. This deployment was the first time China sent a naval vessel overseas for a medical HA/DR relief operation.[299]

Trafficking and Infectious Diseases

China cooperates with Southeast Asian countries to combat other nontraditional security threats, including human and drug trafficking and the spread of infectious diseases. Among the examples of this collaboration is China-Vietnam cooperation to crack down on human trafficking rings in China and rescue Vietnamese women who had been promised work in China but were later sold to brothels.*[300] The Chinese government partners with the Burmese military and police to try to counter drug trafficking activities between Burma and China.†[301] Joint health initiatives have included China's partnership with Malaysia in fighting the spread of severe acute respiratory syndrome (SARS) in 2003 and later avian influenza; China also collaborated with Indonesia, Thailand, and Viet-

*In addition, Vietnamese are being smuggled into China to work in factories. It is unclear, however, whether the Chinese and Vietnamese governments are working together to stop these smuggling operations. James Pomfret, "Special Report: How Smuggled Workers Power 'Made in China,'" Reuters, August 6, 2015.

†The U.S. and Chinese governments also have cooperated to combat drug trafficking originating in the Golden Triangle, the area where the borders of Burma, Laos and Thailand meet. One of the most prominent examples of such cooperation was the dismantling of the "125" drug-smuggling ring, which was trafficking heroin produced in Burma to the United States via China, in 2003. Zhang Yongan, "Asia, International Drug Trafficking, and U.S.-China Counternarcotics Cooperation," *Brookings Institution*, February 2012, 2, 12, 16; Susan Saulny, "China's Help Is Credited in Tripping up Drug Ring," *New York Times*, May 17, 2003.

nam on a study regarding enhancing surveillance and early detection of avian influenza.[302]

Piracy

Piracy has increased in maritime Southeast Asia and could have major implications for China as the majority of its oil imports transit through Southeast Asia by way of the Strait of Malacca. During the first three months of 2015, 55 percent of all armed robbery and piracy incidents occurred in Southeast Asia, including the hijacking of five oil tankers.[303] In addition, in 2014, of the seafarers who were the victims of piracy in Southeast Asia and whose nationalities were known to the International Maritime Bureau, 10.8 percent were Chinese, the third-largest percentage among all nationalities identified.[304]

Despite the threat of piracy in maritime Southeast Asia, however, the PLA's antipiracy operations are focused on the Gulf of Aden in the western Indian Ocean. Since piracy is declining in the Gulf of Aden and is on the rise in the Gulf of Guinea and maritime Southeast Asia, PLA Navy antipiracy operations may shift to these areas.[305] China's cooperation with Southeast Asia in combating piracy includes its membership in the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia, and its assignment of a Chinese liaison officer to the Information Fusion Center; both organizations are based in Singapore.[306] Furthermore, as discussed earlier, the PLA and Malaysian Armed Forces' combined exercises held in the Strait of Malacca in September 2015 included maritime escort and counterhijacking drills.[307]

China-Vietnam Relations: A Case Study

China-Vietnam relations are among the most complex of China's bilateral relationships in Southeast Asia. China and Vietnam share communist ideology and history, a border, cultural ties, and more than 1,000 years of imperial Chinese control over Vietnam. Although China supported the North Vietnamese during their war with the United States, Vietnam's toppling of the China-backed Khmer Rouge in Cambodia in 1978 and Vietnam's security links to the Soviet Union prompted China to invade Vietnam in 1979, sparking a month-long war. Estimates of the casualties among the two sides' militaries range as high as 26,000 Chinese soldiers and 30,000 Vietnamese soldiers killed.[308] According to an article in the *New York Times*, 10,000 Vietnamese civilians were killed.[309] In the South China Sea, China seized control of the Paracel Islands in 1974 and Johnson South Reef in 1988 using military force against Vietnamese military personnel.[310] Although the bilateral relationship improved after the two countries normalized relations in 1991, they did not reach an agreement on the demarcation of their border until 2009, 30 years after the 1979 border war.[311]

