

## Asia Pacific

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*This chapter examines the strategic challenges the United States confronts in the Asia-Pacific region and argues that the United States should work with allies, partners, and multilateral organizations to build a rules-based regional order that includes China and advances U.S. national interests. This requires sustaining the U.S. rebalance to the Asia-Pacific and intensifying cooperation with other regional actors to shape China's choices. The chapter begins by reviewing the history of U.S. engagement with Asia and describing the range of important U.S. national interests located in the Asia-Pacific region or strongly influenced by developments there. It then reviews major trends shaping the region (including economic dynamism, China's rise, and the U.S. rebalance to Asia) and considers specific security challenges in Northeast Asia, the Korean Peninsula, the China-Taiwan relationship, and in the South China Sea. The authors argue that the United States needs to devote high-level attention to its alliances in Asia, to cooperation with new regional security partners, and to shaping the Asia-Pacific strategic and economic order in favorable directions. These actions will place the United States in a better position to shape China's strategic choices and integrate China within a rules-based regional and global order.*

America's engagement with Asia began before the United States existed. In February 1784, the ship *Empress of China* departed New York harbor, arriving in Macau in August of that year. The ship returned the following year with a cargo of Chinese goods that netted a \$30,000 profit. In Federalist Paper No. 4, John Jay referred to American commerce with China and India.

In 1835, before the United States touched the shores of the Pacific Ocean, the U.S. Navy East India Squadron was established. In 1844, China, in the Treaty of Wanghia, granted trading rights to the United States. Two years later, the United States attempted to negotiate a commercial treaty with Japan. The talks ended in failure, but a decade later

## Przystup and Saunders

Commodore Matthew C. Perry concluded the Treaty of Kanagawa, opening Japan to American goods and providing protection for shipwrecked American sailors engaged in the China trade.

In the last half of the 19<sup>th</sup> century, U.S. commercial interests expanded rapidly. At the end of the century, U.S. interests expanded beyond trade. In the Treaty of Paris ending the Spanish-American War, Spain ceded the Philippines and Guam to the United States.

Expansion across the Pacific brought the United States into contact with the geopolitics of Asia, focused then on China and the efforts of the imperial powers (France, Germany, Great Britain, Italy, Japan, and Russia) to carve out spheres of influence and commercial privileges in the weakening Qing empire.

Over the past century, the United States has adopted multiple policy frameworks to protect and advance its national interests in the Asia-Pacific region. The Open Door policy toward China represented a unilateral U.S. initiative aimed at rejecting imperial spheres of influence and special privilege and advancing the principle of equality of commercial opportunity. The Open Door evolved into a multilateral framework for managing commercial competition in China. A second Open Door note, issued at the time of the Boxer Rebellion, appealed to the imperial powers to preserve China's territorial and administrative integrity.

President Theodore Roosevelt, playing balance-of-power politics, aligned the United States with Japan to check Russia's efforts to develop an exclusive sphere of influence in Northern China and Korea. Roosevelt's diplomatic intervention in the Treaty of Portsmouth brought the Russo-Japanese war to a close.

In 1920, at the Washington Conference, the United States worked to fashion a multilateral, cooperative framework to preserve China's territorial integrity and the postwar status quo in the Asia-Pacific region. Lacking any enforcement mechanism, the Washington Conference system failed to meet the challenges of rising Chinese nationalism, the great depression, and Japanese unilateralism.

From 1945 through the end of the Cold War and the Barack Obama administration's rebalance to the Asia-Pacific, the United States has relied on bilateral security treaties with Japan, the Republic of Korea (ROK), Australia, the Philippines, and Thailand to protect and advance its security interests. This bilateral "hub and spokes" framework has served as the region's informal security structure, underpinning its remarkable postwar reconstruction and present-day prosperity. Today, the hub-and-spokes framework is evolving to encompass trilateral cooperation among alliance partners and multilateral cooperation involving U.S. allies and strategic partners.

