Order Code RL34310

CRS Report for Congress

China's "Soft Power" in Southeast Asia

January 4, 2008

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Prepared for Members and
Committees of Congress

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Summary

China's growing use of "soft power" in Southeast Asia — non-military inducements including culture, diplomacy, foreign aid, trade, and investment — has presented new challenges to U.S. foreign policy. By downplaying many conflicting interests and working collaboratively with countries and regional organizations on such issues as territorial disputes and trade, Beijing has largely allayed Southeast Asian concerns that China poses a military or economic threat. China's diplomatic engagement, compared to the perceived waning or limited attention by the United States, has earned the country greater respect in the region. Its rise as a major foreign aid provider and market for Southeast Asian goods has also enhanced its relations with Southeast Asian states. Many analysts contend that China's growing influence may come at the expense of U.S. power and influence in the region.

This report provides evidence and analysis of China's soft power in Southeast Asia. It does not discuss the considerable U.S. military presence in the region. The report describes China's evolving diplomacy and more active role in regional organizations such as the Association of Southeast Asian Nations (ASEAN). Although China's foreign aid to Southeast Asia, as in other regions, is difficult to quantify and includes a broader range of economic assistance than official development assistance (ODA) offered by major industrialized nations, it is believed to be relatively large. China is considered to be the "primary economic patron" of the small but strategically important nations of Burma, Cambodia, and Laos, and also provides considerable economic aid to Indonesia and the Philippines.

China's trade with ASEAN countries is less than U.S. trade with the region ($160.9 billion compared to $168.5 billion in 2006), but is expected to exceed that of the United States in 2007 and beyond. Furthermore, although China runs a trade surplus with the world, it runs a trade deficit with ASEAN countries ($18.2 billion compared to the U.S.-ASEAN trade deficit of $53.9 billion). China appears to have moved more quickly than the United States in promoting trade with the region through establishing free trade agreements (FTAs). However, although the importance of the United States to ASEAN trade has declined somewhat relative to that of China, the United States is still a major source of the region's foreign direct investment (FDI), ranking 4th from 2002 through 2006 compared to China (ranking 10th).

Analysts differ over China's longer-term intentions in Southeast Asia and their implications for the United States. Some observers argue that the consequences of China's growing soft power, and Beijing's aim, is the decline of U.S. influence in the region. Others contend that the implications of China's rise are not zero sum, and that, at least in the next 15-25 years, Beijing's priority will be economic development and that China's leaders, as well as the leaders of other Southeast Asian countries, view the United States' continuing leadership role in the region as beneficial. Competing U.S. policy approaches include continuing the current level of U.S. political and economic engagement in the region, containing China's rise, or bolstering the U.S. diplomatic, foreign aid, and economic presence in tandem with China's rise. This report will be updated as events warrant.

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Foreign policy observers often attribute China's growing influence in Southeast Asia, and other parts of the world, to its use of "soft power" — diplomacy, foreign assistance, trade, and investment, and the view of China as a vast, potential market.[1] As part of its "charm offensive" in the region, the People's Republic of China (PRC) has projected a "benign national image" through adopting a more accommodating foreign policy, actively participating in regional organizations, providing significant amounts of foreign assistance, and boosting its economic ties, with considerable benefits accruing to Southeast Asian states.[2] According to some analysts, China's rising soft power has become all the more striking in relation to tepid or inconsistent U.S. attention to the region.

The term "soft power," as originally conceived by Harvard Professor Joseph Nye, Jr., referred to the ability to affect the behaviors of other countries by attracting and persuading others to adopt one's goals. By contrast, "hard power" was described primarily as military might.[3] The United States has exerted both hard and soft power in Southeast Asia. In terms of soft power, many Southeast Asian peoples historically have been attracted to U.S. popular culture, democratic values and institutions, human rights policies, free market system, high living standards, technological advances, and internationally renowned institutions of higher learning. The United States also remains influential as a large market for Southeast Asian exports. However, according to some indicators, in the past decade, many of these forms of U.S. soft power have declined in both absolute and relative terms.

For many analysts, China's growing influence or soft power in Southeast Asia and elsewhere is mostly economic rather than military (hard power), cultural, or political. China's growing ability to affect the actions of state actors largely stems from its role as a major source of foreign aid, trade, and investment. The PRC has also wielded power in the region through diplomacy and, to a lesser extent, admiration of China as a model for development and ancient culture, and an emphasis on "shared Asian values." In addition, overseas Chinese communities have long played important parts in the economies, societies, and cultures of Southeast

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[1] Southeast Asia includes East Timor and the 10 members of the Association of Southeast Asian Nations (ASEAN): Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Singapore, Thailand, the Philippines, and Vietnam.

[2] China's "charm offensive" was penned by Joshua Kurlantzick in several articles and a book. See *Charm Offensive* (New Haven: Yale University Press, 2007).

[3] According to Nye, hard power may also include economic might. The concept of "soft power" originally appeared in Nye's 1990 book: *Bound to Lead: The Changing Nature of American Power*. The concept was further developed in his 2004 volume: *Soft Power: The Means to Success in World Politics*.

Asian states. Along with offering economic inducements, China has allayed concerns that it poses a military or economic threat, assured its neighbors that it strives to be a responsible member of the international community, and produced real benefits to the region through aid, trade, and investment.[4]

China may be gaining on the United States in the areas of cultural and political soft power as well, at least in some countries in the region. A 2007 Pew Research poll found that only 29% of Indonesians and 27% of Malaysians polled had a favorable view of the United States as opposed to 83% of Malaysians and 65% of Indonesians who had favorable views of China. Americans themselves are more popular than their country, with 42% of Indonesians having a favorable view towards Americans in 2007. The figure for Indonesia is up slightly from a favorable view of only 15% in 2003 but remains well below the 2000 rate of 75%.[5] One striking exception to this trend is the Philippines, which ranks first in the world in trusting the United States to act responsibly in global affairs, according to a 2007 survey.[6] Such trends in polls led Joseph Nye to state that "... although China is far from America's equal in soft power, it would be foolish to ignore the gains it is making.... It is time for the U.S. to pay more attention to the balance of soft power in Asia."[7]