Today, bilateral cooperation between China and Vietnam spans a broad range of areas.[312] China-Vietnam memoranda of understanding cover topics such as human trafficking, educational exchanges, and nuclear energy exchanges. For example, the Vietnam National University of Agriculture has more than 15 agreements

with Chinese universities on student exchange and educational programming.[313]

The two countries also have strong economic ties—China is the third-largest destination for Vietnam's exports, Vietnam's largest source of imports, and a growing source of investment in Vietnam. In late 2013, Beijing and Hanoi signed a memorandum of understanding to increase trade and economic cooperation by creating four new economic zones along the Vietnam-China border by 2020.[314] However, economic cooperation between China and Vietnam is not free from tension.[315] For example, during the Commission's trip to Vietnam in 2015, multiple observers noted problems with the construction of an urban rail system in Hanoi by a Chinese company. China Railway Sixth Group Co., Ltd. is the main contractor for the ongoing construction of the urban rail system, a project which has experienced delays, cost overruns, and safety problems.[316] The rail system was originally scheduled to become operational in 2013, but that date has been extended to 2016; the cost of construction has been $339 million more than expected; scaffolding has collapsed, and steel bars and reels have fallen on cars and motorcycles, with a steel reel killing one person and injuring two others.[317] In January 2015, Vietnam's Minister of Transportation described the project as the "worst" in Vietnam.[318]

Disputes over sovereignty in the South China Sea remain a major source of friction in China-Vietnam relations, as discussed earlier, and Vietnam is one of the most vocal Southeast Asian countries in criticizing China's assertive behavior in the South China Sea.[319] Amid the PLA's rapid modernization and China's efforts to consolidate its claims, Vietnam has also taken measures to enhance its military capabilities to deter potential Chinese coercion.[320] During many of the Commission's meetings with the Vietnamese government, the Communist Party of Vietnam, and academic organizations in Hanoi, interlocutors expressed their concerns about China's activities in the South China Sea, including the view that China seeks to control part or all of the South China Sea.[321] Reflecting these concerns, an interlocutor from the Institute for Defense Strategy at Vietnam's Ministry of Defense told the Commission that Vietnam seeks a peaceful and stable relationship with China rather than an "unreal, verbal peace."[322] Interlocutors from the Diplomatic Academy of Vietnam told the Commission that China's approach to the South China Sea dispute suggests China has a long-term strategy to dominate Vietnam.[323] In addition, interlocutors from the Communist Party of Vietnam Central Committee said that, should China announce an ADIZ over the South China Sea, it would be capable of enforcing the ADIZ, and "freedom of navigation will be no more."[324] During several of the Commission's meetings in Hanoi, interlocutors expressed their view that the United States should be more assertive in response to China's actions in the South China Sea.[325]

One of the worst crises in China-Vietnam relations since 1979 ensued when Chinese state-owned oil company China National Petroleum Corporation deployed its ultradeepwater oil rig *Haiyang Shiyou 981* to waters disputed by China and Vietnam between May

and July 2014.* [326] Although the two sides appear to have stabilized bilateral relations since then, the oil rig crisis may have a far-reaching impact on Vietnam's view of China and its approach to the relationship. A U.S. embassy official who met with the Commission in Hanoi described the crisis as "paradigm-shattering," causing Vietnam to feel "very betrayed" by China.[327] Murray Hiebert, senior fellow and deputy director of the Sumitro Chair for Southeast Asian Studies at the Center for Strategic and International Studies, stated in his written testimony to the Commission that "as a result of the oil rig crisis, even party stalwarts in Hanoi have become disillusioned with China's treatment of Vietnam. Strategic trust has been weakened." [328] As further evidence of this shift, in July 2014, 61 members of the Communist Party of Vietnam, including a former Vietnamese ambassador to China and former vice minister of Vietnam's Ministry of Science and Technology, sent a letter to Vietnam's leaders in which they called for Vietnam to "escape" from what they described as the country's dependence on China.[329]