## Asia Pacific

The common principle underlying these various policy approaches is the concept of “access”: economic access to the markets of the region to pursue U.S. commercial interests; strategic and physical access to our allies to ensure confidence in U.S. security commitments; and political access to allow for the promotion of democracy and human rights.

At the same time, the United States has championed the evolution of a postwar liberal, open, rules-based international order allowing for the free flow of commerce and capital supported by the Bretton Woods institutions of the World Bank, International Monetary Fund, General Agreement on Tariffs and Trade, and its successor the World Trade Organization. At the same time, the United States has promoted efforts to support international stability and the peaceful resolution of disputes. This principled U.S. commitment has contributed significantly to the stability and prosperity of the Asia-Pacific region today.

### **U.S. National Interests in the Asia-Pacific Region**

The United States has a range of important national interests either located in the Asia-Pacific region or strongly influenced by developments there. These interests include:

- defense of the homeland, U.S. territories, and U.S. citizens
- maintenance of an open, rules-based international order, including resolution of disputes through peaceful means rather than coercion or the use of force
- access to the region and freedom of navigation in the maritime and air domains
- maintenance of a stable balance of power that supports regional stability and promotes economic prosperity joined with opposition to any power or group of powers that would deny U.S. access to the region or threaten U.S. interests
- strengthening U.S. alliance relationships and reinforcing U.S. commitment to security of its allies
- prevention of the proliferation of weapons of mass destruction and missile delivery systems

- promotion of global norms and values, such as human rights, democracy, and good governance.

### **Defining Trends in the Asia-Pacific Region**

The Asia-Pacific region is marked by important opportunities and challenges that require high-level attention. Economic dynamism is increasing the region's weight in world affairs and its importance to U.S. interests. China's rise is part of this positive story, but Beijing is also converting its astonishing economic growth into military power and diplomatic influence that are challenging the regional balance of power and threatening the stability of the existing order. The Obama administration has responded to regional opportunities and challenges via its rebalance to the Asia-Pacific, which sought to increase U.S. diplomatic, military, and economic engagement there. U.S. interests merit increased strategic attention and resources, but the next administration will need to decide how to sustain the rebalance and what adjustments are necessary given the changing global and regional strategic environment and the U.S. domestic political context.

### **Asia's Economic Dynamism**

In 2013, the Asia-Pacific region generated close to \$21 trillion in economic activity, over a quarter of the global economy. China and Japan stand as the world's second and third largest economies, while the 10 countries in the Association of Southeast Asian Nations (ASEAN) have a combined economic output of over \$2.3 trillion.<sup>1</sup> East Asia remains one of the fastest growing regions in the world, with an annual growth rate of 6.8 percent in 2014, accounting for about 40 percent of global growth.<sup>2</sup> This economic dynamism is increasing the region's overall strategic weight and importance to the U.S. economy.

In 2015, U.S. trade with Asia totaled more than \$1.5 trillion, growing from \$397 billion at the end of the Cold War and \$503 billion at the turn of the century.<sup>3</sup> In 2014, U.S. exports to the Asia-Pacific region represented 27.8 percent of total exports, while imports accounted for 37 percent of total imports. Capital goods, excluding automotive, led U.S. exports to the region, amounting to 26.3 percent, while consumer goods, excluding food and automotive, accounted for 32.2 percent of U.S. imports from the region. Meanwhile the U.S. direct investment position in the region amounted to \$738.8 billion, an increase of 6.1 percent over 2013.<sup>4</sup> The United States remains the single largest investor in the Asia-Pacific region.

