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**INFLUENCE: THE NEW WEAPON IN THE BATTLE FOR
SOUTHEAST ASIA**

by

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INFLUENCE: THE NEW WEAPON IN THE BATTLE FOR SOUTHEAST ASIA

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Submitted in partial fulfillment of the
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ABSTRACT

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|----------|--|
| ASAEN | Association of Southeast Asian Nations |
| CBJ | Congressional Budget Justification |
| COIN | Counterinsurgency |
| DoD | Department of Defense |
| DOS | Department of State |
| GNA | Goldwater- Nichols Department of Defense Reorganization Act |
| GoP | Government of Palau |
| GMS | Greater Mekong Sub-region |
| HIV/AIDS | Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome |
| HA | Humanitarian Assistance |
| IAFT | International Automotive Task Force |
| IIP | The Bureau of International Information Programs |
| IAFT | Interagency Task Force |
| JSOTF-P | Joint Special Operations Task Force - Philippines |
| RMI | Republic of Marshall Islands |
| SOF | Military Special Operations Forces |
| OTI | Office of Transition Initiatives |
| PRC | People's Republic of China |
| RDM | Regional Development Mission |
| SOF | Special Operations Forces |
| SOST | Special Operations Support Teams |
| SOP | Standard Operating Procedures |
| TB | Tuberculosis |

| | |
|---------|--|
| USG | United States Government |
| USSR | Soviet Socialist Republics |
| USAID | United States Agency for International Development |
| USNS | United States Navy Ship |
| USSOCOM | United States Operations Command |

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I. INFLUENCE: THE NEW WEAPON IN THE BATTLE FOR SOUTHEAST ASIA

“China is too near and the United States is too far.”¹

A. BACKGROUND

In an effort to maintain or enhance influence world-wide, the United States gives hundreds of millions of dollars to countries that most Americans know very little about. There are a number of questions that can be asked about this ongoing disbursement of money overseas; however, the main focus of this analysis is whether aid disbursed is effective in off-setting China’s growing influence in Southeast Asia. Influence has primarily been carried out through diplomacy and can also include development assistance among other tools. Development assistance is an important mechanism used to help developing or under-developed countries succeed in areas such as education, health, democracy and governance, economic growth and to respond to humanitarian crisis. Development and military assistance are viable options the U.S. government (USG) uses as part of its foreign policy. The complexities of China’s growing influence are multifaceted, and, the United States cannot ignore that it could lose ground in key regions throughout the world.

Over the years, the United States has refined its usage of influence to buy friends, forge relationships, intimidate enemies and ward off competition. Recently, the United States has been the only power outside of Southeast Asia to exert influence in the region. However, in the last 60 years, the People’s Republic of China (PRC) has gained on the United States, and in recent years, the PRC has ramped up its efforts to the extent that it is now a serious rival to U.S. interests.

With the emergence of terrorist groups, bombings in Bali, Philippines, Thailand and Jakarta, and al-Qaeda affiliated links in Southeast Asia; the United States has more to

¹ Center for Strategic and International Studies, The United States and Southeast Asia toward a Strategy for Enhanced Engagement, A Conference Report of the CSIS Southeast Asia Initiative, December 2008. 12.

deal with than China. Also, with the United States using much of their influence and wealth to justify the Wars in Iraq and Afghanistan, it has left Southeast Asia exposed. Southeast Asia is in the difficult position of choosing between the United States and China, “China is too near and the United States is too far.” Fortunately, despite the PRC’s rapid ascent, it is far from a foregone conclusion that the PRC will surpass the United States the question is will countries of Southeast Asia look towards the United States or look to China for leadership. Only time will tell.

B. THESIS PURPOSE AND SCOPE

This thesis looks at the influence/assistance competition between the United States and China through the lens of game theory. Through math modeling, game theory effectively underscores the range of consequences in which the United States could be confronted with, if it does not properly use development and military assistance in Southeast Asia and the South Pacific. It is therefore, important to be familiar with and to understand what is at stake under a variety of circumstances. More specifically, this thesis will: Discuss post-China 1949 events that helped the PRC position itself; present examples of Chinese and U.S. characteristics and tactics they use to gain influence with assistance; PRC’s diplomatic efforts and implications for the United States; identify pivotal development assistance programs within the region; highlight how simple game theory illuminates the growing Chinese threat; recommendation; how the United States can counter Chinese expansion and increasing influence.

II. CHINA POSITIONING FOR POWER

A. POST CHINA 1949 EVENTS THAT HELPED THE PRC

To appreciate the PRC's raising influence, economic growth, and gains in political and military power;² one must understand the relationship between Chinese history and its current foreign policy objectives. In 1949, after two decades of civil war, the communists emerged victorious over the nationalists. The war-torn PRC was in utter disarray: internal infrastructures were virtually nonexistent, the treasury was bankrupt and roads and travel systems were in shambles. While the country was in physical disrepair, Mao and the communist leaders emerged stronger and more-clear headed about the PRC's future. In his speech to the people, Mao proclaimed "Ours will no longer be a nation subject to insult and humiliation. We have stood up."³ Mao believed that Communist ideology, vast reserves of human capital and devout nationalistic sentiments ensured that the PRC was well positioned. Mao's vision, there were four key themes that fast tracked the PRC's transition: They were the establishment of the PRC in 1949, a rapidly-industrializing country, European withdrawal from Southeast Asia, and the need for the PRC to gain domination in the region to become an influence on the world stage.

The first point was the importance of the 1949 victory over the Nationalists, which energized and united a beleaguered PRC. Mao's speech encapsulated the day's sentiments and provided a road map for things to come. At the time, Mao's words filled the country's aching need for hope, a bright future and national pride. Regardless of whether or not the people were ready for the PRC to become a world leader and play an important role in the international arena the country embarked on that path. This action served notice to Chinese citizens and to the world that the PRC envisioned itself as a leader on the world stage. This desire was manifested through the PRC's support of a

² Center for Strategic and International Studies, The United State and Southeast Asia toward a Strategy for Enhanced Engagement, A Conference Report of the CSIS Southeast Asia Initiative, December 2008, 12.

³ Martin Stuart-Fox, A Short History of China and Southeast Asia: Tribute, Trade, and Influence, 2003, 150.

number of revolutionary independence movements in Asia.⁴ At this time, China's main interactions in Southeast Asia were to support Communist insurgencies in Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.⁵ Through these engagements, the PRC learned how to leverage support through "divide and conquer" politics. Such tactics became an effective template, and by the 1990s, the PRC's leaders added diplomatic components and a military game plan to their strategy.

The second point was the PRC's growing need for resources. Over the last three decades, the PRC's economy experienced huge growth.⁶ To fuel a red-hot economy that grew around 10 percent annually,⁷ the PRC needed more and more natural resources, of which it had limited supplies. Many experts agree that if the PRC's economic growth continues at its current pace, within a few decades the PRC will need more natural resources than exist on the planet.⁸ To compensate for its limited supply of resources, the PRC became more aggressive in its pursuit of relationships with countries that had what it needed. One example is Burma, where the PRC provided the Burmese government with hundreds of millions of dollars in infrastructure and military assistance in order to gain access a strategic port and natural resources.⁹ This exchange is common place in a region that has many economically poor and undeveloped countries that also possess natural resources.

Third, was the vacuum that was created when European imperialism and Soviet communist forces departed from the region in the 1990s. These withdrawals signified a major turning point for Southeast Asian countries. The 50-year decline began when

⁴ Martin Stuart-Fox, *A Short History of China and Southeast Asia: Tribute, Trade, and Influence*, 2003, 164.

⁵ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One hundred Eleventh Congress Second Session, November 2010. 220.

⁶ China's Growth in Monetary Policy.

⁷ Martin Stuart-Fox, *A Short History of China and Southeast Asia: Tribute, Trade, and Influence*, 2003, 209.

⁸ David Gewirtz, "Is China gearing up to start World War III?" ZDNet Government, September 7, 2010, http://www.zdnet.com/blog/government/is-china-gearing-up-to-start-world-war-iii/9368?p=9368&pg=2&tag=mantle_skin;content.

⁹ Note that no one has been able to identify specific dollar amounts.

Indonesia declared independence in 1945. Thereafter, the Philippines gained its independence in 1946 and Burma secured its independence from England in 1948. During the Cold War, Southeast Asia became a battle Ground for “Decolonization” and threats from the Union of Soviet Socialist Republics (USSR). It was at this time that Malaysia and Singapore were granted their independence from England and France was driven out of Vietnam, Cambodia and Laos. In 1984, Brunei was granted their independence, thus marking the end of European dominance in Southeast Asia. Between the mid-1980s to the mid-1990s, Europeans substantially cut investments and downgraded economic agreements. New-found sovereignty and the United States as the only outside influence, gave Southeast Asian countries the opportunity to begin anew. With the Europeans and the Russians out of the picture, the United States remained the only country in the region able to counter the PRC.¹⁰ The PRC’s growth in agriculture, industry, science, technology, military, economics, further enhanced its status in Southeast Asia. This new paradigm outlined new parameters: the PRC and the United States would now be in direct competition for greater influence; and in addition European donors were marginalized due to a smaller presence and decreased financial engagements in the region. Beijing was fully aware of such changes and made no secret of its intentions to lessen U.S. influence in Southeast Asia. With this goal in mind, the PRC directly challenged U.S. interests. Dr. Frost stated,¹¹ “The risk is not that China will push the United States out of Asia, now or in the future. The main risk is that over time, the U.S. voice in the region will be gradually drained of influence relative to China’s. This challenge stems from the contrast between China’s galloping economic performance and America’s current domestic and international headaches....Although the United States is indeed a “resident power”....It must never take its presence in Asia for granted.”¹²

¹⁰ Martin Stuart-Fox, *A Short History of China and Southeast Asia: Tribute, Trade, and Influence*, 2003, 209.

¹¹ CRS Report for Congress, *China’s “soft Power” in Southeast Asia*, January 4, 2008. 1.

¹² 2010 report to Congress, *U.S.-China Economic and Security Review Commission*, One hundred Eleventh Congress Second Session, November 2010. 141.

The final point was the reality that the PRC could not gain greater control in the world arena if it did not control the region. As previously noted, the PRC began on this trajectory in 1949 and today Beijing still maneuvers to bring Southeast Asia into its sphere of influence. In short, the PRC would have to become the regionally dominant power as outside influence and imperialism in the region diminish. As PRC encroachment in the region progresses, Beijing's ability to maneuver more freely and achieve broader political, economic and security goals has increased. This also ensures that Southeast Asian nations do not act in way that runs counter to PRC interests.¹³

¹³ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010. 120.

III. CHINA'S ASSISTANCE

A. CHINA'S ASSISTANCE

The United States is not the only country buying influence in Southeast Asia; now China is also a player in the battle for this key region of the world. China's rapidly growing economy enables it to aggressively pursue its interests throughout the world. China's approach to influence is twofold: to spend money on military equities and to provide assistance to underserved countries in exchange for influence. On both fronts, China is keeping pace, if not surpassing the United States, in the international diplomatic game.

Over-- the past decade and a half, while few in the West were paying attention, Beijing built a coalition of countries, a great many of them in Southeast Asia and Africa that can be trusted to vote for China's interests. It's a bloc reminiscent of the one the Soviet Union assembled during the Cold War, though focused on economic and trade advantages, not security issues. China's strategy is working, and nowhere more so than with Beijing's campaign to delegitimize Taiwan as an independent state. In 2008, for instance, Malawi announced it had cut diplomatic relations with the island would-be nation; Taipei couldn't match China's offer of \$6 billion in aid. Senegal broke relations with Taipei in 2005.¹⁴

Due to the world's financial crisis that has limited the amount foreign direct investment into Asia, and the decline in the attractiveness of other Southeast Asia countries, Asia has become an economy battle ground. This is a new challenge that the United States, China and Southeast Asia is facing. To address this question, this section will discuss: Characteristics of Chinese Assistance, tactics China is using, how China is using the South China Sea and Mekong River to gain influence.