Concerns about China in Vietnam are not limited to the South China Sea. According to U.S. officials in Hanoi, Vietnam views China's construction of dams on the Mekong River as part of China's effort to "pinch" Vietnam from the West. These officials also said that Vietnam is concerned neighboring Laos no longer "needs" Vietnam due to its relationship with China.[330]

Vietnam-U.S. Relations

The oil rig crisis appears to have motivated Vietnam to pursue more vigorous outreach to third-party countries, particularly the United States.[331] Since Vietnam and the United States restored diplomatic relations in 1995, the two countries have gradually strengthened bilateral relations, a process that has gained momentum from the U.S. rebalance to Asia policy and China's actions in the South China Sea.[332] During his visit to Vietnam in June 2015, U.S. Secretary of Defense Ashton Carter announced the United States will provide Vietnam $18 million to procure U.S.-made patrol vessels and will station a U.S. peacekeeping expert at the U.S. embassy in Vietnam, with the aim of assisting Vietnam in pursuing its goal of participating in UN peacekeeping operations. In addition, the two sides pledged to expand defense trade, potentially to include coproduction of defense equipment.[333] In another sign of growing ties, Secretary Carter visited a Vietnamese military base and toured a Vietnamese Coast Guard ship, marking the first time the Vietnamese military had invited a U.S. secretary of defense to visit a military base and set foot on a coast guard vessel.[334] Following Secretary Carter's visit to Vietnam, in July 2015, General Secretary Nguyen Phu Trong, Vietnam's most powerful political leader, visited the United States, the first time a Communist Party of Vietnam general secretary has done so. General Secretary Trong belongs to the conservative faction of the Communist Party of Vietnam, a group within the party that traditionally has viewed the United States with suspicion.[335] However, according to Jonathon

*For more information about the oil rig crisis, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 244–246.

London, assistant professor at the City University of Hong Kong, the visit indicates that "even the most conservative, doctrinaire elements of the Communist Party have now come to recognize the practical indispensability of strong Vietnamese-U.S. ties."[336]

As Vietnam continues to develop its relations with the United States to balance its relations with China, limits on the U.S.-Vietnam partnership may arise from the misgivings of senior Vietnamese officials who fought against the United States in the Vietnam War.[337] Vietnamese officials and strategists are concerned that if Vietnam becomes too close to the United States, China will respond negatively.[338] A further complication exists regarding the U.S. restriction on selling weapons to Vietnam. Although the United States eased such restrictions in 2014 to allow for the transfer of maritime security equipment, Washington still bans the sale of lethal weapons to Vietnam due to concerns about Vietnam's human rights record. Vietnam is seeking a removal of the remaining restrictions.[339]

Implications for the United States

China's relations with Southeast Asian countries and its activities in Southeast Asia have important implications for the United States related to regional stability, U.S. commitments to allies, freedom of navigation, economics and trade, and nontraditional security threats.

China's land reclamation and construction activities in the South China Sea, once completed, likely will have significant implications for U.S. interests in Southeast Asia.

First, military infrastructure on the land features China controls in the Spratly Islands could enhance China's antiaccess/area denial * capabilities, potentially challenging the U.S. military's ability to freely operate in the region. Ms. Glaser writes that "in peacetime and in a crisis, [these land features] will provide China with the capability to hold U.S. forces at risk at a farther distance than it can at present. This could have implications for a U.S. effort to come to Taiwan's defense. A U.S. carrier battle group sailing from the Arabian Gulf or Indian Ocean that was coming to Taiwan's aid would have to pass through the South China Sea."[340]

Second, tensions between China and the other claimant states, namely the Philippines and Vietnam, have the potential to spark an armed clash, which would threaten regional stability and the global economy and could involve the United States. The United States maintains the 1951 Mutual Defense Treaty with the Philippines, and though it has affirmed its commitment to the treaty, the United States has not officially articulated the specific geographic areas that would trigger a mutual defense response.[341] Thus, a potential military clash between China and the Philippines that begins in the South China Sea could lead to involvement by