## Asia Pacific

In 2012, 32 percent of export-related jobs in the United States were tied to the Asia-Pacific region, representing 1.2 million American jobs, an increase of more than 52 percent over 2002. In 2011, 68 percent of all congressional districts exported more than \$500 million to the region, with 39 states sending approximately 25 percent of their exports to the Asia-Pacific region.<sup>5</sup> Governor-led trade missions target the region's booming economies. Top U.S. trading partners include China (the second largest), Japan (fourth), and South Korea (sixth); if taken as a whole, ASEAN would be the fourth largest U.S. trading partner.<sup>6</sup>

### The Rise of China

China's rise is altering the strategic landscape of the region and challenging the existing regional order. In 1980, as Deng Xiaoping began to open China to the market, China had a \$200 billion economy; by 2014, its economy topped \$10 trillion. This remarkable transformation was achieved by adopting market-oriented economic reforms and opening China to foreign trade, investment, technology, and ideas. The result is a China that is firmly integrated into the regional and global economy. China is now more exposed to external economic developments; the 1998 Asian Financial Crisis and 2008 Great Recession both caused significant slowdowns in Chinese growth.<sup>7</sup> Conversely, China's economy is now big enough and integrated enough that its economic problems can move global trade patterns and U.S. stock markets.

Like other Asian countries, China's economic rise was enabled by an open international trading order and stability in the Asia-Pacific region underpinned by U.S. military power and the U.S. alliance system. A reasonably good working relationship with the United States remains critical for Chinese goals such as sustaining economic growth and maintaining regional stability, but the relationship has become more competitive and many Chinese elites believe that the United States seeks to subvert the Chinese political system and contain China's economic and military potential. As China has become more powerful, and has converted some of its economic gains into military power, it has become less comfortable with the U.S. alliance system and begun to seek more influence within the region and in the international system as a whole.

China's economic growth has reshaped regional trade and investment patterns and greatly increased Beijing's influence. China is now the number one export market for almost all countries within the region and has dramatically expanded its foreign investment across Asia. China has a free-trade agreement (FTA) with ASEAN and is currently pursuing both a China–Japan–South Korea FTA and a broader Regional Comprehensive Economic Partnership agreement. Chinese foreign aid and infrastructure

projects within Asia, some of which are now under the umbrella of Xi Jinping's "One Belt, One Road" initiative, are another source of influence. Beijing has mostly used its economic power as assurance measures and inducements to cooperate with China, but in recent years has become more willing to use more coercive economic measures to punish countries that displease it.<sup>8</sup>

Rapid economic growth has also supported modernization and expansion of the Chinese military, which has enjoyed double-digit budget increases for most of the last 20 years and now has the largest defense budget in the Asia-Pacific region (\$154 billion for 2016).<sup>9</sup> The People's Liberation Army has been modernizing its forces and developing the joint doctrine, training, and capabilities necessary to win "local wars under conditions of informationization."<sup>10</sup> This modernization effort gives priority to naval, air, and missile forces capable of projecting power beyond China's borders and places increasing emphasis on the maritime, space, and cyber domains. As part of its efforts to deter potential U.S. intervention in a Taiwan contingency, the People's Liberation Army has emphasized the development of antiaccess/area-denial capabilities that would raise the costs and risks for U.S. forces operating near China.<sup>11</sup> These capabilities threaten to put at risk the U.S. ability to access its allies, extend deterrence, and meet its regional security commitments. Expanded naval and coast guard capabilities have also supported more assertive Chinese efforts with respect to maritime territorial disputes in the East and South China seas.

Countries in Asia have been carefully monitoring China's rise and the potential for a strong China to dominate the region. Aggressive Chinese behavior toward Taiwan and in the South China Sea from 1994 to 1996 created regional alarm about a "China threat," but more restrained Chinese behavior and assurance measures adopted over the period from 1997 to 2008 helped ease regional concerns. During this period, Asian views largely shifted from regarding China as a potential threat to regarding China as an opportunity; this shift was widely interpreted as an indicator of the success of China's Asia policy.<sup>12</sup> Beginning in 2009, however, more assertive Chinese behavior on maritime territorial disputes and other issues dissipated much of the goodwill built by China's charm offensive and revived regional concerns about how a strong China might behave in the future.<sup>13</sup> These concerns are most acute for countries with maritime or land territorial disputes with China, such as India, Japan, Malaysia, the Philippines, and Vietnam. Chinese policymakers talk about the need to maintain the proper balance between the competing goals of defending Chinese sovereignty (*weiquan*) and maintaining regional stability (*weiwen*); under President Xi Jinping there has been more emphasis

on pursuing territorial claims and less concern about the negative impact on relations with China's neighbors.