China's Diplomacy in Southeast Asia

China's posture in Southeast Asia has undergone a transformation in the past decade. The PRC's support for various communist insurgencies in the region during the Cold War, its military response to Vietnam's incursion into Cambodia in 1979, and its forceful claims to disputed islands in the South China Sea during the 1990s, created strains with its neighbors in the region. However, since the Asian financial crisis of 1997, China increasingly has emphasized mutual benefits, or soft power over hard power, or the threat of hard power, in its relations with Southeast Asian states. In 1997, during the Asian financial crisis, China won praise in the region when it refrained from devaluing its currency, which helped to stabilize the region's economy. In 2002, China and other claimants to disputed islands signed an agreement and a Declaration on the Conduct of Parties in the South China Sea, which greatly reduced tensions on this issue. While there is a general agreement that China's tactics have changed to a more accommodating posture with an emphasis on soft power, there is less certainty regarding its implications and whether China's goals have changed accordingly.

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[4] In the Southeast Asian context, Chinese "soft power"can include "economic benefits, shared norms and values, cooperation on nontraditional issues, infatuation with the new China, the mutual benefits of tourism and education, diplomacy and style, and networking and reciprocal obligations within ethnic Chinese communities." See Bronson Percival, *The Dragon Looks South: China and Southeast Asia in the New Century* (Westport: Praeger Publishers, 2007), pp.111-112. See also Hugo Restall, "China's Bid for Asian Hegemony," *Far Eastern Economic Review*, May 2007.

[5] The Pew Global Attitudes Project, "Global Unease with Major Powers," June 2007.

[6] "Filipinos Rank High in Supporting the U.S. in World Affairs, According to 18-Nation Survey," Social Weather Stations (Manila), June 2007.

[7] Joseph Nye, "The Rise of China's Soft Power," *Wall Street Journal*, December 29, 2005.

Bilateral and Sub-Regional Relations. An analysis of China's bilateral relations with Southeast Asia leads to a sub-regional division between its relatively more influential position with mainland Southeast Asian states, particularly Burma, Cambodia, and Laos, and its relatively less influential position with maritime Southeast Asian states (Indonesia, the Philippines, and Singapore).[8] Thailand, while more independent than Burma, Laos, and Cambodia, and along with the Philippines a major non-NATO ally of the United States, appears to be relatively more comfortable with close relations with China than other regional states. Muslims in the region (Indonesia, Malaysia) look not so much to China as they do to the rest of the Muslim world for models outside their national settings. Given that Muslims represent approximately half the population of Southeast Asia, and are concentrated in maritime Southeast Asia, this should place limits on the extent of Chinese soft power influence there. Vietnam's unique historical relationship with China, which includes past domination by China and a more recent border war, will also place limits on the extent to which those two nations will likely come together. Singapore, the most strategic thinking and trade dependent state in the region, has promoted a balanced approach to the involvement of great powers in its region.

A core difference between China's and America's soft power in Southeast Asia is the organizing principle of their respective approaches. Both countries' foreign policy approaches to the region contain elements of an array of priorities including geopolitical, security, and trade interests. That said, the U.S. approach places an emphasis on democracy and related objectives along with its main theme of promoting U.S. security interests. By contrast, China's "non-interference" policy is less intrusive in the domestic affairs of regional states. While this approach may not garner widespread admiration, it is more palatable to relatively authoritarian regimes in the region, and sometimes earns public appreciation because it appears respectful of national sovereignty.

China's changed bilateral relations with Australia are an interesting parallel to recent dynamics in Southeast Asia and demonstrate how the economic aspect of soft power can transform a bilateral relationship with a state that is a close treaty ally of the United States. Australia's strong economic growth in recent years has been to a large extent based on exports of raw materials to China. This has produced a reticence to adopt policies that could anger China. It has even led to some discussion of whether the Australia-New Zealand-United States alliance pertains to potential future conflict over Taiwan. Australia clearly does not want to be forced to choose between its robust and important security alliance with the United States and its rapidly growing and lucrative trade with China.[9]

Regional Organizations. China has been an increasingly active player in multilateral organizations that include Southeast Asian states such as ASEAN plus three — ASEAN, China, Japan, and South Korea — and the East Asia Summit (EAS), which includes China, Japan, South Korea, India, Australia, and New Zealand, as well as the ASEAN states. The diplomacy surrounding the formation of

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[8] Percival, op. cit.

[9] For further information, see CRS Report RL33010, *Australia: Background and U.S. Relations*, by Bruce Vaughn.

the EAS in 2005 is particularly noteworthy. The lack of U.S. involvement with the EAS contrasts sharply with the central role that the United States has played in the Asia Pacific Economic Cooperation (APEC) group.[10]

The formation of the EAS also demonstrated the differing levels of comfort that ASEAN member states have with China. Some ASEAN states preferred bringing in India, Australia, and New Zealand as a non-American balance to Chinese influence. One factor that appears to be in China's favor is increased regional support for a "more Asia-oriented grouping." This reflects the desire on the part of some regional states for a more Asia-centered focus rather than a trans-Pacific group that would include the United States.[11] Movement in this direction can be traced back to former Prime Minister Mahathir Mohammad of Malaysia who advocated an Asian state-only grouping through the East Asia Economic Caucus.

China's Foreign Aid to Southeast Asia

China's foreign aid has had a growing, tangible impact in many countries in Southeast Asia, although it is difficult to quantify, due to a lack of data and to the unique characteristics of Chinese assistance.[12] In comparison to major bilateral donors in the region, China provides relatively little development assistance and lacks a formal system for determining development goals and allocating aid.[13] The PRC administers a wider range of economic assistance that includes non-development aid and low-interest loans, as well as trade and investment agreements. According to some analysts, when these kinds of assistance are added, China becomes one of the largest bilateral aid donors in Southeast Asia.

Furthermore, because China offers assistance without the conditions that other donors frequently place on aid (i.e. democratic reform, market opening, and environmental protections), it often garners appreciation disproportionate to the size

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[10] For further information, see CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by Bruce Vaughn.