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*According to the U.S. Department of Defense, "antiaccess" actions are intended to slow the deployment of an adversary's forces into a theater or cause them to operate at distances farther from the conflict than they would prefer. "Area denial" actions affect maneuvers within a theater, and are intended to impede an adversary's operations within areas where friendly forces cannot or will not prevent access. China, however, uses the term "counterintervention," reflecting its perception that such operations are reactive. U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China 2013*, 2013, i, 32, 33; *U.S. Department of Defense, Air Sea Battle: Service Collaboration to Address Anti-Access & Area Denial Challenges*, May 2013, 2.

the U.S. military. In the current climate of China-Philippines relations, as China becomes bolder in its efforts to secure control over Philippines-claimed waters, the potential for miscalculation, crisis, and conflict is high.

Third, the South China Sea is also a major irritant in U.S.-China relations and is the most likely location of a dangerous encounter, whether intended or unintended, between the U.S. and Chinese militaries. Once the airstrip on Fiery Cross Reef is operational, China could send fighter aircraft to challenge U.S. surveillance flights near its reclaimed land features, increasing the chance of a collision and a political crisis. Likewise, the growing presence of the PLA Navy and Chinese maritime law enforcement ships in the South China Sea raises the risk of a maritime incident between the U.S. and Chinese ships.

U.S. Patrols near China's Land Reclamation Projects in the South China Sea

On May 20, 2015, a U.S. Navy P–8A Poseidon surveillance aircraft flew from Clark Air Base in the Philippines to airspace near Subi Reef, Mischief Reef, and Fiery Cross Reef. CNN reporter Jim Sciutto accompanied the crew and reported on the mission. Over the course of the flight, the PLA Navy ordered the crew of the Poseidon to leave the airspace eight times. The radio transmission also included the following directive: "You are approaching our military alert zone. Leave immediately."*[342] At one point, the Chinese radio operator's warnings grew more urgent, and he yelled, "You go!"†[343] It is unclear how the PLA Navy defines a military alert zone, which is not an internationally recognized military term.

Publicizing U.S. surveillance flights near China's reclaimed land features in the South China Sea appears to be part of an effort by the United States to impose reputational costs on China as its land reclamation and construction activities continue. In his keynote speech at the 2015 Shangri-La Dialogue, Secretary

*The first reported instance of the PLA challenging foreign aircraft flying near the land features on which it is conducting land reclamation in the South China Sea occurred on April 19, 2015, when a PLA Navy ship ordered a Philippine Air Force aircraft conducting a patrol near Subi Reef to leave the airspace to "avoid misjudgment." A spokesperson for China's Ministry of Foreign Affairs confirmed the PLA's challenge to the Philippine Air Force patrols, saying, "Planes from the Philippines have conducted multiple intrusions into the area above waters near China's islands and reefs over recent days. The Chinese garrison there took actions in accordance with the law by asking them to leave through radio." The head of the Philippine military's Western Command reported that at least six similar incidents of China challenging Philippine military aircraft in the South China Sea have occurred since then. Carmela Fonbuena, "China Continues to Harass PH Air Patrols in West PH Sea," *Rappler* (Philippines), May 7, 2015; China's Ministry of Foreign Affairs, *Foreign Ministry Spokesperson Hong Lei's Regular Press Conference on April 24, 2015*, April 24, 2015.

†CNN reported the P–8 crew had been flying such missions for months and were accustomed to similar warnings, but they noted the warnings had become more aggressive as China's land reclamation projects progressed. In May 2015, a U.S. defense official said U.S. Navy surveillance missions over China's land reclamation projects occur on an almost-daily basis. Helene Cooper and Jane Perlez, "U.S. Flies over a Chinese Project at Sea, and Beijing Objects," *New York Times*, May 22, 2015; CNN, "High Stakes Surveillance over the South China Sea," May 20, 2015.