¹⁴ Stefan Halper, "*Beijing's Coalition of the Willing*" Foreign Policy. July/August 2010. http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing (accessed August 30, 2010).

B. CHARACTERISTICS OF CHINESE ASSISTANCE

The PRC's growing use of "soft power" in Southeast Asia in nonmilitary inducements includes culture, diplomacy, foreign aid, trade, and investments. And while these gifts ingratiate regional countries to the PRC, they also counter U.S. foreign policy objectives.¹⁵ Anecdotal evidence suggests that China is spending billions of dollars in assistance to influence and to create legacy programs. Verifiable gifts can be found throughout the region. They include large-scale infrastructure projects, newly-constructed roads and beautiful buildings with "gift from China" plaques in countries that clearly cannot finance such structures. Other, less visible types of assistance include equally tantalizing incentives, i.e., preferred trade status, military hardware, humanitarian assistance and interest-free loans.

The magnitude and range of incentives the PRC provides is seemingly limitless. More notably however, is that these gifts come with no strings attached. In other words, if the PRC gives money to a country, that country will not need to do anything in return. Chinese aid is to give without requiring any accompanying political or human rights standards.¹⁶ This approach to aid is often more attractive than the U.S. assistance, which hinges on improvements in domestic policies.¹⁷ When doling out assistance, the PRC also takes into consideration individual Southeast Asian countries' relationships with the United States. In the past, it sought to cultivate relationships with countries that had poor relations with the United States¹⁸ Today, the PRC still utilizes the same approach, but is now targeting U.S. allies in an attempt to undermine these relationships.

Another notable characteristic is the PRC's preference to conduct unilateral, rather than multilateral diplomatic discussions. This type of power play enables the PRC

¹⁵ CRS Report for Congress, China's "Soft Power" in Southeast Asia, January 4, 2008. 1.

¹⁶ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One hundred Eleventh Congress Second Session, November 2010. 121.

¹⁷ Center for Strategic and International Studies, The United State and Southeast Asia toward a Strategy for Enhanced Engagement, A Conference Report of the CSIS Southeast Asia Initiative, December 2008. 8.

¹⁸ Colloquium Brief, Contending Perspective: Southeast Asia and American Views on the Rising China, U.S. Army War College, Singapore, 22–24 August 2005.

to divide and conquer. By undermining international forums, Southeast Asian countries are slowly losing their collective bargaining powers. Additionally, because the PRC is such a “big fish” compared to all of the other countries, they are able to either meet the needs of any one country or isolate a country for a carrot and stick approach if needed. Most countries feel that their interests will be better met if they go it alone, rather than through ASEAN.

Goals of Chinese aid can best be characterized as a driving need to acquire resources, win friends and expand influence. Whether a gift of assistance benefits the population is not important. More often than not, PRC funds are used to build unnecessary projects that serve political rather than practical imperatives. Such projects support local politicians and the PRC’s foreign policy objectives, but not the interests and needs of the indigenous population.¹⁹ Because China does not release official figures for aid, it is unclear how much aid is given, where it is given and for what purposes. Without transparency, one wonders what the PRC is hiding. Until more is known about PRC assistance, one can only make assumptions about motivations based on known transactions.

1. Velvet Glove Tactics

Increasingly, influence tactics the PRC employs have become heavy handed. Initially, these efforts to leverage greater support were largely benign, i.e., the PRC’s role in the Asian financial crisis. In recent years, there has been a dramatic shift and some tactics have been downright aggressive and intimidating. If the PRC is unable to get what it wants through assistance, the tactics quickly turn dirty. It is important to note these trends as they are instructive for U.S. foreign policy experts. Some of the most notable, and most telling, examples include the PRC’s: increased control over the Chinese Sea, build-up of maritime forces, and increased interest in the Mekong River.

¹⁹ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One hundred Eleventh Congress Second Session, November 2010, 28.

When the Asian financial crisis hit in 1997, the PRC wanted to be seen as a financial savior. The PRC stabilized the region and provided assistance to countries in need through financial support and a rescue plan called the “New Security Concept.” This plan ensured that Beijing would put its weight behind any regional economic and diplomatic interaction going forward.²⁰ Through this parlay, the PRC was able to substantially increase its involvement in Southeast Asian trade, investment and financing policies, while providing confidence to investors in other financially weak countries. In addition, the New Security Concept restructured trade agreements to benefit the PRC. In the end, Southeast Asia was able to successfully get through the financial crisis however it was not without a high cost. Every country in Association of Southeast Asian Nations (ASEAN), except the Philippines, emerged with a serious trade imbalance with the PRC.²¹

²⁰ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 120.

²¹ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 125 Table 2.

IV. CONTROL OF THE SOUTH CHINA SEA AND MEKONG RIVER

A. SOUTH CHINA SEA

The South China Sea has vast amounts of oil and gas untapped reserves. With an estimated 28–213 billion barrels of oil and almost 900 trillion cubic feet of natural gas, it is among the largest in the world. The South China Sea is also a geographically and strategically important trade route for the region.²² In order to gain the upper hand—and controlling interest—Beijing proactively staked out claims to the Paracels and Spratly Island Chains. Blustery language and vigorous military exercises has intimidated and effectively scared off other claimants. In 2009, an international incident involving harassment of the USNS Impeccable by five Chinese vessels resulted in unusually pointed remarks from Secretary Clinton.²³ In addition to her recrimination about the harassment, she spoke about the disputed territory and asserted that the problem must be resolved through multilateral discussions with all claimants. The PRC viewed this as “an attack on China.”²⁴

As late as July 2010, the PRC claimed much of the South China Sea based on hundreds of years of history and Beijing labeled the South China Sea part of its “core interest” of sovereignty, similar to Taiwan and Tibet.²⁵ Notwithstanding these declarations, Vietnam, Philippines, Malaysia and Brunei lay claim to the same territories. Given the lead and the competitive advantage the PRC has over other countries, it will be difficult for any country to successfully counter the PRC. While the PRC has no legal

²² 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 128.

²³ Blue Star Chronicles, <http://bluestarchronicles.com/2009/03/09/usns-impeccable-chinese-vessels-harass-us-navy-ship/>, accessed October 2011.

²⁴ China’s Foreign Ministry.Jang Jiechi, The Wall Street Journal, 01October 2010, http://online.wsj.com/article/SB10001424052748704483004575523710432896610.html?mod=googlenews_wsj.

²⁵ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One hundred Eleventh Congress Second Session, November 2010, 132.

standing for claiming these waterways, it planted flags on the seafloor to show ownership. These actions help the PRC prepare to take control of the South China Sea with or without force.

The question of PRC control of the Paracel and Spratly Island Chains whether it will happen, but rather, how the United States and other Southeast Asian countries will react. It is very unlikely that the United States would take military action over the Paracel and Spratly Island Chains. But, if China uses military force on an individual country to take control of these Islands, the United States may be forced to take action.

B. PRC DICTATING TERMS IN CHINA SEA

In addition, pressure is directed to foreign companies to comply with the PRC's wishes, i.e., halting operations unless agreements are negotiated through the PRC and imposing fishing bans in waters in which the PRC has no jurisdiction. In 2007, BP and Exxon both halted work within Vietnam after the PRC merely hinted that the work off the coast of Vietnam violated the PRC's sovereignty. The PRC told Exxon that they would be excluded from the Chinese market should they fulfill other countries contracts for exploration in the South China Sea. BP subsequently abandoned planned exploration because of these ownership claims between the PRC and Vietnam.²⁶

In 1999, the PRC unilaterally imposed a fishing ban on waterways claimed by Vietnam, the Philippines and Malaysia. To enforce the ban, the PRC increased patrols and has even detained other countries' fishermen who were working in the disputed waters.²⁷ By default, the PRC now controls all of these waterways even though they legally do not have the right to do so.

In the last few years, China has increased military exercises in the South China Sea. Provocative naval maneuvers enable the PRC to flex its military might while warding off potential rivals. General Chen Bingde, Chief of the PLA General Staff

²⁶ Jason Folkmanis, U.S., Vietnam seek to limit China, Keep Power Balance, Bloomberg, 28 August 2009.

²⁷ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 134.

Department stated “China must pay close attention to changes in the situation in region and we must prepare ourselves for a military struggle.”²⁸ The PRC’s exercises are part of a rapidly growing Navy. Maritime security is fast becoming a cornerstone of the PRC’s expanding military capabilities. “Surface vessels, submarines, long range aircraft, ballistic anti-ship missiles, and future aircraft carriers, back the PRC’s threats. With the PRC’s emergence as Asia’s principal naval power, territorial disputes from other claimants have been down-graded.”²⁹ In addition, Southeast Asian countries are at a huge disadvantage, because even all the ASAEN members’ navies combined could not rival a robust PRC navy.³⁰ With an enhanced navy, the PRC has the ability and, what it believes is, the justification, to rightly claim the sea and its resource for itself.

The Mekong River may be one the most important tools the PRC has to influence Southeast Asia. Burma, Thailand, Laos, Cambodia, and Vietnam rely on the Mekong River, but because the PRC built 15 dams on the river, the PRC controls it. By regulating the water supply to all of the downstream countries, it also has jurisdiction over energy production, fishing habits, and rice production for millions of people. The impact is staggering: with control of just one river, the PRC regulates 40 percent of Vietnam’s rice outcome, which Vietnam exports to the world.³¹ By cutting off water, China could cripple Vietnam economically and have an adverse affect on global food.

For the PRC to succeed, it must also engage in high-level diplomacy efforts. The PRC is utilizing a classic velvet glove approach: strong arm tactics coupled with soft power. As previously mentioned, assistance is an importance part of the soft power equation. In addition, diplomacy and bilateral talks are also critical. Diplomatically, the PRC has carefully crafted an approach for dealing with ASEAN and Southeast Asian countries. Most notably, the PRC negotiates economic linkages with specific member

²⁸ Clive Schofield and Ian Storey of the Jamestown Foundation, Publication: Volume: 0 Issue: 0, November 20, 2009.

²⁹ Clive Schofield and Ian Storey of the Jamestown Foundation Publication: November 20, 2009.

³⁰ 2009 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2009.

³¹ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One hundred Eleventh Congress Second Session, November 2010, 137.

countries in the Association of Southeast Asian Nations (ASAEN), in order to leverage greater regional financial control and to bolster bilateral trade and investment agreements.³² As the foremost international coalition in the region, ASEAN acts as an important counterbalance to the powerful PRC.

China is now able to cultivating bilateral relationships and undermining ASEAN. With ASAEN no longer a single voice, rather multiple countries looking out for their own interests, the PRC has found a way to leverage influence within the organization.³³ By cultivating bilateral relationships, rather than working through ASEAN, the PRC is able to chip away at the larger organization one country at a time. This has been accomplished by the PRC strengthening its position in Southeast Asia and increasing gifts of military equipment and economic incentives to individual countries.³⁴

Despite objections from ASEAN, Beijing continues to aggressively solidify bilateral relations. The PRC began by supplying large quantities of heavy weapons and other military equipment to the Burmese regime in exchange for illicit drugs, timber, pearls, and precious stones. PRC engineers also built new roads and bridges to facilitate this trade. As the “primary economic patron” of the small but strategically important nations of Burma, Cambodia and Laos, the PRC provides considerable economic aid to these countries as well as Indonesia and the Philippines.

To permanently divide ASEAN, the PRC created the Greater Mekong Sub-region (GMS) with Cambodia, Laos, Burma, Thailand and Vietnam³⁵. With billions of dollars flowing into GMS countries, the PRC set up a new economic corridor, provided needed new physical infrastructure connections, promoted closer economic interactions and

³² Colloquium Brief, Contending Perspective: Southeast Asia and American Views on the Rising China, U.S. Army War College, Singapore, 22–24 August 2005.