[11] Richard W. Hu, "China and East Asian Community-Building: Implications & Challenges Ahead," *The Brookings Institution*, presentation on October 2, 2007.

[12] Several reasons are given for the lack of reliable data on Chinese aid, including the following: many forms of PRC foreign aid, such as loans, the building of large public facilities and infrastructure projects, and trade and investment agreements, are not counted as official development assistance (ODA), the principal form of aid provided by major donor countries; China's aid comes from a variety of government sources and is not tracked by a single PRC agency; funding for such assistance follows the PRC leadership's diplomatic schedule and is not provided in annual increments; Beijing is reluctant to reveal aid totals because it fears domestic criticism for its aid efforts, given its own large population of poor.

[13] The United States differs from other major aid donors in Southeast Asia such as Japan, European countries, and Australia, in that it provides not only ODA but also considerable security and military assistance, particularly to Indonesia and the Philippines.

of its aid, and thus has a large impact on recipient governments.[14] China's policy of "non-interference in domestic affairs" often wins friends not only among Southeast Asian governments but also by many peoples in the region because it is regarded as respectful of their countries' sovereignty. Although PRC assistance reportedly is often not carried out as pledged, such aid, announced at lavish receptions with toasts to the recipient countries, often carries great symbolic value.[15] Many PRC aid projects, such as government buildings, infrastructure, and energy facilities, often funded by loans from the China Import-Export Bank and built by Chinese companies, are high profile efforts that primarily benefit capital cities or the governments in power. Many foreign aid experts, non-governmental organizations (NGOs), and local groups have criticized Chinese aid for failing to promote democracy, widespread, sustainable development, and environmental conservation.

China's Aid to the Least Developed Countries in the Region

Many reports of PRC aid in the region focus on Burma, Cambodia, and Laos, the poorest countries in Southeast Asia and ones that have had relatively unfriendly relations with the United States. China is considered the "primary economic patron" of these countries and provides an "implicit security guarantee."[16] China also provides considerable assistance to Vietnam, although its influence upon its former adversary appears limited compared to other countries. The United States has a major aid presence in Cambodia and Vietnam.[17] However, according to data of official development assistance, which does not include China, Japan is the largest bilateral aid donor among these countries.

Many observers fear that China's unconditional and non-transparent aid efforts and growing economic integration in Southeast Asia negate efforts by western nations to promote political and economic reform, reduce corruption, and protect the environment in mainland Southeast Asia. Others counter that, on balance, Chinese aid promotes development in Southeast Asia and that it does not exclude other countries' aid programs and objectives. Furthermore, in many cases, China reportedly takes on aid projects that other donor countries have avoided due to difficulty or hardship. In recent years, China has financed many infrastructure and energy-related projects in Burma, Cambodia, and Laos that rely upon Chinese materials and technical expertise as well as labor. Often these projects help China

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[14] China's conditions on aid are often international rather than domestic — requiring aid recipients to support the "one-China" principle regarding Taiwan and China's agenda in the United Nations.

[15] Jane Perlez, "China Competes with West in Aid to its Neighbors," *The New York Times*, September 18, 2006.

[16] Catherin E. Dalpino, "Consequences of a Growing China," *Statement before the Senate Committee on Foreign Relations Subcommittee on East Asian and Pacific Affairs*, June 7, 2005; Heritage Foundation program, "Southeast Asia's Forgotten Tier: Burma, Cambodia and Laos," July 26, 2007.

[17] In FY2007, the United States provided foreign aid worth an estimated $55 million and $61 million to Cambodia and Vietnam, respectively. Most U.S. assistance to Vietnam funds HIV/AIDS programs.

access raw materials and oil. There are some indications that Chinese aid in this part of the region is diversifying, including support to counter-trafficking in persons and counter-narcotics efforts, programs involving Chinese youth volunteers (Laos), elections (Cambodia), and historical preservation (Cambodia).[18]

Burma. According to some reports, China has been the largest source of economic assistance to Burma, including $1.4 billion to $2 billion in weaponry to the ruling junta since 1988 and pledges of nearly $5 billion in loans, plants and equipment, investment in mineral exploration, hydro power and oil and gas production, and agricultural projects.[19] China has helped the Burmese to build roads, railroads, airfields, and ports. Following the imposition of U.S. trade sanctions against Burma in 2003, China reportedly announced a loan to Burma of $200 million. In 2006, China promised another $200 million loan, although some experts say that such funds were never actually provided.[20] U.S. aid to Burma (an estimated $12 million in 2007), is restricted primarily to humanitarian, health, education, and democracy programs for Burmese migrants and refugees living along the Burma-Thailand border. In terms of official development assistance, Japan reportedly is the largest bilateral donor to Burma, providing a yearly average of $26 million (2004-2005).[21]

Cambodia. Japan, the United States, France, Australia, and Germany are the largest bilateral sources of ODA to Cambodia. Foreign aid to Cambodia is coordinated through the Consultative Group (CG) for Cambodia, a consortium of international financial organizations and donor countries under the auspices of the World Bank. Since 1996, the CG has met annually to extend aid packages averaging $500 million per year.[22] China provides relatively little development assistance but may be one of the largest sources of aid when including loans and support for public works, infrastructure, and hydro-power projects in the kingdom. In 2006, PRC Prime Minister Wen Jiabao pledged $600 million in aid and loans to Cambodia.

In 2007, for the first time, China offered aid through the Consultative Group's pledging process. The CG pledged $689 million in assistance to Cambodia, including $91.5 million from China.[23] For the 2007-2009 period, China pledged $236 million in unspecified aid compared to Japan's $337 million and the EU's $215

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[18] "China ranks No. 2 in Aiding Cambodia's Town, Sub-district Elections," *BBC Monitoring Asia Pacific*, October 12, 2006.

[19] Jeffrey York, "The Junta's Enablers," *International News*, October 6, 2007; David Steinberg, "Burma: Feel-Good U.S. Sanctions Wrongheaded," *Yale Global Online*, May 19, 2004; [http://www.narinjara.com/Reports/BReport.ASP].