In interviews conducted as part of the Institute for National Strategic Studies research project "The Rebalance Beyond 2016," analysts across the region described China's rise as "inexorable." Despite the significant economic and political challenges facing China, they were confident that China will, at worst, muddle through, if not succeed eventually. Looking ahead, interviewees defined a best-case China scenario as one in which the pace of change would slow, allowing countries of the region to adapt and, over time, engage and socialize China toward acceptance and support of the existing regional order. This will require sustained U.S. involvement and coordination with regional allies and partners. For the United States and the Asia-Pacific region, China's rise (and international reactions to that rise) will shape the contours of the international order in the century ahead.

While participating in the postwar Bretton Woods system and benefiting from a stable regional order underpinned by U.S. alliances, China has moved to advance a parallel set of institutions that mostly exclude the United States. These include the Shanghai Cooperation Organization; the initial proposal for an East Asian Summit that would have excluded the United States; and under President Xi, the Asian Infrastructure Investment Bank, the One Belt, One Road Eurasian trade initiative, the Regional Comprehensive Economic Partnership, and the "Asia for Asians" security concept, widely viewed as aimed at U.S. alliances and the U.S. security role in the region. Taken as a whole, China's growing power and willingness to use that power to try to alter regional security arrangements and support new institutions that advance Chinese interests and exclude the United States pose a significant challenge to U.S. interests in the Asia-Pacific.

### **The U.S. Rebalance to Asia**

Upon taking office in January 2009, Obama administration officials proclaimed a U.S. "return to Asia." This pronouncement was backed with more frequent travel to the region by senior officials and increased U.S. participation in regional multilateral meetings, culminating in the decision to sign the ASEAN Treaty of Amity and Cooperation and to participate in the East Asia Summit at the head-of-state level.

The strategic rebalance to Asia built on these actions to deepen and institutionalize U.S. commitment to the Asia-Pacific region. In announcing the rebalance in a November 17, 2011, address to the Australian Parliament, President Obama argued that "Our new focus on this region reflects a fundamental truth—the United States has been, and always

will be a Pacific nation. . . . Here we see the future.” The President noted that Asia is “the world’s fastest growing region,” “home to more than half of the global economy,” and critical to “creating jobs and opportunity for the American people.” He described the rebalance as “a deliberate and strategic decision” to increase the priority placed on Asia in U.S. policy.<sup>14</sup>

Then—Secretary of State Hillary Clinton elaborated on the rationale for the rebalance, arguing that “harnessing Asia’s growth and dynamism is central to American economic and strategic interests” and that the United States had an opportunity to help build “a more mature security and economic architecture to promote stability and prosperity.” Given the importance of the Asia-Pacific region, she argued that “a strategic turn to the region fits logically into our overall global effort to secure and sustain America’s global leadership.”<sup>15</sup>

While the main objective of the rebalance was to bring U.S. foreign policy commitments in line with U.S. interests, it also responded to China’s increasingly assertive regional policies, especially on maritime territorial disputes. Countries across the Asia-Pacific region urged Washington to play a more active role in regional economic, diplomatic, and security affairs in order to demonstrate U.S. commitment and help maintain regional stability in the face of a more powerful and more active China.

Obama administration officials have stressed that the rebalance includes diplomatic, economic, and military elements, all of which must be applied in a coordinated manner for maximum effect.<sup>16</sup> The diplomatic element has involved enhanced high-level diplomatic engagement, including frequent travel to the region by the President, Secretary of State, and Secretary of Defense. President Obama has participated regularly in Asia-Pacific Economic Cooperation (APEC) and East Asia Summit meetings; had periodic meetings with the leaders of U.S. allies Japan, South Korea, and Australia; and launched a new U.S.-ASEAN dialogue mechanism that included a summit with Southeast Asian leaders at Sunnyslands, California, in February 2016.