³³ Center for Strategic and international Studies, The United State and Southeast Asia Toward a Strategy for Enhanced Engagement, A Conference Report of the CSIS Southeast Asia Initiative, December 2008, 2.

³⁴ Dr. Sheng Lijin, Is Southeast Asia Becoming China’s playpen?, Yale Global, 11 January 2007

³⁵ Geoff Wade, Could China’s influence split ASEAN in two, Jakarta Globe, 1 March 2011. <http://www.thejakartaglobe.com/opinion/could-chinas-influence-split-asean-in-two/425492>, accessed October 2011.

strengthened political and military ties.³⁶ Funds have gone into these countries at a rate greater than what ASEAN countries have provided.³⁷ The PRC's two-pronged approach of separating individual countries from ASEAN and taking controlling interests of countries' policies have effectively divided mainland Southeast Asia from maritime ASEAN countries.

C. IMPLICATIONS OF PRC ASSISTANCE

With deep pockets and well-planned foreign policies, the PRC's regional authority will undoubtedly expand, and as it does, the United States will have to respond. The United States will have to consider implications of each action no matter how inconsequential, since each seemingly small issue has the potential to have lasting repercussions. Front-burner issues, in which the United States will have to contend, include:

1. Monitoring Rivalry in the South China Sea

Turf battles over rights to significant oil and natural gas reserves, the Paracels and Spratly Island Chains, and fishing rights, are just a few of the extremely complicated and contested issues. Overshadowing these complex regional tensions in the South China Sea is an emerging maritime rivalry between the United States and China.³⁸ To ward off rival interests, the PRC has warned other countries, including the United States, to abandon their goals of gaining territory in this particular area.

2. Encouraging the PRC to Engage in Multilateral Forums

The PRC blasted Secretary Clinton's reprisal of China's lack of interest in conducting multilateral discussions. One PRC official said that Secretary Clinton's

³⁶ Geoff Wade, Could China's influence split ASEAN in two, Jakarta Globe, 1 March 2011. <http://www.thejakartaglobe.com/opinion/could-chinas-influence-split-asean-in-two/425492>.

³⁷ Geoff Wade, Could China's influence split ASEAN in two, Jakarta Globe, 1 March 2011. <http://www.thejakartaglobe.com/opinion/could-chinas-influence-split-asean-in-two/425492>.

³⁸ Daniel Kliman and Abe Denmarl, How to Get Southeast Asia Right, The Diplomat, 2 February 2011.

remarks were a provocation to the PRC and that they were aimed at sowing dissent between China and its Southeast Asian neighbors. The quote went on to say that what Washington was really seeking to do was to counter the PRC's growing influence by gaining support of countries in the region."³⁹ While such remarks are not commonplace in diplomatic circles, the Secretary highlighted what everyone knows to be true: the PRC avoids multilateral discussions so that it can operate on its own terms.

3. Monitoring the PRC's Bilateral Relationships

Part and parcel of PRC avoidance of multilateral talks is increased emphasis on bilateral relationships. As the PRC forges these relationships, it is able to gain greater regional influence while also driving wedges between the United States and the host nation's goals. The PRC builds its case by reminding Southeast Asian countries of how the PRC helped them out during the Asian Financial Crisis, and that the United States can be nothing better than a distracted partner because of its own domestic situation. According to the PRC, it is likely that Southeast Asia will receive little if any United States attention in coming years.⁴⁰ Weakening bilateral military to military links between ASEAN members and the United States is another tactic the PRC is utilizing. In a draft Declaration on the Conduct of the Parties in the South China Sea, specific provisions prohibited joint military exercises involving United States and any member of the ASEAN military.⁴¹ Fortunately, this declaration has yet to be ratified.

³⁹ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 137.

⁴⁰ Center For Strategic and international Studies, The United State and Southeast Asia toward a Strategy for Enhanced Engagement, A Conference Report of the CSIS Southeast Asia Initiative, December 2008, 1.

⁴¹ Colloquium Brief, Contending Perspective: Southeast Asia and American Views on the Rising China, U.S. Army War College, Singapore, 22–24 August 2005.

4. Tempering PRC Assistance

In Burma, the PRC provided \$200 million in loans after the United States imposed sanctions against Burma for human rights violations.⁴² House of Representatives Dana Rohrabacher warned that Burma is a “Chinese power grab” and that its natural resources are literally being stolen by China.⁴³ When the United States imposed sanctions on Burma’s government and withheld aid, Burmese leaders looked to the PRC for aid that had no strings attached. In addition, the PRC added a military component and supplementary economic support in order to gain power and influence over Burma.

Cambodia is another example where the PRC undermined U.S. objectives and world sentiment. In 2009, the U.N. opposed the return of Uighurs living in Cambodia to the PRC. Cambodia disregarded the U.N. and returned the Uighurs to the PRC and was given \$1.2 billion in aid and loans from China.⁴⁴ The PRC sweetened the deal by filling an order of 257 military trucks to Cambodia that the United States had cancelled due to the deportation of the Uighurs.⁴⁵

5. Encouraging Transparency in Assistance

Assistance is one of the most important tools a country can use to expand its influence. In the United States, government-sponsored donor agencies are required by law to report to Congress on development assistance funding. This is not the case for the PRC as there are no reliable data sources that track Chinese aid. To make the issue more convoluted, 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

⁴² 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 122.

⁴³ Francis Wade, U.S. representative says China “stealing Burma,” 22 April 2010.

⁴⁴ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 122.

⁴⁵ 2010 report to Congress, U.S.-China Economic and Security Review Commission, One Hundred Eleventh Congress Second Session, November 2010, 131.

counted as official development assistance funds and a single Chinese agency to keep record of aid does not exist. This lack of oversight however is not a mistake, rather an effective way of keeping expenditures secret. Funding for such assistance follows the PRC leadership's diplomatic schedule and is not provided in annual increments. Beijing is also reluctant to reveal aid totals because it fears a domestic backlash given the level of poverty in the PRC its own large population.⁴⁶ An added benefit is that other donors have no idea how to negotiate to counter the PRC, since what the PRC is spending is unknown. This is a huge benefit as it enables China to know at what threshold it can trump other countries.

⁴⁶ CRS Report for Congress, China's "soft Power" in Southeast Asia, January 4, 2008, 4.

V. UNITED STATES ASSISTANCE

A. U.S. ASSISTANCE

What do Micronesia, Nauru, Palau, the Republic of the Marshall Islands (RMI) and Kiribati have in common? These small island countries play an important role not only in protecting the USG's interests in the Southeast Asia and South Pacific, but also throughout the world. All of these countries receive varying levels of assistance, which is primarily economic, but also includes noneconomic support such as military protection, training in maritime and border security measures, postal service and the benefit of U.S. citizenship in the case of Micronesia, the RMI and Palau.⁴⁷ In return, the USG gets access to runways, ports and surveillance information and has greater representation within the United Nations (U.N.). All of this support begs the question why does the USG care about the South Pacific to the extent that it is willing to spend billions of dollars and use diplomatic capital on these small Pacific Islands? The answer is simple: to protect USG interests, to compete against China's growing influence in the region and the world, and to promote security on the mainland.

The United States has Compact of Free Association agreements with Palau, the RMI and Micronesia.⁴⁸ These agreements provide substantial assistance to these countries through the Departments of Interior and State, and provide U.S. citizenship to people living on these islands. The Compact of Free Association between the United States and Palau was entered into 15 years ago, and provides Palau with money to improve their schools, infrastructure, health systems and economy.⁴⁹ It also provides postal services to Palauans, which means they have a U.S. zip code and are able to send and receive mail as one would on the mainland. From 1995–2009, the USG gave this

⁴⁷ U.S. Government Accountability Office, "Compact of Free Association: U.S. Assistance to Palau." <http://www.gao.gov/products/GAO-08-858T> (accessed August 30, 2010).

⁴⁸ United States Government Accountability Office, "The U.S. Compact of Free Association, Palau's Use of and Accountability for U.S. Assistance and Prospects for Economic Self-Sufficiency" <http://www.gao.gov/new.items/d08732.pdf>(accessed August 30, 2010).

⁴⁹ U.S. Government Accountability Office, "Compact of Free Association: U.S. Assistance to Palau." <http://www.gao.gov/products/GAO-08-858T> (accessed August 30, 2010).

small island nation with a population of only 20,000 people \$852 million in humanitarian assistance.⁵⁰ Per capita, this is more that the United States gives Israel on an annual basis.⁵¹ In return, the United States has access to ports and is allowed to conduct surveillance, both of which enabled the United States to monitor activities of Japan and China. In addition, the United States has had better influence in the U.N. since Palau is a voting member.

South Pacific islands staunchly support the United States, and in the U.N. Palau voted with the United States 94.2% of the time, Micronesia, 96.2%; Nauru, 96%; and RMI, 89%.⁵² In March 2003, the United States put together an international coalition called the “Coalition of the Willing” to legitimize the U.S. effort in Iraq. Micronesia, Nauru, Palau, the RMI, and Kiribati were all members of this coalition.⁵³ Most recently, these countries again showed their support for the United States on another politically sensitive issue: the U.S. trade embargo on Cuba.

On October 28, 2009, the United Nations General Assembly condemned it for the eighteenth consecutive year. 187 countries voted in opposition to the embargo, three countries voted in favor (the United States, Israel and Palau) and two abstained (Micronesia and RMI).⁵⁴

B. U.S. ASSISTANCE IN SOUTHEAST ASIA

1. United States Assistance in Southeast Asia

To fully appreciate the role in which assistance plays in Southeast Asia, one must understand how assistance is contented in overarching foreign policy objectives. The

⁵⁰ U.S. Government Accountability Office, “Compact of Free Association: U.S. Assistance to Palau.” <http://www.gao.gov/products/GAO-08-858T> (accessed August 30, 2010).

⁵¹ Michell Bard, “U.S. Aid to Israel.” Jewish Virtual Library. 13 January 2010. http://www.jewishvirtuallibrary.org/jsource/US-Israel/foreign_aid.html (accessed August 30, 2010).

⁵² Jewish Virtual Library. “Countries that Vote with the United States Most Often at the UN” http://www.jewishvirtuallibrary.org/jsource/UN/UN_votes09.html (accessed August 30, 2010).

⁵³ Perspective on World History and Current Events. “Coalition of the willing” <http://www.pwhce.org/willing.html>(accessed August 30, 2010).

⁵⁴ Trans Africa Forum. “United Nations Votes to Condemn U.S. Embargo against Cuba for 18th Consecutive Year.” <http://www.transafricaforum.org/policy-overview/where-we-work/un-votes-cond-us-emb-cuba> (accessed August 30, 2010).

United States maintains close relationships with countries throughout Southeast Asia in order to meet U.S. interests, serve as a counter balance to China, and provide assistance to countries in need. More specifically, U.S. regional interests:

- Promote stability and balance power: with the objective of keeping Asia from being dominated by any entity;
- Prevent exclusion from the region by another power or group of powers;
- Ensure maritime security and safeguard navigation;
- Promote trade and investment;
- Support treaty allies and friends;
- Promote democracy, rule of law, human rights, and religious freedom; and
- Prevent the region from becoming an al-Qaeda safe haven for terrorists.

To advance these interests, the U.S. government agencies with appropriate authorities must expand policies. In all instances, multiple agencies are involved, but because one agency usually has expertise in a given area, that agency takes the lead. The Department of State takes the lead in diplomacy to build relationships, protect agreements and communicate government to government messages. For maritime security and training, the Department of Defense (DoD) is the lead agency. The Department of Defense carries out maneuvers for its own purposes, but it also backs up DOS diplomatic points, by reminding countries of U.S. military superiority. Humanitarian and development assistance is critically important as Southeast Asia has the dubious distinction of being the region most inflicted by natural disasters. In addition, the region has multiple development issues such as HIV/AIDS and other life-threatening illnesses, low levels of education, drug trafficking, food insecurity, security concerns and corruption. In cases of humanitarian and development assistance, USAID takes the lead.