[20] Testimony of Jared Genser, "China's Role in the World: The China-Burma Relationship," U.S. Economic and Security Review Commission, August 3, 2006.

[21] Organization for Economic Cooperation and Development (OECD). See [http://www.oecd.org/home/].

[22] *Kyodo News*, June 21, 2002.

[23] Ker Munthit, "Donor's Pledge $689 million in Aid for Cambodia," *Associated Press Newswires*, June 20, 2007.

million.[24] Cambodia is a relatively large recipient of U.S. assistance. The United States provided approximately $55 million annually in 2006-2007 for health care, HIV/AIDS programs, basic education, civil society, de-mining, counterterrorism efforts, and other activities, mostly through non-governmental organizations (NGOs) in Cambodia.

Laos. Laos receives approximately $250 million in foreign aid per year (20% of GDP), including loans from the Asian Development Bank (ADB) and the World Bank worth $80 million and $40 million, respectively.[25] According to one report, in 2001-2002, China was the second biggest aid donor to Laos.[26] The top sources of official development assistance to Laos, on an average annual basis (2004-2005), are Japan ($65 million), France ($21 million), Sweden ($19 million), Germany ($15 million), and Australia ($12 million).[27] Since the late 1990s, China has provided Laos with critical grants, low-interest loans, high profile development projects, technical assistance, and foreign investment. Development and other forms of aid include transportation infrastructure, hydro power projects worth $178 million, youth volunteers engaged in medical and educational programs, and agricultural training. In 2006, Chinese President Hu Jintao visited Vientiane and offered $45 million in economic and technical cooperation and debt forgiveness. The United States is a relatively small aid donor, providing an average annual total of approximately $4.5 million between 2005 and 2007.

Vietnam. According to some reports, China may be the second largest source of foreign aid to Vietnam (including grants and loans). In 2005, the PRC reportedly offered nearly $200 million in grants and loans.[28] In 2006, Beijing provided loans to Vietnam for railways, hydro-power development, and ship building facilities. Japan and France are the largest donors of ODA to Vietnam, providing an annual average of $670 million and $116 million, respectively (2004-2005).[29] According to some experts, compared to Burma, Cambodia, and Laos, China's influence in Vietnam is relatively limited. In December 2006, Beijing halted aid to Vietnam in response to the Vietnamese government's formal invitation to Taiwan, a major investor in the country, to attend the APEC November 2006 summit in Hanoi.[30]

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[24] Economist Intelligence Unit, *Country Report: Cambodia*, September 2007.

[25] Asia & Pacific Review World of Information, July 30, 2007.

[26] Joshua Kurlantzick, "China's Charm: Implications of Chinese Soft Power," *Carnegie Endowment Policy Brief no. 47 (June 2006).* This measurement of PRC aid likely includes loans. By contrast, U.S. foreign assistance, with the exception of food aid, is predominantly grant-based.

[27] OECD data.

[28] "Vietnam to Borrow Nearly 200 Mln U.S. Dollars from China: Report," *People's Daily Online*, [http://english.people.com.cn], October 30, 2005.

[29] OECD data.

[30] Roger Mitton, "Beijing Refuses Aid to Hanoi after Rebuff over Taiwan," *Straits Times*, December 22, 2006.

China's Aid to the More Developed Southeast Asian Countries

China also has provided considerable aid to the large and more developed countries in the region, such as Thailand, Indonesia, and the Philippines. However, these countries also have extensive security, economic, and aid ties with the United States. Since 2001, the United States has dramatically increased development, security, and military assistance to Indonesia and the Philippines as part of the global war on terror. Furthermore, Japan likely far surpasses both the United States and China in foreign aid to these countries, particularly Thailand. China has few reported aid projects in Thailand. However, after the United States government imposed sanctions on military and security-related assistance to Thailand worth approximately $29 million following the September 2006 military coup, China reportedly offered $49 million to Thailand in military aid and training.[31]

Indonesia. According to the Organization for Economic Cooperation and Development (OECD), the largest bilateral donors to Indonesia, on an average annual basis (2004-05), are Japan ($963 million), Germany ($191 million), the United States ($163 million), Australia ($145 million), and the Netherlands ($128 million). Between 2002 and 2007, annual U.S. assistance to Indonesia totaled about $136 million.[32] According to one expert, in 2002, China's aid to Indonesia was roughly twice that of the United States.[33] In 2005, PRC President Hu Jintao and Indonesian President Susilo Bambang Yudhoyono signed a declaration proclaiming a "strategic partnership" that was accompanied by a promise of preferential loans worth $300 million. Some foreign aid experts criticized China's relatively limited offers of disaster relief following the 2004 Indian Ocean earthquake and tsunami. The PRC pledged $63 million to Indonesia compared to Taiwan's $50 million and the United States' $405 million.

The Philippines. The top five bilateral ODA donors to the Philippines in 2004-2005, on an average annual basis, were Japan ($706 million), the United States ($114 million), Germany ($60 million), Australia ($38 million), and the Netherlands ($20 million).[34] In 2006, the United States extended $115 million in development, security, and military assistance to the Philippines. According other sources, the PRC has become a major source of financing for development projects in the Philippines, and in 2003, China's aid to the Philippines, including loans, was roughly three times U.S. assistance.[35] In January 2007, PRC Premier Wen Jiabao and Philippines President Gloria Macapagal-Arroyo signed 20 economic agreements,

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[31] Alan Dawson, "A 'Win-Win' Situation for Beijing, Washington," *Bangkok Post*, February 21, 2007; "Current Thai-China Ties Seen as 'More Resilient and Adaptable' than U.S. Ties," *BBC Monitoring Asia Pacific*, February 12, 2007.

[32] United States Agency for International Development (USAID).

[33] Kurlantzick, "China's Charm," op. cit.

[34] OECD data.