American allies and partners in the region have stressed U.S. economic engagement with Asia as a key means of demonstrating U.S. staying power. The Obama administration faced a number of practical and political obstacles in increasing U.S. trade and investment ties with the Asia-Pacific, especially in the context of the global financial crisis. The centerpiece of the administration’s efforts is the Trans-Pacific Partnership (TPP), as “an ambitious, next-generation Asia-Pacific trade agreement” including Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.<sup>17</sup> The TPP agreement was signed on February 4, 2016, but will not



## Asia Pacific

take effect until all member countries have ratified the agreement. The Obama administration has not submitted the agreement to Congress for approval; once submitted, Congress will have 90 legislative days to approve or disapprove it. TPP is an example of “open regionalism,” meaning that other Asia-Pacific countries willing to meet TPP standards will eventually be able to join the agreement.

The military element of the rebalance includes both increased commitments of U.S. military forces to the Asia-Pacific region and enhanced military and security cooperation with a range of allies and partners. The Navy and Air Force both announced plans to devote 60 percent of overseas-based forces to the Asia-Pacific region, including deployments of advanced systems such as the Littoral Combat Ship and F-35 Joint Strike Fighter. The Army announced plans to align 70,000 troops to Asia missions, while the Marines announced plans for rotational deployments of 2,500 Marines to Australia. Secretary of Defense Ashton Carter described a three-part Department of Defense approach to the “next phase” of the rebalance that includes investing in future capabilities relevant to the Asia-Pacific security environment, fielding key capabilities in quantity, and adapting the U.S. defense posture to be “geographically distributed, operationally resilient, and politically sustainable.”<sup>18</sup> A significant part of the rebalance involves efforts to expand military cooperation with traditional allies such as Australia, Japan, and South Korea, while using exercises and dialogues to reach out to nontraditional partners such as India, Malaysia, and Vietnam.<sup>19</sup>

While the President’s remarks set out a comprehensive strategy toward the region, the initial public diplomacy rollout focused on the military aspects, unfortunately playing into the Chinese conceit that U.S. policy is aimed at containing China. Beijing has subsequently gone a step further, blaming the rebalance for increasing tensions in the region even though it was partly a response to regional concerns about increasing Chinese assertiveness.

### Asia-Pacific Security Challenges

Asia’s economic dynamism, China’s rising power, and the U.S. rebalance are broad trends that are having a major impact on the Asia-Pacific region as a whole. These trends co-exist with a number of specific security challenges in Northeast Asia, the Korean Peninsula, the China-Taiwan relationship, and the South China Sea, including unresolved territorial disputes, competition to secure natural resources, and freedom of navigation issues that present complex challenges to regional stability and security.

### Northeast Asia

Even 75 years after the end of World War II, tensions over the history of Japanese colonialism and aggression continue to complicate Tokyo's relations with Beijing and Seoul. The Japan-China relationship is also marked by conflicting territorial claims in the East China Sea, including disputes over possession of the Senkaku/Diaoyu Islands, an unresolved maritime boundary, and resource competition for fish, oil, and natural gas. Both China and Japan claim the islands (as does Taiwan) and tensions over them have flared periodically since the late 1970s.<sup>20</sup> The United States does not take a position on the sovereignty dispute but recognizes Japanese administrative control and has stated that the unpopulated islands are covered under the U.S.-Japan Security Treaty.

In September 2010, a Chinese fishing trawler operating within Japan's exclusive economic zone north of the Senkaku Islands collided with two Japanese coast guard ships. The ships pursued and boarded the trawler, taking into custody the captain and crew. Tokyo took the position that the coast guard's actions were correct, taking place in Japanese waters and based on Japanese law. Beijing's response was to call on Japan to refrain from taking "so-called law enforcement activities" in Chinese waters. To have accepted the legality of the coast guard's action would have been to compromise China's claim to sovereignty over the islands. The rapid deterioration of relations that followed, China's suspension of rare-earth metal exports to pressure the Japanese business community, widespread anti-Japanese demonstrations across China, and small-scale anti-Chinese protests in Japan all underscored the sensitive nature of the territorial issue.