Characteristics of delivery of U.S. assistance are transparent and predictable. In other words, it is known, to the American public and the rest of the world, how much is given to each country and for what purposes. Agencies delivering assistance are required to conduct lengthy assessments that justify any expenditure. These reports are shared and often co-written with other U.S. government agencies and requests for monies are

checked to ensure they are consistent with foreign policy objectives for the country and the region. Once these documents are finalized, they are presented to Congress and the White House for approval. While assistance is distributed to meet U.S. foreign policy objectives, it is done so with strings attached, i.e., improving education standards, reducing child mortality, increasing opportunities for vulnerable youth who may become combatants. A main premise of the United States where assistance is concerned is that countries with stable, healthy, educated populations are better neighbors and trading partners are less likely to be a security risk or become a haven for insurgents.

According to the FY 2010 Congressional Budget Justification (CBJ), Indonesia, the Philippines, and Vietnam are the United States' three highest priorities and therefore will receive approximately 40% of the region's allotments. Indonesia tops the priority list as it is the most populated Muslim country and the world's third largest democracy. The Philippines, a close partner and ally of the United States, will be given aid to support peace and democratization and assistance will also be given to the region to help with the denuclearization of North Korea. Vietnam will receive assistance to facilitate economic growth and government reform. By technical area, the main areas in which the United States funds: Peace and Security, Economic Growth and Investing in People, are approximately divided into thirds. Peace and Security programs to counter terrorism and stabilizes insecure areas. Economic Growth activities focus on income generation programs, climate change, microfinance and clean energy. Investing in People support promotes maternal and child health, HIV/AIDS prevention programs and basic education.

Specific illustrative examples of United States funded assistance programs throughout the region include:

2. Cambodia: Investing in People

In Cambodia, the mortality rate for young children is one of the highest in Southeast Asia. To decrease the mortality rate among children, mothers and infants, USAID supports reform efforts to strengthen local and national governments, provides trainings for healthcare works, improves clinics, undertakes immunization programs and

provides healthcare for local communities. These efforts have made substantial differences in the health of Cambodia's children and its entire population. Another substantial part of the IIP portfolio is the lifesaving antiretroviral therapy for people infected with HIV and the TB control program.

3. Philippines: Peace and Security

The Philippines is one of the region's oldest democracies, but also struggles with development challenges and terrorism. In addition to other assistance programs, the United States funds a robust peace and security program in the conflict-affected areas of Mindanao. These programs work with vulnerable youth through training programs and giving them alternatives to joining insurgency groups. Other elements of the program offer dispute resolution programs to local leaders and agencies. Good governance activities dovetail with peace and security programs to ensure greater sustainability. A Regional Development Mission (RDM) could benefit the Philippines. The United States could provide Humanitarian Assistance for regional issues and support it without a large U.S. presence. Due to the mission's greater presence, it is able to work more closely with international partners and strengthen regional systems. The RDM is able to serve as a regional hub to provide and address a broader scope of issues. Both the Philippines and the United States would be able to work together on transnational, bi-lateral crisis when they arise. RDM is able to provide humanitarian assistance, specific programs include; addressing climate change through regional entities and policies; mitigating the spread of HIV/AIDS and infectious diseases; enhancing trade and economic growth and working to end human rights abuses and ethnic tensions postconflict.

The U.S. National Security Strategy Statement calls on China to "act as a responsible stakeholder that fulfills its obligations and works with the United States and others to advance the international system...."⁵⁵ It goes on to state that if China pursues a "transformative path of peaceful development" the United States will "welcome the

⁵⁵ James Kelly, Assistant Secretary of State for East Asia and Pacific Affairs, "An Overview of U.S.-East Asia Policy," Testimony before the House International Relations Committee, June 2, 2004.

emergence of a China that is peaceful and prosperous and that cooperates with us to address common challenges and mutual interests.⁵⁶” To promote its interests relative to China in Southeast Asia, the United States has generally followed a strategy that maintains a “balance of power in the region through our alliances and military presence” while also engaging China to “encourage simultaneously its responsible integration into international affairs . Assistant Secretary of State for East Asian and Pacific Affairs, James Kelly, in testimony before the House International Relations Committee in June 2004, stated that “this is a time of transition” in the region and emphasized that “at the top of our list of policy priorities is waging the war against terror” before he identified the Philippines and Thailand (as well as Japan, South Korea and Australia) as traditional allies and strategic partners in and beyond the region.” Singapore was also identified as an effective partner for building regional security.

⁵⁶ James Kelly, Assistant Secretary of State for East Asia and Pacific Affairs, “An Overview of U.S.- East Asia Policy,” Testimony before the House International Relations Committee, June 2, 2004.

VI. CHALLENGES/RECOMMENDATIONS

A. CHALLENGES

1. Effectiveness of External Influence on Southeast Asia

Every year, the United States government (USG) gives billions of dollars to help Southeast Asian countries to combat insurgencies. This external influence is the life blood for some states. External influence can sustain fragile democracies, legitimize governments and help underserved populations with their most basic needs. However, if misused, external influence can cause unnecessary loss of life, undermine political capital and waste money that could have been more wisely spent at home. Given the expense and international visibility of assistance, it is critical that United States get it right from the beginning. Getting it right entails having a strategic framework outlining foreign policy objectives and having agreement on terms between the donor and host states prior to a commitment of resources. A well thought out plan takes into consideration the types of assistance to be committed, since this aspect is often more important than the amount of money that is given.

B. EXTERNAL INFLUENCE

External influence is support given to one state from another in order to advance the donor state's agenda. While this idea sounds rudimentary, negotiating terms of support, deciding upon appropriate types of assistance, determining circumstances under which aid is provided and identifying intended outcomes are extremely complicated and nuanced processes. In diplomacy, United States and China tries to influence foreign governments by providing military equipment, training, development assistance and sharing information in exchange for increased input on host governments' policies. Benefits host governments reap include investment in their country's underfunded sectors, such as health and education, access to military hardware and technical assistance. More importantly however, is the host government's ability to take credit for these investments with its own population. For this mutually beneficial relationship to

work, both sides must deem the relationship important and see the other as playing a vital role in achieving success. Too many times the United States takes too much credit for the programs it provides. From making sure all USAID programs are branded with the USAID logo, to military aid given only when the United States sees fit. This creates the perception that the host nation is a puppet of the United States. Because much of the Southeast Asia public already believes that the United States is or has manipulated politics in the region its credibility is called into question. This presumption made it difficult for them to support the U.S.'s National Security Strategy. As a result Southeast Asian countries and the United States find it hard to be able to synchronize efforts to fight insurgencies.

C. CURRENT EXAMPLES OF EXTERNAL INFLUENCE IN AN ASSISTANCE CONTEXT

Assistance to states enables the USG to exert external influence and advance foreign policy objectives throughout Southeast Asia. For the most part, the USG has been successful; however there have been situations where USG involvement has backfired. The USG's current Counterinsurgency (COIN) strategy is ideal example where the USG has successfully influenced policies, deterred insurgents and promoted development goals.

Within the last ten years, wielding influence has become increasingly difficult due to the types of conflicts in which the USG is involved and the complexity of these engagements in each country. One side does not fit all. The situation in the Philippines is the not the same as in Indonesia. One policy area where new and pragmatic thinking is occurring is the USG's Counterinsurgency (COIN) strategy. The COIN strategy is often referred to as a work in progress because it must be regularly reassessed and revised due to a continuously-changing insurgency. However, because notable successes this policy has yielded, it remains an ideal current example to refer when discussing external influence and its effectiveness.

Traditional COIN strategies are used as vehicles to address two areas that fuel insurgencies: political instability and security operations. In order to successfully defeat

insurgencies in these key areas, a standard COIN model must be carried out. DoD, DoS, USAID and all USG must work together for the COIN model to work. This model integrates three main pillars:⁵⁷

- **Security.** Applying external influence to promote security primarily occurs through military assistance. Military assistance includes technical assistance, hardware and software, training of trainers, advising and assisting. These types of interventions enable host states to build their internal security structures through trainings that enhance the effectiveness of their own military and police forces and improve the equipment they have to combat insurgencies. Providing assistance to enhance local police forces is a key aspect for host states, and is often times the most important aspect of COIN strategy.⁵⁸ Helping states improve security is beneficial to both sides: it paves the way for donor states to begin work in other development areas and shrink al-Qaeda safe havens for terrorists, and it enables the host government to “showcase” to the local population that it is capable of addressing serious issues.

- **Political.** The political pillar focuses on strengthening the capacity of the host government.⁵⁹ It is critical that a host government’s population believe that the state is in control and that it is able to deliver services. A well-known anecdote that demonstrates the effectiveness of a government is whether the government can fill potholes. In other words, can states’ governments address the most basic needs of the people? Does the population have free and fair elections? Do they have clean water? Does the population have access to education and healthcare? If the population believes that the state cannot meet their basic needs, the state loses legitimacy and this discrepancy creates an opening

⁵⁷ United States Department of State, (2007, October) “Counterinsurgency for U.S. Government Policy Makers,” 15.

⁵⁸ United States Department of State, (2007, October) “Counterinsurgency for U.S. Government Policy Makers,” 17.

⁵⁹ United States Department of State, (2007, October) “Counterinsurgency for U.S. Government Policy Makers,” 14.

for China or the insurgency to exploit. If a state is unable to provide a basic need, it will look outside to a quick fix. With China's no string approach, it is likely it could be the first one the State turns to.

- **Economic.** The economic pillar includes humanitarian assistance (HA), i.e., basic health care, livelihoods assistance, education, and infrastructure.⁶⁰ HA is distributed under the direst circumstances: when a natural disaster or a serious conflict occurs. In either situation, a significant portion of the population is affected. It is at that juncture that the international donor community steps in to give aid and prevent a greater humanitarian crisis. During such crisis, money and supplies are needed urgently despite the fact that it is often difficult to determine how to best distribute assistance. To prevent abuse, donor countries must have a substantive understanding of the host government's capacity to absorb support, and to wisely manage donations.⁶¹

COIN strategies work when security, political and economic pillars work together and are derived from local intelligence. Ideally, the military, working in concert with the local police and military, would provide security; The local government would make decisions in order to serve the needs of the local population; and the state would provide financial support to bring these three elements together.

COIN's strengths are: a) flexibility, which enables decision makers to tailor interventions according to the needs of a current situation be it peace keeping operations, stabilization, or reconstruction; b) providing a strategic framework that is easily understood enables decision makers or agencies to determine where their equities would be the most value added to an effort; and c) utilizing a holistic approach that is population, not enemy centric.

⁶⁰ United States Department of State, (2007, October) "Counterinsurgency for U.S. Government Policy Makers," 18.

⁶¹ USAID, "Humanitarian assistance," http://www.usaid.gov/our_work/humanitarian_assistance/ (accessed September 21, 2010).

D. RECOMMENDATIONS FOR INTERAGENCY COOPERATION

Exerting external influence is a credible and often effective way to advance USG foreign policy objectives. However, as noted in this paper earlier, these efforts are not full proof. The types of engagements in which the USG is currently involved require flexible strategies that can be tailored according to specific circumstances. This would be an easier task if only one USG agency was involved however, under a Southeast Asia strategy multiple agencies are involved, which makes the task exponentially more complicated. The following recommendations build on established theories and offer pragmatic solutions for improving how the USG can exert external influence in Southeast Asia.

E. WALKING THE WALK

Coordination efforts among government agencies primarily involve attending meetings and exchanging information. While it is useful for agencies to be aware of each other's activities, such meetings can be superficial and encourage agencies to continue to utilize a stove pipe approach. To get to the heart of true interagency coordination, agencies need to go beyond rhetoric and address tough issues, such as sharing money for programs where there is commonality. In Iraq, the military worked closely with the Office of Transition Initiatives (OTI) on a job creation program.⁶² With a small amount of money, approximately \$50,000; this program simultaneously improved security and generated income for disenfranchised youth. Congress repeatedly sites this particular program as a development model. Clearly more of this type of programming needs to be done. For interagency collaboration to occur, agencies must do more than “talk the talk,” they must also walk the walk where coordination is concerned.