[35] "China Loans to RP to Hit $2 Billion in 3 Years," *Manila Standard*, February 6, 2007; Kurlantzic, "China's Charm," op. cit.

including a contract for a Chinese company to build and renovate railroads, investment in agriculture, and loans for rural development.[36]

A Comparison of U.S. and Chinese Economic Relations With ASEAN

Over the past decade, China's trade with the 10 countries that comprise the Association of Southeast Asian Nations (ASEAN) has expanded sharply in terms of trade volume, percentage increase, and size relative to U.S. trade levels.[37] According to Chinese data, from 1997-2006, its exports to, and imports from, ASEAN countries grew by 450% and 625% respectively.[38] The importance of China to the economies of ASEAN in terms of trade, investment, and tourism has also increased sharply. These trends are expected to continue in the years ahead as economic ties continue to deepen as a result of the implementation of the China-ASEAN Free Trade Agreement (FTA) and other cooperative initiatives.[39] China's soft power in the region is expected to grow as Southeast Asian economies become more dependant upon or integrated with the PRC. Although the United States remains an important partner for ASEAN in terms of trade, the relative importance of that trade to ASEAN has declined.

Comparing U.S. and Chinese Trade With ASEAN

According to Chinese data, its imports from ASEAN from 1997 to 2006, rose from $12.4 billion to $89.5 billion, while U.S. imports from ASEAN (according to U.S. trade data) grew from $71.0 billion to $111.2 billion.[40] China's exports went from $12.7 billion to $71.2 billion, while U.S. exports increased from $48.3 billion

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[36] "Philippines, China Sign 20 Agreements to Boost Trade," *Xinhua Financial Network*, January 16, 2007.

[37] ASEAN members include Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam. Note: Cambodia was not a Member of ASEAN until 1999. For the sake of consistency, we included data for Cambodia in the 1997 data.

[38] China's trade data often differ significantly with that of its trading partners, due in large part because of the way trade through Hong Kong is counted. China counts Hong Kong as the destination of its exports sent there, even goods that are then transshipped to other markets. By contrast, the United States and many of China's other trading partners count Chinese exports that are transshipped through Hong Kong as products from China, not Hong Kong, including goods that contain Hong Kong components or involve final assembly or processing in Hong Kong. See also CRS Report RS22640, *What's the Difference — Comparing U.S. and Chinese Trade Data*, by Michael F. Martin.

[39] In addition, both China and ASEAN continue to enjoy rapid economic growth. China's real GDP growth in 2006 was 11.1% and ASEAN's was 6.0%.

[40] China reports imports on a cost, insurance, and freight (CIF) basis, while the U.S. reports imports on a customs basis, which excludes the added cost of insurance, freight, and other charges. If the United States reported imports on a CIF basis, it would raise the value of imports by about 10%.

to $57.3 billion.[41] Total U.S. trade (exports plus imports) with ASEAN in 2006 was slighter larger than that of China's ($168.5 billion versus $160.9 billion). Based on China's rapid trade growth over the past few years, it is likely that its trade with ASEAN will exceed that of the United States in 2007 and beyond. While China had a $178 billion trade surplus with the world in 2006, it had a $18.2 billion trade deficit with ASEAN; the U.S. trade deficit with ASEAN totaled $53.9 billion.

Taken as a whole, ASEAN's rank as a destination for Chinese exports was 4th in 1997 and 2006, which was also the case for U.S. exports. As a source of Chinese imports, ASEAN's rank increased from 5th to 3rd, while its rank for U.S. imports fell from 4th to 5th. The share of China's exports going to ASEAN grew rather modestly, from 7.0% to 7.4%, while the share of U.S. exports to ASEAN dropped from 7.0% to 5.5%. The share of China's imports from ASEAN rose from 9.0% to 11.3%, while the share of U.S. imports from ASEAN dropped from 8.2% to 6.0% (see **Table 1**).

[41] In 1997, China's official exports to ASEAN were 26.3% as large as those by reported by the United States, but in 2006, China's reported exports to ASEAN exceeded U.S. exports by 24.5%. Chinese reported imports from ASEAN were 17.4% of those of the United States in 1997 and by 2006 they had risen to 80.5%.

Table 1. Chinese and U.S. Trade With ASEAN

	1997	2005	2006	2005-2006 % change	1997-2006 % change
China's Exports to ASEAN ($millions)	12,698	55,459	71,325	28.6	450.0
U.S. Exports to ASEAN ($millions)	48,271	49,637	57,307	15.5	18.7
China's Exports to ASEAN as a Percent of Total Exports (%)	7.0	7.3	7.4	—	—
U.S. Exports to ASEAN as a Percent of Total Exports (%)	7.0	5.5	5.5	—	—
China's Imports From ASEAN ($millions)	12,357	75,017	89,538	19.4	624.6
U.S. Imports From ASEAN ($millions)	71,013	98,915	111,201	12.4	56.6
China's Imports From ASEAN as a Percent of Total (%)	9.0	11.4	11.3	—	—
U.S. Imports From ASEAN as a Percent of Total (%)	8.2	5.9	6.0	—	—

Source: World Trade Atlas.
Note: Based on official Chinese and U.S. trade data.

Energy. China's mineral fuel imports from ASEAN rose from $3.3 billion in 1997 to $7.4 billion in 2006. However, China's mineral fuel imports from ASEAN as a percent of China's total mineral fuel imports declined from 26.8% in 1997 to 8.2% over this period. Despite this drop, China has been active in developing ties with ASEAN countries on a number of energy related projects.[42] To illustrate:

- In January 2007, the *Xinhua News Agency* reported that China National Petroleum Corporation signed production sharing contracts with Myanmar's Ministry of Energy covering crude oil and natural gas exploration projects in three deep-water blocks off the western Myanmar (Burma) coast; *Reuters* reported that a Chinese oil company would join with two other foreign firms in investing $5.5 billion to produce biofuels in Indonesia; and *Dow Jones Chinese Financial Wire* reported that the Vietnamese government had

[42] Although China has pursued a number of energy related activities with various ASEAN countries, the PRC is also engaged in territorial disputes with some ASEAN countries (such as Vietnam, Malaysia, and the Philippines) over territory in the South China Sea that may contain oil and gas deposits.

recently authorized state-owned PetroVietnam to begin joint oil and gas operations with China National Offshore Oil Corporation in the Gulf of Tonkin.