U.S. Surveillance Flights over the South China Sea—*Continued*

Carter asked for "a lasting halt" to land reclamation in the South China Sea and harshly criticized China's land reclamation, saying, "Turning an underwater rock into an airfield simply does not afford the rights of sovereignty or permit restrictions on international air or maritime transit."[344] He also reaffirmed the United States' right and intention to "fly, sail, and operate wherever international law allows."[345] U.S. surveillance flights have continued since then, including one on which Admiral Scott Swift, commander of the U.S. Pacific Fleet, was aboard.[346]

The United States' response to China's activities in the South China Sea continues to evolve. On May 12, the *Wall Street Journal* reported that Secretary Carter was contemplating sending U.S. Navy surveillance aircraft and ships within 12 nm of China's land reclamation projects,[347] citing "growing momentum within the Pentagon and the White House for taking concrete steps in order to send Beijing a signal that the recent buildup in the Spratlys went too far and needed to stop."[348] After much deliberation by the Obama Administration,[349] on October 27 a U.S. Navy guided missile destroyer conducted a freedom of navigation patrol within 12 nm of Subi Reef, an artificial island created from a low-tide elevation, appearing to signal that the United States does not consider Subi Reef to have a territorial sea.*[350] According to a U.S. official quoted by the *Washington Post*, the patrol "was completed without incident," though the PLA Navy sent at least one ship to monitor the U.S. destroyer, and a Chinese Ministry of Foreign Affairs spokesperson warned that, "If the relevant party keeps stirring things up, it will be necessary for China to speed up its construction activities."†[351] As of the writing of this Report, Chinese officials had not otherwise publicly reacted to the patrol.

China's security cooperation with mainland Southeast Asia may have implications for U.S. influence in the region as well. This is particularly the case in Burma, where China appears to believe it is in a contest for influence with the United States (and to a lesser extent, other major powers).[352] While the U.S.-Thai alliance remains in place and Washington and Bangkok are mending ties after a period of tension, China's security ties with Thailand are also growing.[353] It remains to be seen how Thailand will manage this dynamic, but U.S.-China competition for influence in the country almost certainly will grow in the future.

*According to UNCLOS, low-tide elevations, which are submerged at high tide, may not generate a territorial sea unless they are located within the territorial sea of an island or mainland coastline. UN Convention on the Law of the Sea, "Part 2: Territorial Sea and Contiguous Zone." See also Gregory Poling, "Carter on the South China Sea: Committed and (Mostly) Clear," *Center for Strategic and International Studies, Asia Maritime Transparency Initiative*, June 3, 2015.

†Another U.S. official told the *Financial Times* that the U.S. ship had also sailed within 12 nm of features claimed by the Philippines and Vietnam. Demetri Savastopulo and Charles Clover, "China Accuses US Navy of Illegal Incursion in South China Sea," *Financial Times*, October 27, 2015.

In its economic relations with Southeast Asia, China is actively expanding its foreign assistance in the region through mechanisms such as its 21st Century Maritime Silk Road initiative and the AIIB in order to serve its own diplomatic and economic interests. Although this assistance is primarily in the form of infrastructure investment versus traditional official development assistance, the value of its pledges exceeds estimates of infrastructure aid to Southeast Asia from U.S.-backed development organizations such as the World Bank and the Asian Development Bank. If China follows through on its pledges and outpaces the United States and U.S.-backed aid organizations in foreign assistance to Southeast Asia, this could undermine U.S. development goals in the region, including promoting democracy, human rights, governance, gender equality, and sustainable development. At the same time, China's continued unilateral activities along the Mekong River—activities that are having detrimental environmental and socioeconomic effects on downstream countries—provide an opportunity for the United States to expand its cooperation with lower Mekong countries through programs such as the Lower Mekong Initiative.