F. UNILATERAL FOREIGN ASSISTANCE

Locations where strategies are carried out often have weak and corrupt local governments. This presents major obstacles for donor states. Donor states are forced to

⁶² Congressional Research Service (2009, May) “Office of transition initiatives after 15 years: Issues for Congress” <http://www.fas.org/sgp/crs/row/R40600.pdf> (accessed September 24, 2010).

work with leaders that lack credibility, where assistance funds will be misused and under circumstances where they will host states not get the credit they deserve for providing assistance. It is therefore important for the USG, to have mechanisms available to provide foreign assistance directly to local populations and still work with the central government. Under the new foreign assistance strategy in Philippines, direct aid is given to Philippines to ensure that local populations benefit. While it would not be possible or wise to do this under all circumstances, it would be an effective tool in broadening and deepening support among local populations.

G. PROTECTION OF FOREIGN ASSISTANCE

Foreign assistance organizations conduct assessments in specific technical areas to determine which development programs best serve host states' beneficiaries. These assessments are conducted in coordination with other donors, the host government and local populations. Once development projects are identified, the donor and host government sign a bilateral agreement outlining terms. While painstaking efforts are taken to assess, identify and implement projects, the same amount of attention is not given to protection of aid projects. Closer coordination between aid agencies and the military could help close this gap.

External influence through assistance is an important diplomatic tool, however given the types of engagements in which the USG is currently involved, it is a blunt tool. A couple of examples of challenges are as follows:

- USG aid agencies are the best funded agencies, but do not have the ability to withhold assistance if host governments do not act in the best interest of the USG.
- USG foreign policy objectives are often counterproductive. In the case of Pakistan, the USG provides \$1.5 billion dollars a year in development assistance. This overwhelmingly generous sum does not yield any goodwill with the local population, due to vehement opposition to USG supported drones. Moreover, the Pakistani government accepts the use of drones because it cannot deal with insurgencies without USG technology.

H. INTERAGENCY COOPERATION

It should be prose that United States sharpen diplomatic assistance tools, so that they can more effectively be used for external influence and that Congress change laws pertaining to types and usage of funds, so that they are more user friendly in an interagency context. Interagency cooperation has been touted as a panacea to solve communications among agencies. Policymakers have held countless conferences; written numerous white papers, lessons learned assessments and interagency memos; and tried to improve upon internal government communications for decades. Outcomes have met with mixed results, and the bottom line is that while agencies leaders give resounding approval to improve relations with their brethren; it simply is not happening. Agencies do not commit their senior level employees whom have long careers ahead of them to work on interagency relations. Since this situation exists across agencies, it means that agencies can “talk the talk” about cooperation without every really integrating program in the field. For fundamental shifts to take place in terms of how the government conducts business, topics discussed in high-level meeting must be carried out with countries the United States is trying to influence in mind. In order for this to occur, the conversation about interagency cooperation needs to be “reframed.”

In most academic articles and books on interagency collaboration, the same approach is recommended: to coordinate at the highest levels. What this looks like in reality is that agencies hold trainings, conferences, war game together and at most have offices in other agencies’ buildings. Outcomes from these activities are negligible even though it appears that something significant is taking place. The problem with this approach does not resolve how agencies can better communicate with one another. It looks good on paper, but it only partially addresses the problem. A substantial shift in this paradigm ironically would come from a nuanced change. That is to say that throwing more resources to make this work is not the answer, rather being more strategic and considering where the best points of engagement would work among agencies.

Goodwill can only go so far. The instance where interagency cooperation is as close to the ideal as possible in Southeast Asia is in the Philippines. If legislation existed,

similar in spirit to legislation that required the military to work jointly, the government could begin to “walk the walk” of true interagency cooperation throughout the world. Legislation could be drafted that gives agencies the tools to work together when it makes sense. The legislation would not be binding, but simply provide mechanisms to enable people to utilize funds and resources across agencies and in situations where common foreign policy objectives exist. DoD, DoS, USAID and other agencies in the field and at headquarters would be able to consider challenges that each face when attempting to collaborate on any given issues.

I. MILITARY COLLABORATIVE EFFORTS

The reality of any foreign policy goal is that it simply cannot be carried out by one U.S. agency; it is therefore evident that the military alone is insufficient to rebuild a State’s rule of law, economy, and provide security. Such efforts require a number of agencies’ expertise: the military to secure the area, USAID to implement development programs and the Department of State to facilitate diplomatic agreements with host governments. Fortunately, these relationships have gotten better over the years with lessons learned from successes in the Philippines. Due to access and placement, use of this collaborative model has increased recently with Military Special Operations Forces (SOF) working closely with other U.S.G. agencies in the field. However, SOF operations are sensitive and knowledge about these programs is limited. Most programs are classified which restricts who had access to read cables.

The gravity of the situation and the dire need for the military to do more than just talk is best summed up in an article by Douglas Samuelson, “Winning More with Less.” Samuelson said “The DoD situation has three relatively new aspects: first, the weak economy which makes it more important to set priorities among competing goals; second, the changing nature of military operations, which makes it necessary to consider

many more numerous and complex interactions among capabilities in order to assess what the country can accomplish; and third, the increasing number and importance of missions outside the military's traditional combat role."⁶³

The military recognized the importance of cooperation and "USSOCOM created the Interagency Task Force (IATF) to use Special Operations Support Teams (SOST) to coordinate with the interagency. The mission of the IATF is to serve as a coordinating activity within DoD and across the interagency. One of their primary goals is to be a reliable and connected entity that is able to integrate IA efforts while solving discrete problem sets that support the war on terror."⁶⁴ They have established an Interagency Partnership Program that currently places 40 USSOCOM staff officers into billets at 13 agencies and departments. This is just a small step but has shown to work. These officers provide critical situational awareness and connectivity between USSOCOM and their host organizations with the SOST main forces is counterterrorism."⁶⁵

IATF's 18 contributing organizations provide strategic guidance. In theory, these agencies should have equal say, but unfortunately due to recent success on counter terrorism (CT) programs, the IATF has focused on that singular goal. "The Special Forces community points to the successes in Afghanistan and argues that IATF should operate as task forces in the covert world at the tactical level."⁶⁶

In the Philippines, U.S. Joint Special Operations Task Force—Philippines (JSOTF-P) and other U.S. agencies are helping the Philippine government battle an insurgency. Together they have done an excellent job of providing peace, security, and

⁶³ Douglas A. Samuelson, "Winning More with Less" OR/MS Today. October 2010.

⁶⁴ IATF Mission Statement. <http://sofonline.socmil.mil/site/IATF/outreach/IAPP/default.aspx>.

⁶⁵ U.S. Congress, Senate, Statement of Admiral Eric T. Olson, U.S. Navy Commander, United States Special Operations Command before the Senate Armed Services Committee on the Posture of Special Operations Forces (March 4, 2008), 5. <http://armed-services.senate.gov/statemnt/2008/March/Olson%2003-04-08.pdf>, (accessed March 12, 2011).

⁶⁶ Bob Ulin. "About Interagency Cooperation" COL. Arthur D. Simons Center for the study of Interagency cooperation. <http://thesimonscenter.org/about-interagency-cooperation/>, (accessed March 12, 2011).

development assistance. Operations in the Southern Philippines are a model for how SOF can and should work and how to effectively counter terrorist organizations and interagency cooperation.

JSOTF-P is a small elite force that is comprised of approximately 500–600 personnel including Army Special Operations Forces, Navy Seals and Air Force special operators who act independently of the conventional military. ⁶⁷ In the Philippines, SOF liaised with Embassy officials and AFP General Headquarters to integrate cooperation without involving the red tape of the big Army. Specific examples of JSOTF-P coordination include:

- Veterinary Civic Action Programs to provide farmers livelihood assistance.
- Engineering Civic Action Programs to provide local communities infrastructure improvements such as schools, water wells, roads, piers and medical centers.
- Sharing intelligence data and other information to assist the AFP in planning future operations.
- Building AFP capacity through subject matter expert exchange programs to exchange lessons learned on subjects such as: Civil Military Operations Planning, Maritime Operations, and Casualty Evacuation.⁶⁸

These efforts have been applauded by other agencies with whom SOF worked. One USAID official said, “Close inter-agency cooperation gives all U.S. government stakeholders an opportunity to discuss ongoing aspects of programs to ensure that all participating agencies have a clear understanding of overall objectives and the operational aspects of projects.” ⁶⁹ An Embassy official stated, “This well-established

⁶⁷ Joint Special Operations Task Force – Philippines, Web page JSOTF-P Fact Sheet <http://jsotf-p.blogspot.com/2009/04/jsotf-p-fact-sheet.html> (accessed March 12, 2011).

⁶⁸ Joint Special Operations Task Force – Philippines, Web page JSOTF-P Fact Sheet <http://jsotf-p.blogspot.com/2009/04/jsotf-p-fact-sheet.html> (accessed March 12, 2011).

⁶⁹ U.S. Department of State, USAID Philippines home webpage. <http://philippines.usaid.gov/>(accessed March 10, 2011).

civilian-military cooperation has enhanced the effectiveness of U.S. foreign assistance, spread the benefits of assistance more widely, and fostered goodwill towards America among the Philippine people.”⁷⁰

The USAID program was just one agency that worked on the joint task force, but they were the driving force in scheduling medical, dental and veterinary exercises. They also worked with the military to deploy to nearby islands to build schools and medical clinics. In this scenario, USAID acted as a bridge between the military and nongovernmental organizations that did not want to work directly with the military. SOF provided access and placement that enabled development workers to know where to work and identify projects that were priorities for the community. “In the Philippines, the United States takes a holistic approach to fostering peace and security, an approach which combines the efforts of USAID, the Department of Defense, the Department of State, and the Department of Justice. There are numerous mechanisms for exchanging information between these and other agencies, with the overall aim of providing guidance and recommendations to the U.S. Country Team, the U.S. Government’s primary policy-making body in the Philippines.” This quote is only partially correct. The success of the program was due to SOF not larger DoD efforts.

J. INTERAGENCY CHALLENGES

DoD and other USG agencies have their own cultures, standard operating procedures (SOPs) and rules. With no interagency schools and limited training opportunities before working together in the field, one can easily see how problems arise. Once in the field, agencies are often under stringent deadlines to meet foreign policy goals and undergo extreme scrutiny from Congress and the Administration. Moreover, the situation is complicated by different authorities, types of money, organizational goals for which each agency must adhere. While there are many challenges, as previously mentioned, that impede cooperation, there are a few key challenges that, if addressed, would substantially improve the flow of communication.

⁷⁰ U.S. Department of State. Embassy of the United State, Manila Philippines. Embassy home webpage. <http://manila.usembassy.gov/> (accessed March 10, 2011).

K. DISCREPANCIES IN CLEARANCES

DoD and State must establish standards of information sharing at the appropriate classification level. Previously noted, was the fact that military efforts are often not known because of this issue. As it stands now, exchanging information is problematic because each agency has different types of clearances. This makes it impossible to freely share information with counterparts as one is unsure if the person whom they are briefing has the appropriate clearance. The current practice of different agencies having individual security clearances procedures should be replaced by one in which a single agency is responsible for establishing, providing, and maintaining all clearances within the federal government.

L. INABILITY TO SHARE RESOURCES

Some agencies have money, others do not. Of the agencies that have money, Congress has attached specific instructions on how money can be used, what it can be used for and when it can be spent. Within an agency, it is complicated enough to figure out under what circumstances monies can be used and for what programs. The situation quickly becomes much more obscure, when one tries to figure out how one agency could utilize money that is from another agency.