- In April 2007, the *Xinhua News Agency* reported that China would build a pipeline from the Myanmar (Burma) port city of Sittwe to Kunming, China, to transport natural gas.

- In May 2007, *BBC Monitoring* reported that two Chinese firms planned to invest $343 million in an oil refinery and a gas processing plant in Pahang, Malaysia.

- In June 2007, the *Xinhua News Agency* reported that China's National Offshore Oil Corporation signed a production-sharing contract with the Cambodian National Petroleum Authority to explore for oil and natural gas.

- In July 2007, *Interfax China* reported that Chinese oil companies planned to invest as much as $14 billion in Indonesia's oil and gas exploration sectors; and the Vietnam News Brief Services announced that the government planned to jointly build a $360 million oil refinery with China in Vietnam.

- In September 2007, the *Xinhua News Agency* reported that China would build an oil pipeline from Myanmar (Burma) to Chongqing, China.

The Importance to ASEAN of its Economic Ties With China and the United States

From ASEAN's perspective, China is becoming a major trading partner. Using ASEAN data, China ranked as ASEAN's 5th largest trading partner in 2005 (the U.S. ranked 2nd) its 5th largest export market (the U.S. was 2nd) and its 3rd largest source of its imports (the U.S. ranked 4th).[43]

ASEAN data show total trade with the United States and China in 2006 at $174.4 billion and $143.8 billion, respectively.[44] As **Table 2** indicates, ASEAN exports to China as a share of total ASEAN exports rose from 2.1% in 1995 to 8.9% in 2006 (while the U.S. share fell from 18.5% to about 13.9%).[45] The share of

[43] Rankings for 2006 were not available. Note: ASEAN trade data differ from data reported by China and the United States.

[44] 2006 data exclude Laos and Myanmar (Burma).

[45] ASEAN data indicate that its 2006 exports to the United States and China were $105.5 billion and $67.6 billion, respectively.

ASEAN's imports from China rose from 2.2% to 11.4% (while the share from the United States fell from 14.6% to 10.3%).[46]

Table 2. ASEAN Trade with the United States and China for 1995, 2000, and 2006 as a Percent of Total Trade

ASEAN Imports (% of total)			
	1995	**2000**	**2006**
United States	14.6	14.0	10.3
China	2.2	5.2	11.4
ASEAN Exports (% of total)			
	1995	**2000**	**2006**
United States	18.5	18.0	13.9
China	2.1	3.5	8.9

Sources: ASEAN Secretariat, *2005 and 2006 ASEAN Yearbook* and International Monetary Fund, *Direction of Trade Statistics*, June 2007.

Notes: Data for 2006 do not include Laos and Myanmar (Burma); ASEAN trade data differ from that reported by its trading partners.

Foreign Direct Investment. Although the importance of the United States to ASEAN trade has declined somewhat relative to China, it is still a major source of ASEAN's foreign direct investment (FDI). From 2002-2006, U.S. FDI flows to ASEAN were $13.7 billion (or 8.0% of total), making the United States ASEAN's 4th largest source for FDI. Over this period, China's FDI totaled $2.3 billion or 1.3% of total, making China the 10th overall source of ASEAN's FDI (see **Table 3**).[47] In 2006, U.S. FDI in ASEAN totaled $3.9 billion versus $937 million for China.

Tourism. According to ASEAN tourist data, China was the 3rd largest for source of tourist arrivals from 2001 to 2005 at 13.8 million, accounting for 6.2% of total. The United States ranked 8th at 9.8 million, accounting for 4.4% of total. In 2005, arrivals from China were 3.0 million versus 2.3 million from the United States.[48]

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[46] ASEAN imports from the United States and China in 2006 were $68.8 billion and $76.2 billion, respectively.

[47] China estimates cumulative FDI from ASEAN through 2006 at $41.9 billion.

[48] According to Chinese data, from January-November 2006, 3.5 million tourists from ASEAN countries visited China.

Table 3. Major Foreign Investors in ASEAN: 2002-2006
(millions and % of total)

	2006		2002-2006 (Cumulative)	
	Value	Percent of Total	Value	Percent of Total
European Union	13,362	25.5	44,956	26.3
Japan	18,803	18.0	30,814	18.0
ASEAN	3,765	11.9	19,368	11.3
United States	3,865	7.4	13,736	8.0
China	937	1.8	2,303	1.3
Total FDI in ASEAN	52,380	—	170,822	—

Source: ASEAN Secretariat.

Note: Ranked according to cumulative investment for 2002-2006.

China's Efforts to Boost Economic Ties with ASEAN

China entered into Dialogue relations with ASEAN in 1991 and obtained full ASEAN Dialogue Partner status in 1996.[49] In 2000, Chinese officials suggested the idea of a China-ASEAN FTA. In November 2002, ASEAN and China signed the *Framework Agreement on Comprehensive Economic Co-operation* to create an ASEAN-China Free Trade Area (ACFTA) within 10 years.[50] In November 2004, the two sides signed the *Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China,* which included a schedule of tariff reductions and eventual elimination for most tariff lines (beginning in 2005) between the two sides.[51] For example, for the relatively more developed "ASEAN6" nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), tariffs lines of over 20% are to fall to 20% in 2005, 12% in 2007, 5% by 2009, and zero by 2010.

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[49] Current ASEAN Dialogue Partners include Australia, Canada, China, the European Union, India, Japan, South Korea, New Zealand, the Russian Federation, the United States, and the United Nations Development Programme.

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

[51] The ACFTA would implement most tariff reductions between China and the ASEAN 6 nations by 2010. Cambodia, Laos, Burma, and Vietnam would be able to maintain higher tariffs, but these would be phased out and completely eliminated by 2015.