Furthermore, as Southeast Asia becomes increasingly reliant on trade with China and vulnerable to fluctuations in China's economy, the region has an incentive to diversify its trade and investment partners, including closer cooperation with the United States. Current U.S.-led trade negotiations, such as the Trans-Pacific Partnership, focus on developing "21st century standards" in intellectual property, labor protection, and environmental conservation—goals that may be difficult for some lesser developed Southeast Asian countries to achieve. U.S.-funded training programs, such as intellectual property enforcement training by the U.S. Patent and Trademark Office and the U.S. State Department's international visitor program, may be mechanisms for helping Southeast Asia prepare for enhanced trade cooperation with the United States.

A bright spot in China-Southeast Asia relations is the growing cooperation on shared security threats like terrorism, piracy, natural disasters, trafficking, and infectious diseases. The United States should welcome and encourage these activities, as it too has a stake in countering these threats and an interest in the convergence of interests between China and its Southeast Asian neighbors on regional security issues.

Conclusions

- China's approach to Southeast Asia involves both consolidating its territorial claims in the South China Sea and seeking to improve economic ties with countries in Southeast Asia. China's leaders seem to believe that striking a balance between these two endeavors enables China to protect its perceived sovereignty in the South China Sea and benefit from economic engagement with the region, while ensuring tensions along its periphery do not become intolerably high for Beijing.
- Since late 2013, China has conducted dramatic land reclamation and construction activities on the land features it controls in the Spratly Islands. These rapid activities appear to be driven by several factors: China's desire to unilaterally impose its claims

and avoid arbitration or negotiation with other parties over the disputes; China's ambition to enhance its ability to project power into the South China Sea; and, potentially, China's intention to establish an air defense identification zone over part of the South China Sea.

- Southeast Asian countries have reacted with increasing alarm to China's activities in the South China Sea. They continue to enhance their military and civilian maritime patrol capabilities and to strengthen security relations with the United States and other countries in the Asia Pacific. However, despite growing worry among Southeast Asian countries about China, and rising assertiveness in expressing these concerns, they still seek to preserve positive relations with China and appear to still be balancing their relationships with China and the United States.
- Although historical animosities and China's actions in the South China Sea continue to hamper trust of China in Southeast Asian capitals, defense and security cooperation between China and countries in Southeast Asia has grown over the last 15 years. China's most prominent defense ties in Southeast Asia are with countries in mainland Southeast Asia: Burma, Cambodia, Laos, and Thailand, all of which are among its nearest neighbors. China has also increasingly engaged with Southeast Asian countries in the areas of nontraditional security and humanitarian assistance and disaster relief.
- China is vastly expanding its foreign assistance and investment programs in Southeast Asia as a means of achieving its foreign policy goals in the region, including efforts to defuse tensions surrounding contentious disputes such as those in the South China Sea. Chinese foreign assistance to Southeast Asia comes primarily in the form of infrastructure investment, and projects are frequently implemented by Chinese firms using Chinese labor, limiting the benefits for local communities.
- The Association of Southeast Asian Nations' (ASEAN) trade liberalization with China from 2004 to 2010 has led to a large and growing bilateral trade deficit. Economic integration has also increased the association's vulnerability to fluctuations in China's economy, with China's recent economic slowdown exacerbating ASEAN's trade deficit with China.
- Use of the renminbi (RMB) in international transactions is expanding rapidly in Southeast Asia and paving the way toward more extensive use of the currency regionally. Limited progress in advancing multilateral monetary cooperation in Southeast Asia, such as through the Chiang Mai Initiative Multilateralization, may allow for the RMB's increased circulation in the region.
- China continues to unilaterally construct dams along the Mekong River without any obligation to share information about water management with downstream Mekong countries. China's actions on the Mekong are causing major fluctuations in water levels in the Mekong Basin, but China has expressed little interest in cooperating with its southern neighbors by joining the Mekong

River Commission. Dam construction and resource mismanagement by downstream nations also pose a significant problem.

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