M. PREVIOUSLY INTRODUCED LEGISLATION

The Goldwater- Nichols Department of Defense Reorganization Act (GNA) is the most notable piece of legislation that has impacted coordination, and is a successful model which could be instructive for future legislation. In 2009, (H.R. 2207) titled, “The Interagency Cooperation Commission Act” was introduced. Even though it could help reduce the cost of doing business overseas while promoting a more streamlined model for cooperation, the bill died in committee. For this, discussion is important to consider both pieces of legislation, since they would be useful documents in which to refer as one moves forward.

N. GOLDWATER-NICHOLS DEPARTMENT OF DEFENSE REORGANIZATION ACT

In 1986, Congress passed the Goldwater-Nichols Department of Defense Reorganization Act (GNA). This act was sponsored by Senator Barry Goldwater and Congressman Bill Nichols and brought about sweeping changes in Department of Defense. Specifically, these changes “centralized operational authority through the Chairman of the Joint Chiefs as opposed to the service chiefs; designated the chairman as the principal military advisor to the president, National Security Council and secretary of defense; established the position of vice-chairman and streamlined the operational chain of command from the president to the secretary of defense to the unified commanders.⁷¹ In essence, the Act elevated the military’s advisory capacity within the Administration and mandated joint operations among all branches of the military. Additional legislation: Joint Vision 2010 passed in 1996 and Joint Vision 2020 passed in 2000, further expanded joint operations. They stated that “the most effective force must be fully joint: intellectually, operationally, organizationally, doctrinally, and technically. The joint force, because of its flexibility and responsiveness, will remain the key to operational success in the future.”⁷²

O. THE INTERAGENCY COOPERATION COMMISSION ACT

“Congressman Randy Forbes (D-VA) introduced legislation (H.R. 2207) titled, “The Interagency Cooperation Commission Act” on April 30, 2009. The purpose of this commission is “...to examine the long-term global challenges facing the United States and develop legislative and administrative proposals to improve interagency cooperation.”⁷³ This legislation died in committee in the 111th Congress.

⁷¹ Paul Besson, The Goldwater-Nichols Act: A Ten-Year Report Card, 28 <http://pirp.harvard.edu/pubs-pdf-new/besson/besson-p98-2.pdf>, (accessed March 11, 2011).

⁷² Paul Besson, The Goldwater-Nichols Act: A Ten-Year Report Card, 28 <http://pirp.harvard.edu/pubs-pdf-new/besson/besson-p98-2.pdf>, (accessed March 11, 2011).

⁷³ Representative John Forbes R-VA, <http://www.opencongress.org/bill/111-h2207/show>, (accessed March 11, 2011).

With a rising deficit, agencies being asked to do more with less, and a weary military, the timing is right for legislation which facilitates cooperation on the ground. While practitioners from all agencies contend that coordination is occurring at the highest levels, beyond meetings, “looping in” other agencies and seeking clearances on classified documents, one can argue that it is not. The types of coordination that are needed in the field are agencies jointly: writing assessments that inform the types of programs to implement; co-implementing programs; sharing funding spigots and being held responsible for a programs successes and failures as a co-managed program rather than by agency. Simply put, the current framework for all agencies merely enables them to get the mission done in the most effective means.

Efforts in Philippines offer glimpses of what successful joint activities could look like. While these engagements may have a few glitches, it is clear that with a directive to coordinate these models could expanded and retooled to ensure the United States is able to be more effective use taxpayers’ dollars while ensuring that intended beneficiaries reap the greatest benefits. Admiral Mullen may have said it best, “The days where a single service, a single department, a single anything can make things happen are behind us, it’s got to be integrated, and it’s got to be all of us doing this together.”

The trend that the United States will just outspend China is cause for concern. The optics of providing assistance is honorable, while the optics of use of military force is not. However, in an influence framework, both strategies produce the same results: to advance a country’s interest and deter the opposition from expanding. The problem with this is that it leads to all forms of assistance support being left unchecked. In other words, as long as assistance is given, recipient’s countries gladly collect their checks without considering what is being asked of them. This leaves the door open for countries such as China (and the United States) to provide assistance for the sole purpose of political gain. In addition, it promotes countries providing support to the highest bidder.

“In Palau, the Compact of Free Association has worked well for the last 15 years; however, this agreement was recently renegotiated. The agreement was slated to end in

2009, which meant the end of a \$15 million a year commitment by the United States.”⁷⁴ The Government of Palau (GoP) was stringently opposed to this. In numerous articles during the negotiation, the GoP said that the United States has not adhered to promises and cautioned that they will be forced to look for other friends for support. This is a thinly veiled threat to the United States that Palau will look to China for friendship and financial support.

Influence is a high-stakes game that super powers must play. The United States and China are both major players and small countries act in supporting roles. Still small countries are able to impact strategies at the highest levels. They are able to leverage more assistance and change their allegiances, both of which greatly impact the overall game. Given the cost and importance of influence, it is useful to develop a model to quantify: what the “buyer” is getting and what is lost—or gained—if assistance is not provided. Game theory gives us a model to analyze these questions and make informed decisions.

⁷⁴ Stefan Halper, “Beijing's Coalition of the Willing” *Foreign Policy*. July/August 2010. http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing (accessed August 30, 2010).

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VII. GAME THEORY

A. GAME THEORY

“Game Theory” is a tool to demonstrate possible outcomes between the United States and China in the influence and assistance realm. It is loosely based on the United States–U.S.S.R. game theory during the Cold War. The following game model identifies assumptions, an outline of possible outcomes, identifies options without communication, strategic moves, first move options, threats, promises, prudential security, interval scaling, and combinations of tactics, and recommendations.

1. Assumptions

- Less assistance does not lead to less influence if both the United States and China give less assistance.
- If one country gives more assistance, it will gain more influence.
- The more assistance the United States gives to another country, the more money it has to borrow and the less money it will have for domestic programs.
- The more assistance the United States gives; the more debt it will incur.
- The more debt the United States incurs, the more it has to borrow from China.
- Both the United States and China are rational.
- Both the United States and China are attempting to maximize their outcomes.

B. OUTLINE OF POSSIBLE OUTCOMES.

It is important to understand the set-up of the game, in order to determine cause and affect relationships among options. Below is Matrix 1, which highlights the various outcomes of options.

Matrix 1

| | | China | |
|--------------------------|------------|--------------------------|------------------------|
| | | Less Assistance | More Assistance |
| | | C | D |
| | | Less Assistance A | A C |
| United States | | | |
| More Assistance B | B C | B D | |

For Matrix 1, the four possible outcomes are as follows:

- AC – The United States gives less assistance and maintains level of influence. China gives less assistance and level of influence stays the same.
- AD - The United States gives less assistance and level of influence decreases. China gives more assistance and gains influence.
- BC – The United States gives more assistance and gains influence. China gives less assistance and level of influence decrease.
- BD – To keep pace with China, the United States gives more assistance thereby falling deeper into debt while not increasing the level of influence. China increases assistance to gain influence and to make the United States spend more money.

C. OPTIONS

Parameters must be established to understand how the game is played. The following options available to the United States and China are listed in rank order. Options available to the United States and China are ranked from best to worst (4 to 1).

D. U.S. OPTIONS

4 – Best – Both the United States and China lower assistance without either losing any influence.

3 – Next Best – The United States gives more assistance and China gives less. Under this scenario, the United States is able to buy more influence than China. The cost of influence will result in greater debt for the United States, but decision makers agree it is worth it.

2 – Least – The United States gives less assistance and China gives more. In this case, the United States will lose the influence race to China. The United States does not spend as much money overseas and the world looks to China as the world leader.

1 – Worst – The United States gives more assistance in order to keep up with China. By both United States and China giving more assistance, neither one surpasses the other. The United States goes deeper in debt and has to borrow more money from China.

E. CHINA'S OPTIONS

4 – Best – China and United States both give more assistance. Neither country gains influence. However, this option is detrimental for the United States because the United States will have to borrow more money and fall deeper in debt to keep up with China. Furthermore, at any time, China could turn off the cash flow to the United States

3 – Next best – China gives more assistance and gains more influence.

2 – Least best – China gives less assistance and loses influence. The world sees China lacking influence. China is helping the United States gain influence by loaning the U.S. money.

1 – Worst – Both China and the United States give less assistance neither increase their influence. The United States benefits in that it is able to spend more money at home and borrow less from China.

F. MATRIX 2

Matrix 2 shows options between the United States and China using numeric values. The United States arrows are in blue with China in red. The arrows illustrates the direction each side would shift based on their opponent's move/policy.

Matrix 2

| | | China | |
|-----|-------------------|----------------------|----------------------|
| | | Less Assistance C | More Assistance D |
| U.S | Less Assistance A | 4 1 | 2 3 |
| | More Assistance B | 3 2 | 1 4 |

G. STRATEGIC MOVES

The United States and China both have a dominant strategy that is not based on either's decision.

- No matter what the United States chooses, China will continue to give more assistance to gain more influence than the United States and to be seen as a world power.
- The United States has to give less assistance due to their rising debt and the need to spend the money on domestic programs.
- As a result of an expected payoff, it is determined that a Nash Equilibrium exists at (2, 3).
- The likely outcome without communication would be (2, 3).

In summary, in this dominant strategy, the United States gives less assistance and China gives more. The outcome would result in the United States losing the world influence race to China, the world looking to China as the world leader notwithstanding any of these pre-emptive moves or outcomes. In any event, the USG must have open communication with China in order to determine whether the United States has a first move, threat, promise, or a combination.

H. FIRST MOVE FOR THE UNITED STATES AND CHINA

United States first move:

- If the United States does A, then China does D, implies (2, 3).
- If the United States does B, then China does D, implies (1, 4).
- The United States would chose outcome (2, 3) same as without Communication

China first move:

- If China does C, then United States does A, implies (4, 1).
- If China does D, then United States does A, implies (2, 3).
- China would choose (2, 3), the better option from their perspective.

Both The United States and China would want the other to go first. If the United States to go first China could do no worse than a (2, 3) but could get (1, 4). If China's to go first The United States could do no worse than a (2, 3) but could get (4, 1).

I. THREAT

United States issuance of a threat:

- The United States wants China to do C which is to gives less assistance.
- The United States wants China to “play” C. If China does D and the United States does the opposite of what it is logical and chooses option B the outcome would hurt United States interests. With an outcome of (1,4) China would benefits rather than be adversely affected.

The United States does not have a threat. (It should be noted the China also does not have a threat)

J. PROMISE

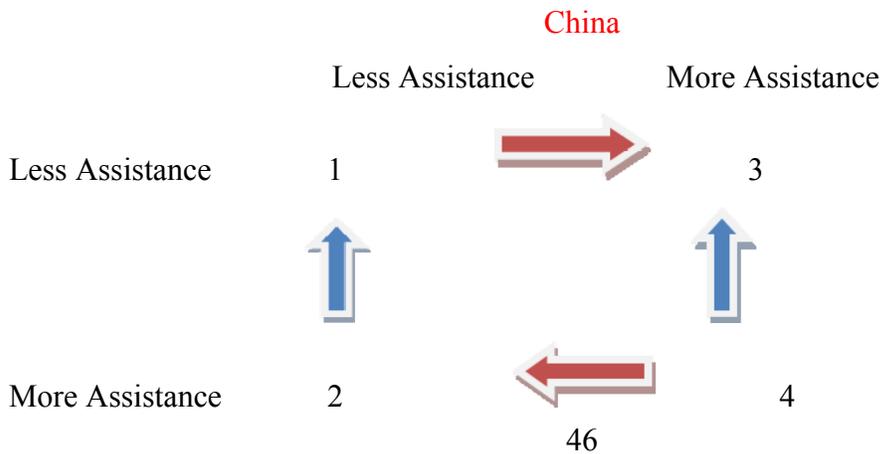
The United States wants China to do C. If China does C and the United States hurts itself, by choosing B, the outcome would be (3, 2). In the scenario, China benefits by increasing its statist from a “1” to a “2,” the United States decreases it status from a “4” to a “3”; and the a promise eliminates (4, 1). While this appears to benefit the United States, it does not. China can still increase his utility with D, and the United States cannot get China to Choose C with a promise. It should also be noted the China is in the same situation as the United States with their promise.