Two years later, in September 2012, the Japanese government purchased ("nationalized") three of the five Senkaku islands from their private-sector owner. Widespread anti-Japanese demonstrations spread across China, and Beijing suspended all high-level political and diplomatic contacts. To assert its claims to the islands, China stepped up patrols of white-hulled paramilitary ships (now consolidated into the Chinese coast guard) into Japan's contiguous zone around the islands, establishing an almost daily presence in the area. Chinese ships also entered Japan's territorial waters in the Senkakus. By the end of 2013, Chinese coast guard ships had entered Japan's territorial waters in the Senkakus 256 times. Of the incursions, 68 took place in the period September–December 2012 and 188 in 2013.<sup>21</sup> In November 2013, China declared an Air Defense Identification Zone that extended over the Senkaku Islands. The following month the government of Prime Minister Shinzo Abe, in its national security strategy, defined Japan's security environment as "ever more severe."<sup>22</sup>

## Asia Pacific

Japan and China also hold conflicting claims over the maritime boundary in the East China Sea. Japan claims a mid-line boundary in the East China Sea, while Beijing's claim is based on the continental shelf and extends beyond the mid-line to the Okinawa trough. In the context of this unresolved boundary, exploration for oil and natural gas has also served as a flashpoint. In June 2008, Japanese and Chinese diplomats reached agreement on the joint development of resources in the East China Sea; implementing details were left to follow-on talks, which have failed to resolve outstanding issues. In June 2013 China began the construction of large exploration platforms on the Chinese side of the mid-line boundary. Tokyo considered the Chinese action to be at odds with the 2008 agreement and an "attempt to change the status quo unilaterally." Beijing's response was to make clear that exploration was taking place within China's sovereign waters, that China and Japan have yet to reach agreement on the maritime boundary, and that China does not recognize Japan's unilateral boundary demarcation. The Japanese press reported that Prime Minister Abe has raised the issue twice with President Xi at the November 2014 and April 2015 meetings.

### North Korea

North Korea, as it has for decades, remains the most destabilizing element in the Asia-Pacific security environment. Pyongyang's growing nuclear and missile arsenal poses a direct threat to U.S. national security interests. Senior U.S. defense officials have stated that North Korea, within a decade, will be able to deploy intercontinental ballistic missiles capable of reaching U.S. territory in the Pacific and the homeland itself.<sup>23</sup>

North Korea's estimated 1.2 million-man conventional army also continues to pose a direct threat to the Republic of Korea, a treaty ally of the United States. North Korean provocations, such as the sinking of the ROK navy's warship *Cheonan*, in March 2010, the shelling of Yeonpyeong Island in November 2010, and the August 2015 incident at the demilitarized zone (DMZ), risk escalation into a wider conflict. Pyongyang remains committed to the unification of the Korean Peninsula on its terms.

Diplomatic efforts to address North Korea's nuclear program have a long history. Beginning in 1991, then–Undersecretary of State Arnold Kanter met with North Korean diplomats in New York and proposed the basic tradeoff that has marked diplomatic efforts since: abandonment of North Korea's plutonium-based nuclear program in exchange for an array of security guarantees and economic benefits. The initiative eventually played out into the 1994 Agreed Framework, which offered Pyongyang two light water reactors, a security guarantee, and moves toward normalized relations. Profound distrust on both sides gradually

unraveled the accord, which collapsed in 2002 when the George W. Bush administration discovered that Pyongyang was secretly pursuing uranium enrichment as an alternative path to the bomb.

In September 2003, China launched the Six Party Talks to reduce the risk of unilateral U.S. military action and to keep denuclearization of North Korea on the security agenda. The talks produced the September 19, 2005, agreement, yet another attempt at a grand bargain. The Six Party Talks collapsed in December 2008 when North Korea failed to produce details of its nuclear activities that would verify compliance with the agreement. Efforts to revive the Six Party Talks have proved unavailing.