Tariffs between 15% and 20% are to fall to 15% in 2005, 8% in 2007, 5% by 2009, and zero by 2010. Certain "sensitive" products have longer phase-out periods.[52] ASEAN-China cooperation covers a variety of areas, including agriculture, information and communication technology, human resource development, two-way investment, Mekong Basin development, transportation, energy, culture, tourism and public health."[53] In January 2007, China and ASEAN signed the *Agreement on Trade in Services of China-ASEAN Free Trade Area* which is intended to liberalize rules on trade in services.

In a 2005 speech to commemorate the 15th anniversary of the China-ASEAN Dialogue relations, Chinese Premier when Jiao Bao listed four main conclusions that he drew from the growth in bilateral relations:

- Peaceful development is the prerequisite for the growth of China-ASEAN relations. Both sides pursue a policy of good neighborliness and friendship, see each other as cooperative partners and take each other's development as an opportunity, not a threat.

- Equality and mutual trust are the foundation of China-ASEAN relations. Both sides treat each other as equals and endeavor to develop consensus by seeking common grounds while putting aside differences.

- Win-win cooperation is the goal for China-ASEAN relations.

- People's support is the driving force behind China-ASEAN relations, in part because cooperation helps reduce poverty, narrow [the] development gap, speed up growth and delivers a better life.[54]

In 2006 Ong Keng Yong, Secretary General of ASEAN, described growing ASEAN-China economic ties this way:

> ASEAN views China as a close neighbor and an important Dialogue Partner with tremendous potential to offer. With its rapid economic growth and a population of about 1.3 billion people, China is a huge consumer of ASEAN products and also a source of future FDI to the region. In addition, ASEAN is benefitting from the large number Chinese tourists visiting the region and vice- versa.[55]

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

[53] A listing of agreements and declarations can be found on the Asean Secretariat's website at [http://www.aseansec.org/].

[54] Chinese Premier Wen Jiabao's speech at the China-ASEAN summit, *Join Hands to Create A Better Future for China-ASEAN Relations*, October 30, 2006.

[55] "ASEAN-China Relations: Harmony and Development," by Ong Keng Yong, Secretary General of ASEAN, at a Commemorative Symposium to Mark the 15th Anniversary of China's Dialogue with ASEAN, December 8, 2006.

U.S. Efforts to Bolster Trade with ASEAN

In October 2002, the Bush Administration launched the Enterprise for ASEAN Initiative (EAI), with a stated goal of seeking closer economic ties with ASEAN countries, including the possibility of bilateral free trade agreements with countries that are committed to economic reforms and openness. A potential FTA partner would need to be a member of the World Trade Organization (WTO) and have concluded a Trade and Investment Framework Agreement (TIFA) with the United States, a forum designed to resolve major trade and investment disputes. The United States has signed TIFA agreements with Brunei, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. It has an FTA with Singapore (effective 2004) and is the process of negotiating one with Malaysia. FTA talks with Thailand were suspended in 2006, due to the political crisis there and public opposition. On August 25, 2007, USTR Susan Schwab signed a TIFA with ASEAN. In September 2007, President Bush met with seven ASEAN leaders attending the APEC summit in Australia and announced that the United States would nominate an ambassador to ASEAN.

U.S. Policy Implications

Trends, Effects, and Implications for the United States

According to some analysts, China's rising influence has coincided with a period of episodic and inconsistent U.S. attention toward Southeast Asia, or even a developing power vacuum, during the past decade.[56] Since September 11, 2001, the U.S. government has become somewhat more diplomatically engaged in the region and increased foreign aid funding, but with a focus largely limited to counterterrorism. The perception of U.S. inattentiveness to the region has continued to be reinforced. In 2007, Secretary of State Condoleezza Rice bypassed the annual ASEAN Regional Forum (ARF) gathering, and instead traveled to the Middle East, while President Bush postponed the U.S.-ASEAN summit, set for Singapore in September, and left the APEC summit a day early reportedly because of commitments related to the Iraq war, renewing "concerns about the U.S. commitment to the region."[57]

Despite a possible decrease in relative influence, however, the United States continues to exert both hard and soft power in Southeast Asia. In terms of soft power, for example, the United States maintains multi-faceted foreign aid programs with clear objectives and large development and humanitarian components. The United States was also a major contributor to countries hit by the 2004 Indian Ocean

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[56] Robert G. Sutter, *China's Rise in Asia: Promises and Perils* (New York: Rowman and Littlefield, 2005).

[57] Sheldon Simon, "U.S. Southeast Asia Relations," *Comparative Connections,* October, 2007; Ralph Cossa and Brad Glosserman, "Regional Overview," *Comparative Connections,* October, 2007.

tsunami, which affected several Southeast Asian countries.[58] The United States remains ASEAN's 2nd largest trading partner (China ranks 5th) and its 4th largest source of foreign direct investment (China ranks 10th), and has sought free trade agreements with several countries in the region.

While there is a general agreement that China's tactics have changed to a more accommodating posture with an emphasis on soft power, there is less certainty regarding its implications and whether China's goals have changed accordingly. According to one view, China is pursuing a zero sum game where expansion of its influence is, or will be, at the expense of the United States. Joshua Kurlantzick writes that "China may want to shift influence away from the United States to create its own sphere of influence, a kind of Chinese Monroe Doctrine for Southeast Asia [where] countries would subordinate their interests to China's, and would think twice about supporting the United States."[59]

By contrast, some analysts argue that, on balance, China's growing economic influence of the past decade has been beneficial to the region and not detrimental to U.S. interests. Regarding China's goals, some observers contend that China's most pressing concerns, at least in the medium term, are likely to be domestic (focusing on economic growth and social stability) and that Beijing favors a stable periphery and appreciates the dominant U.S. role in helping to maintain regional security. Regional stability serves as a foundation for Southeast Asian and Chinese economic development. China may seek to isolate Taiwan and to increase its influence in the region, but only to forestall the possible "containment" of China rather than to replace the United States.[60]

Another view suggests that regardless of China's intentions in Southeast Asia, its capabilities often are exaggerated, its soft power is limited, and its friendships in the region are transient. In 2007, for example, as concerns rose throughout many parts of the world regarding the safety of Chinese products, officials in Indonesia, Malaysia, and the Philippines reportedly complained that the PRC government was pressuring them not to raise the issue, even when such imported goods were found to be dangerous. When they banned the sale of unsafe items from China, the PRC government reportedly threatened and/or imposed retaliatory actions, causing consternation among many Southeast Asian leaders.[61]

Even some of the main beneficiaries of China's largesse in Southeast Asia remain wary of the PRC or seek to dampen its growing influence in the region. For

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[58] For further information, see CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by Thomas Lum.