Just like the height of the arms race during Cold War with the U.S.S.R, the United States has limited on options. Without the time to wait for a first move, the United States needs to analyze threat and promises on both sides of prudential security to determine the most advantageous course of action.

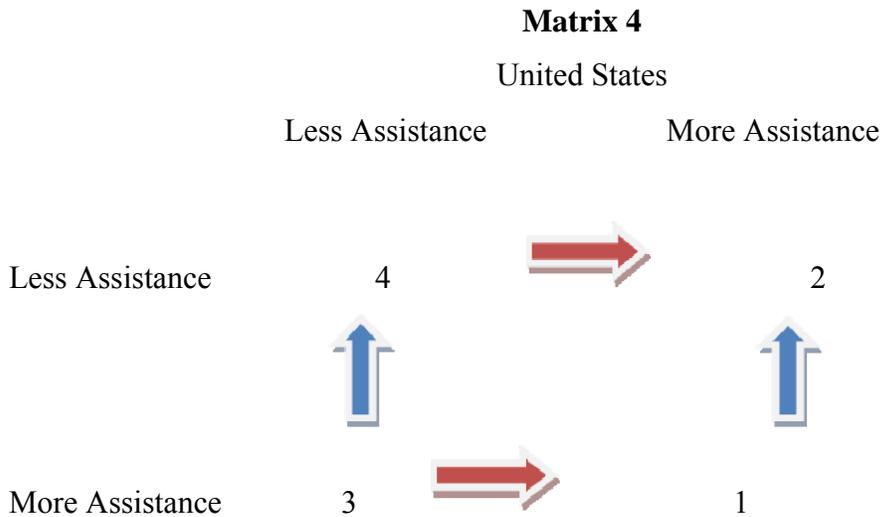
K. PRUDENTIAL SECURITY

The next important step to understanding the problem is to analyze each player’s security level. In this game, the objective is for the player whose game is being analyzed to maximize its outcome. The result demines a security value for the United States and China.

Matrix 3



Matrix 3 shows the results of China as a singular player. China is attempting to maximize their outcome. The United States is attempting to minimize China's outcome. The prudential simultaneously strategy is D and the value of the game for China is 3.



Matrix 4 shows the results of United States as a singular player. United States attempting to maximize their outcome: while China is attempting to minimize the U.S. outcome. The prudential strategy is A and the value of the game for United States is 2. When China and the United States play individually, the security for the United States and China are (2, 3). Matrix 5 will illustrate these two security levels and highlight that, when graphed; the result is a zero sum game.

L. PRUDENTIAL STRATEGIES

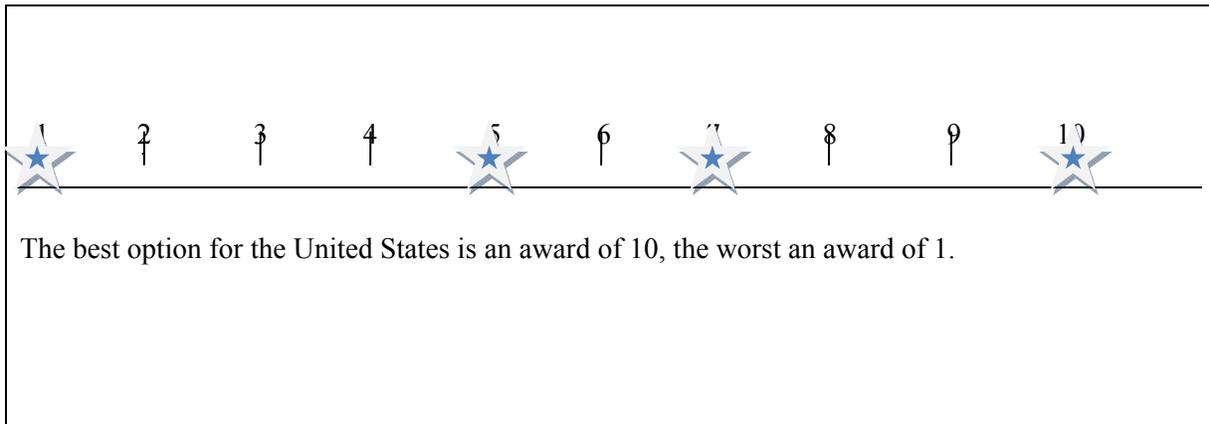
Prudential strategy is another way to shows that the United States should always play A and China should plays D for an outcome of (2, 3) With this outcome, the United States must revisit how to use assistance for influence. This is not acceptable if the United States wants to maintain being the world leader.

M. INTERVAL SCALING

An interval scale allows weighted preference of options available to the United States and China. The next two matrixes will illustrate the cardinal utilities. The numbers will reflect the individual preferences of the United States and China.

Interval Scaling of Cardinal Utilities for the United States

10 - Both United States and China lower assistance without losing any influence.

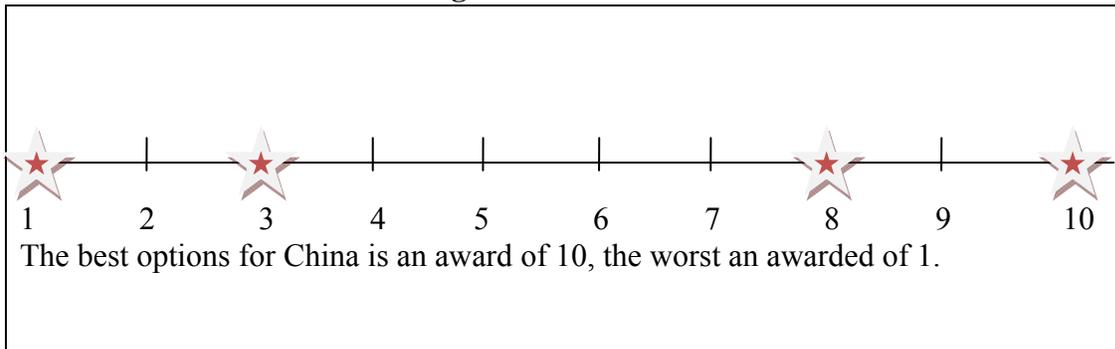


7 – The United States gives more assistance and China gives less. Under this scenario, the United States is able to buy more influence than China. The cost of influence will result in greater debt for the United States, but policymakers agree it is worth it.

5 – The United States gives less assistance and China gives more. In this scenario, the United States is losing the world influence race to China. The United States may not be spending as much money overseas but the world is looking to China as the world leader.

1 – The United States has to give more assistance to keep up with China. By both the United States and China giving more assistance neither one gains on the other. The United States goes deeper in debt and has to borrow more money from China.

Interval Scaling of Cardinal Utilities for the China



10 – China and United States both have to give more assistance. China will not gain more influence than the United States in the short run, however in the long run the United States will have to borrow more money to keep pace and will fall deeper in debt. At any time the China can turn off the cash flow to the United States

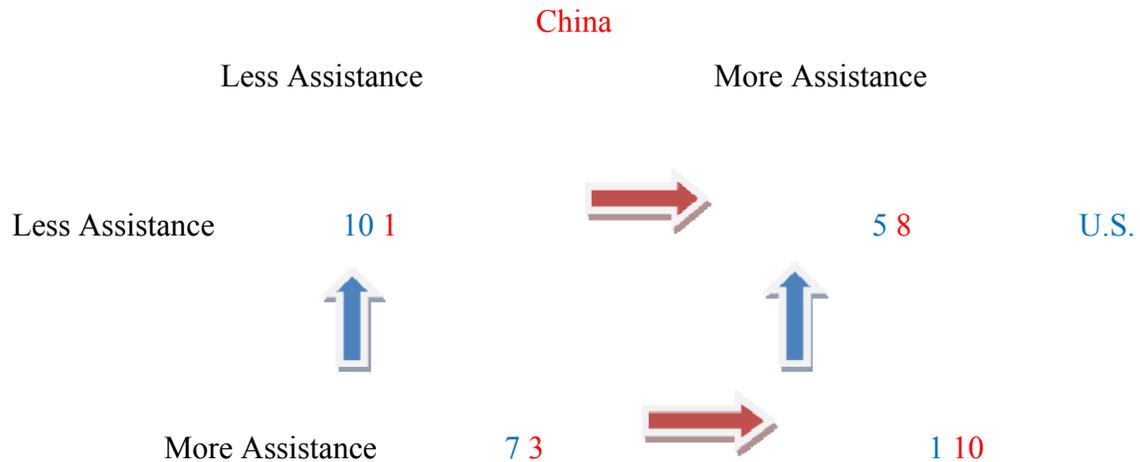
8 – China gives more assistance and gains influence. The United States gives less and is looked weaker in the eyes of the world.

3 – China gives less assistance and loses influence. The world sees China as a back seat player. China helps the United States gain influence by loaning them the money.

1 – Both China and the United States give less assistance. China does not gain influence on the United States The United States is able to spend more money domestically and borrows less from China.

Matrix 6 Options available to the United States and China with assigned Cardinal Utilities.

Matrix 6



The outcome with cardinal utilities is consistent with the original game. China will continue to give assistance to expand their influence, and the United States will be forced to lower the amount they give, so that they do not go deeper into debt and so money can be spent domestically. The United States cannot keep spending money if China keeps pace. In that case, the United States will go deeper into debt and throw good money after bad.

VIII. CONCLUSION

The PRC and the United States are in a zero sum game to see who will wield the most influences in Southeast Asia. The national deficit is over \$14 trillion, and has reached a point where it jeopardizes national security. Many analysts contend that China's growing influence may come at the expense of U.S. power and influence in the region.⁷⁵ The complexities of China's growing influence are multifaceted, and, the United States cannot ignore that it could lose ground in key regions throughout the world. One example of this is the PRC's aid in Burma, Cambodia, and Laos. China focuses on the poorest countries in Southeast Asia and ones that have had relatively unfriendly relations with the United States. China is considered the primary supplier of economic and military assistance to these countries and provides an implicit security guarantee.⁷⁶ Provocative PRC actions coupled with a bleak United States economy, force the U.S to look at different ways in which it could achieve its strategic objectives. The stakes are high and a wrong move could adversely affect years of productive diplomacy and waste millions of dollars of foreign assistance.

The President, Congress and recently-established debt commission made recommendations on how to decrease the deficit. Ideas range from a 5% cut across all government agencies to cutting DoD's appropriation by \$100 million dollars to getting rid of agencies all together. While these ideas – and many more – will be debated, it will take time for legislation to change how the USG appropriates money. In any event, the point that is evident is that all agencies should be prepared to deal with likely cuts. To contend with smaller budgets, the military, DoS, DoD, and USAID must determine how to utilize dwindling resources more effectively without undermining U.S. interests overseas. Never before has this task been such a difficult endeavor.

⁷⁵ CRS Report for Congress, China's "soft Power" in Southeast Asia, January 4, 2008, 1.

⁷⁶ 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, 2007.

Military budgets cut have to be effective, forward thinking and rational to ensure that the wrong message isn't being sent to the PRC and Southeast. The United States must overhaul how interagency cooperation is been used. Duplicate programs, red tape and lack of awareness are causing the United States to waste time, money and manpower. The United States must work with allies in and out of the region to leverage common security strategy. China is not going away and will only continue to persuade countries to adopt their objects.

It therefore is imperative for the Administration, Congress and the DoD to work together to determine the way forward. With the right type of assistance interventions, not simply spending dollar for dollar, the United States can reverse this image problem and do so while taking into account shrinking appropriations. Furthermore, as outlined in "the game" section of this Thesis, the rub is that if the United States continues on its current trajectory, the United States will fall further into debt from money that was borrowed from China while treading water and not advancing U.S. policy objective in the influence game.