[59] Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," *Current History,* September 2006.

[60] See Percival, op. cit.; Richard W. Hu "China and East Asian Community-Building: Implications & Challenges Ahead," *The Brookings Institution,* presentation on October 2, 2007; Robert G. Sutter, *China's Rise in Asia*, op. cit.

[61] Ariana Eunjung Cha, "Asians Say Trade Complaints Bring out the Bully in China," *Washington Post*, September 5, 2007.

example, many Cambodians, mindful of the PRC's former support of the Khmer Rouge, reportedly feel antagonistic towards China. The Lao government maintains close ties with both China and Vietnam, while the Vietnamese government reportedly has quietly encouraged Lao leaders to cultivate better ties with the United States as a means to counteract Chinese power. Vietnamese citizens held anti-China demonstrations, likely with the encouragement of the Vietnamese government, in Hanoi and Ho Chi Minh City in December 2007, to protest Chinese military exercises simulating invasions of the disputed Spratly Islands in the South China Sea and the creation of a new PRC administrative unit that would include the islands.

Policy Options

Discussion of how to address China's expanding soft power in Southeast Asia soon leads to a broader discussion of Chinese strategic objectives. As noted above, there is general agreement among analysts and observers that China has moved away from hard power to soft power over the past decade as it has sought to promote its interests in the region. It remains unclear if this shift in tactics also connotes a shift at the strategic level to more positive sum approaches relative to the United States and its interests in the region. Concern over China's rising influence in Southeast Asia, and beyond is leading some in the United States to be increasingly wary of China and its motives out of a fear that if China's power and influence continue to increase, Beijing will eventually seek to constrain and/or undermine America's ability to promote and protect its interests in the region. However, there also appears to be a real danger that American responses could lead to a self-fulfilling prophesy as hedging strategies evolve into what could be perceived by Beijing as efforts to contain or constrain China.

There are a range of options that could be employed to address China's growing soft power in Southeast Asia. On one side are policy-makers who tend to not see China's rise in zero sum or threatening terms and who would favor policies that are basically status quo oriented. They advocate minor changes to refine existing U.S. policy positions. Furthermore, according to these analysts, U.S. moves to contain China could be counterproductive if they push regional states away from the United States.

On the other side are those who are more concerned about China's increasing regional influence. They can be grouped roughly into two schools of thought. One school favors enhanced engagement with regional states as a means of maintaining U.S. power while accepting China's rise. Another school favors strategies that would offset, or balance, Chinese power in the region and/or hedge against the possibility that China's rise may be more aggressive in the future.

The following are possible policy options.

- Place renewed emphasis on reinvigorating America's alliance relationships in the region while not emphasizing a policy of containing China. While some of America's alliance relationships in Asia, such as with Australia and Japan, as well as our Strategic Framework Agreement with Singapore, are relatively robust, others in Southeast Asia, such as with Thailand and the Philippines, are not

as close as they once were. New initiatives to reinvigorate these relationships could not only take into account American interests but also genuinely seek to accommodate our strategic partners' concerns.

- Reach out to other regional states and seek to develop closer relationships on a bilateral basis through trade agreements and other means of engagement.

- Increase foreign assistance funding and/or develop a foreign aid approach that addresses the attractiveness of China's policy of "non-interference in domestic affairs."

- Develop new programs to assist emerging democracies in the region, particularly Indonesia. Use American soft power as a champion of democracy to gain influence with emerging democracies in the region.

- The United States could sign the Treaty of Amity and Cooperation (TAC) and seek to join the East Asia Summit process. The TAC binds signatories to peaceful coexistence and respect for the principles of sovereignty, territorial integrity, and non-interference. The United States reportedly has been reluctant to sign the TAC for fear that it could constrain U.S. military freedom of action.

- Raise the priority given to regional and multilateral engagement. The lack of high level diplomatic attention sends the wrong signal to regional states and increases attention paid by regional states to China. The United States would have to consistently participate in regional fora to continue to be taken seriously by regional states. The United States would also likely achieve more of its regional goals by engaging ASEAN states not only on American priorities but on ASEAN ones as well.

- Establish a new dialogue process with China with the goal of reassuring China that the United States does not seek to counter China in Southeast Asia or to contain China more broadly. Such an approach could have the effect of diverting China from strategies aimed at neutralizing American regional influence. Although hedging strategies may be prudent to deter what could possibly be a less than peaceful rise by China, reinvigorating and expanding confidence building measures and other forms of engagement that seek to reassure China that the United States and its allies are not trying to contain China may be equally important to prevent China from adopting a strategic posture that would lead to strategic rivalry between the United States and China in the region and beyond.

- Initiate a new program aimed at engaging regional Muslim states and populations in a way that both supports moderate Islam in its

struggle against radical Islam and brings the United States closer to regional Muslim states.

- Welcome Indian, Japanese, and Australian involvement in the region, where regional states desire such involvement, as a means of multilateralizing external power engagement and preventing it from being perceived in bi-polar terms between the United States and China.

- Pursue FTA negotiations with ASEAN and /or provide greater effort to obtain a broad trade agreement within APEC.

- Pursue more robust hedge strategies through enhanced cooperation among allies and friends. Some have advocated the use of the trilateral group of Australia, Japan, and the United States as a starting point for such cooperation. Others have also suggested the inclusion of India into such a group. Recent political change in Australia, Japan, and India make such an approach less likely to gain approval by these states if it appears to be aimed at containing China.

Figure 1. Southeast Asia and Surrounding Countries

Source: Map Resources. Adapted by CRS. (K.Yancey 12/22/05)