The PRC has assembled a comprehensive, complex, multi-faceted approach to building its prestige in Southeast Asia. Such an all-encompassing strategy can only be countered by an equally well-thought out response. It is no longer relevant, nor advisable for the United States to simply check the PRC at each turn. The PRC's strategy looks 50 years ahead and for the United States to keep pace, U.S. policies too must have an eye toward the future.

The United States is at a cross roads, and decision makers at the highest levels must decide which path to take. The longer the decision is prolonged, the more difficult it will be to win over countries which have negative views of the United States and it will come at a greater financial cost, which we cannot afford. I believe the "next" Cold War will be between the United States and China and that influence will be fought with foreign assistance rather than nuclear weapons. Unlike the "first" Cold War with Soviet Union, where the United States sought to outspend the Russians in the nuclear arms race, this Cold War will be a race to outspend the Chinese on a supermall in a small obscure country in Southeast Asia.

APPENDIX. BATTLE FOR THE PARACELS ISLANDS

A. GAME THEORY

“Game Theory” is a tool to demonstrate possible outcomes between Vietnam and China for the control of the Paracals Island. The following game model identifies assumptions, an outline of possible outcomes, identifies options without communication, strategic moves, first move options, threats, promises.

1. Assumptions

- Paracals Island has massive oil and natural gas resources
- China needs resources more than Vietnam to fuel its economy
- Mekong River will be a factor due to China able to control water flow and Vietnam’s dependence.
- Both counties see themselves as the rightful owner of the Islands.
- ASEAN will not get involved due to only China and Vietnam claim the Paracals Islands. Unlike the Spratly Island where five counties have claims.
- ASEAN will condemn the action by the aggressor State but will not provide aid or military support.
- The United States will not engage with military action.
- China and Vietnam could go to war over the Paracals Island due to the fact China and Vietnam have history of going to war against each other. Also, the resources that are at stake make it more likely.
- If both sides go to war, China will not invade main land Vietnam. They will be fighting for what they see is rightly theirs, the Paracels Islands. Also, Vietnam is less likely to continue to fight if they lose the Islands if main land Vietnam is not invaded.
- If a Vietnam or China tries to take by force, war is likely to occur.
- If China or Vietnam drills for oil or natural gas, it is the same as take by force.
- If both counties do nothing, the issues will remain the same and fall under concede control.

B. OUTLINE OF POSSIBLE OUTCOMES

It is important to understand the set-up of the game, in order to determine cause and affect relationships among options. Below is Matrix 1, which highlights the various outcomes of options.

Matrix 1

| | China | |
|--------------------------|------------------------|------------------------|
| | Take by force | Concede Control |
| Take by force A | C A C | D A D |
| Concede control B | B C | B D |

Vietnam

Take by force is that the country is willing to go to war.

Take by force is also drilling for oil or natural gas

If no actions are taken, the issue will remain the same and fall under Concede Control

For Matrix 1, the four possible outcomes are as follows:

- AC – Vietnam is willing to go to war to take control or if China tries to take control of the Paracels Island. China is will to go to war to take control or if Vietnam tries to take control of the Paracels Island.
- AD – Vietnam will occupy by force and willing go to war for the Paracels Island. China is willing to concede control to Vietnam.
- BC – Vietnam is willing to concede control to China. China will occupy by force.
- BD – Vietnam or China will take no further actions and will leave the resources untouched.

C. OPTIONS

Parameters must be established to understand how the game is played. The following options available to the Vietnam and China are listed below in rank order. Options available to the United States and China are ranked from best to worst (4 to 1).

1. Vietnam's Options

4 – Best – Vietnam takes control of the Paracels Island without China's involvement.

3 – Next Best – Vietnam and China leave the situation as is.

2 – Least – Vietnam and China go to war over the Paracels Island. By going to War Vietnam has a chance to gain control of the Paracels Islands.

1 – Worst – Vietnam concedes control of the Paracels Islands to China and is unable to receive any resources. Also looks weak to China and unable to protect other interests (Mekong River and disputed land in the North)

2. China's Options

4 – Best – China takes control of the Paracels Island without Vietnam involvement. China will have the resources to feed its economy with less outside support.

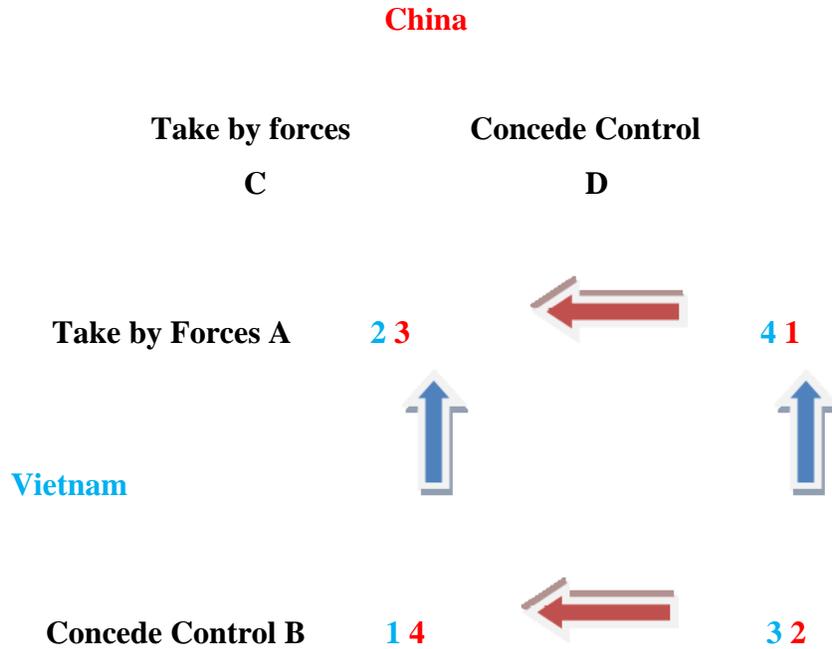
3 – Next best – China goes to war for the Paracels Island with it being likely of winning due a more powerful Navy and Air Forces.

2 – Least best – The situation stays the same and China has to spend more money on oil and gas. China and the world will one day need these resources. The faster China gains control the fast their influence and power will grow.

1 – Worst – Vietnam takes control of the Paracels Island and China concedes control, looking weak on the world stage and spending more money for oil and gas.

D. MATRIX 2

Matrix 2 shows options between the Vietnam and China using numeric values. The Vietnam arrows are in blue with China in red. The arrows illustrates the direction each side would shift based on their opponent's move/policy.



E. STRATEGIC MOVES

Vietnam and China both have a dominant strategy that is not based on either's decision.

- No matter what Vietnam chooses, China will continue to give to try to gain control of the needed resources of the Paracels Island and to see as a world power.
- Vietnam would like for China to concede control or maintain status quo, but that is unlikely. China's best to options is to take by forces.
- As a result of an expected payoff, it is determined that a Nash Equilibrium exists at (2,3).
- The likely outcome without communication would be (2,3).

In summary, in this dominant strategy, the game matrix shows both China and Vietnam using force. This also shows China is more likely to use force than Vietnam. The outcome would result in China willing to use forces/to go to war and Vietnam not conceding control notwithstanding, any of these pre-emptive moves or outcomes. In any

event, the Vietnam must have open communication with China in order to determine whether Vietnam has a first move, threat, promise, or a combination.

1. First Move for the Vietnam and China

Vietnam first move:

- If the Vietnam does A, then China does C, implies (2, 3).
- If the Vietnam does B, then China does C, implies (1, 4).
- The Vietnam would chose outcome (2,3) same as without Communication

China first move:

- If China does C, then Vietnam does A, implies (2, 3).
- If China does D, then Vietnam does A, implies (4, 1).
- China would choose (2, 3), the better option from their perspective.

Both Vietnam and China would want the other to go first. If Vietnam were to go first, China could do no worse than a (2, 3) but could get (1, 4). If China went first, Vietnam could do no worse than a (2, 3) but could get (4, 1).

2. Threat

Vietnam issuance of a threat:

- Vietnam wants China to do D which is to concede control.
- Vietnam wants China to “play” D. If China does C and the United States does the opposite of what it is logical and chooses option B the outcome would hurt Vietnam interests. With an outcome of (1,4) China would benefits rather than be adversely affected.

Vietnam does not have a threat. (It should be noted the China also does not have a threat)

3. Promise

Vietnam wants China to do D. If China does D and the Vietnam help itself, by choosing B, the outcome would be (3, 2). In the scenario, China hurts itself by decreasing its status from a “2” to a “1,” Vietnam decreases its status from a “4” to a “3”; and the promise eliminates (4,1). While this appears to benefit Vietnam, it does not. China can still increase his utility with C, and the Vietnam cannot get China to Choose D with a promise. It should also be noted the China is in the same situation as Vietnam with their promise.

Without the time to wait for a first move, Vietnam needs to analyze threat and promises on both sides of prudential security to determine the most advantageous course of action.

4. Prudential Security

The next important step to understanding the problem is to analyze each player’s security level. In this game, the objective is for the player whose game is being analyzed, to maximize its outcome. The results determine a security value for Vietnam and China.

Matrix 3

| | | China | |
|-------------------|---|---|--|
| | | Take by Forces C | Concede Control D |
| Take by Forces A | 3 |  | 1 |
| |  | |  |
| Concede Control B | 4 |  | 2 |

Matrix 3 shows the results of China as a singular player. China is attempting to maximize their outcome. Vietnam is attempting to minimize China's outcome. The prudential simultaneously strategy is C and the value of the game for China is 3.

Matrix 4

| | Take by Forces C | Concede Control D |
|-------------------|---------------------|----------------------|
| Take by Forces A | 2 | 4 |
| Vietnam | | |
| Concede Control B | 1 | 3 |

Matrix 4 shows the results of Vietnam as a singular player. Vietnam attempting to maximize their outcome, China is attempting to minimize the Vietnam outcome. The prudential strategy is A and the value of the game for Vietnam is 2. When China and Vietnam play individually, the security for Vietnam and China are (2, 3). Matrix 5 will illustrate these two security levels and highlight that, when graphed; the result is a zero sum game.

5. Prudential Strategies

Prudential strategy is another way to show that Vietnam should always play A and China should play C for an outcome of (2, 3). With this outcome, Vietnam must revisit how to stop China from taking the Paracels Islands.

F. HOW THE WAR FOR THE PARACELS ISLAND COULD HAPPEN

In the last 20 years, PRC has embarked on an aggressive campaign to find much-needed resources to support the country's rapid growth. Most recently, China identified the Paracels Island as having critical stores of oil and natural gas, which China could use to fuel its red hot economy. However, in order for China to obtain resources, China has

had to become increasingly more political. One example is China's determination to split up ASEAN by driving a wedge between Mainland and Maritime supporters. The calculus for this maneuver was that ASEAN would not economically or militarily support Vietnam, or any other country that has policies counter to the PRC. Another tactic China has employed is to exert its will regardless of world opinion. In the past, China dammed the Mekong River, but later released the water. Now it is expected that China will dam the Mekong in order to control the flow of water to Thailand, Cambodia and Laos and provide aid to offset the damming. China will state that they needed to dam the river due to their needs and interests and that they rightfully control the upper Mekong. Since the Mekong River is the life blood for Vietnam, it will be forced to take action and go to ASEAN to ask for help. However, given China's influence in ASEAN, ASEAN would condemn the action but state that this issue is between China and Vietnam. With no alternatives, Vietnam would try to destroy the dams on the upper Mekong River which would cause China to take control of the Paracels Island. China would justify the action base on security and state that they are the rightful owner of the Paracels Islands. China would keep all actions to the Sea of China and with a more powerful Navy and Air Forces, take control of the Islands.

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