In 2009 the Obama administration attempted to break the diplomatic deadlock, offering to extend an open hand to North Korea. North Korea answered with ballistic missile and nuclear weapon tests. Nevertheless, the administration continued to pursue a diplomatic opening to Pyongyang, which resulted in the February 29, 2012, Leap Day agreement, a mini-grand bargain in which the United States would provide food in return for North Korea's freezing of its missile and enrichment programs. Pyongyang responded with another ballistic missile test.

In 2012 the nuclear and missile programs were enshrined in North Korea's revised constitution. Today, under the leadership of thirty-something Kim Jong-un, North Korea is pursuing *byungjin*, a two-track policy aimed at sustaining its nuclear weapons and missile programs and simultaneously promoting economic growth—in short, guns *and* butter. Pyongyang has made very clear that it has no interest in surrendering its nuclear program, even for an economic windfall. Instead it seeks international recognition as a nuclear weapons state.

Uncertainties about the long-term life expectancy of the regime under Kim Jong-un, including the prospect of instability or regime collapse, raise daunting security challenges.<sup>24</sup> China might intervene to prop up a failing regime, prevent a refugee crisis from spilling over its borders, or secure North Korea's weapons of mass destruction. Similar conditions could prompt the ROK to cross the 38<sup>th</sup> parallel in an effort to unify the peninsula or the United States to intervene to secure North Korea's weapons of mass destruction. The prospects for strategic miscalculation in a fast-moving, dynamic environment are extremely high, especially given the absence of substantive dialogue between the United States and China about contingency responses.

### China-Taiwan

The political dispute between Mainland China and Taiwan remains an unresolved legacy of the Chinese civil war. The People's Republic of China

(PRC) claims Taiwan as an inherent part of Chinese territory. While pursuing a policy of unification through peaceful development, Beijing has refused to renounce the use of force if Taiwan should pursue *de jure* independence. Even as economic integration has deepened to the point where Mainland China is now Taiwan's number one export market and the main destination for Taiwan investment, political trends have continued to diverge.

On the mainland, the narrative of a “century of humiliation” at the hands of foreign powers makes Taiwan reunification a benchmark goal for Chinese nationalism and a domestic political third rail where top leaders have little room to compromise. Conversely, democratization and social changes on Taiwan have reduced the political dominance of the mainlanders who fled the Communist takeover in 1949 and produced a population with less sense of a Chinese identity and little desire for closer political relations with Mainland China, much less unification with a country led by a Communist government. Despite an increasing sense of an identity separate from the Mainland, the pragmatic population on Taiwan prefers to maintain the political status quo and avoid pro-independence actions that might provoke hostile PRC responses.

U.S. policy is based on three communiques signed with the People's Republic of China and the 1979 Taiwan Relations Act. U.S. policy recognizes the PRC government as the sole legal government of China, acknowledges the Chinese position that there is but one China and that Taiwan is part of China, and maintains cultural, commercial, and other unofficial relations with the people on Taiwan. At the same time, U.S. policymakers have clearly and consistently stated that the United States does not support Taiwan independence. The Taiwan Relations Act provides the legal basis for U.S. unofficial relations with Taiwan and enshrines a U.S. commitment to assist Taiwan in maintaining its defensive capability. It also states that peace and stability in the Western Pacific area “are in the political, security, and economic interests of the United States, and are matters of international concern” and that U.S. policy is to “maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.”

U.S. policy is focused on maintaining a framework within which the two sides of the strait can work out their political differences rather than on achieving specific outcomes. Accordingly, the United States insists on peaceful resolution of cross-strait differences, opposes unilateral changes to the status quo by either side, and encourages cross-strait dialogue to help advance a peaceful resolution. This approach has helped the United States cooperate with the PRC on a range of global, regional, and bilat-

eral economic and security issues while maintaining robust unofficial ties with the people on Taiwan. However, the growing imbalance in economic and military power between China and Taiwan poses challenges for the viability of this policy framework, especially as Chinese military modernization expands the coercive tools available to PRC leaders.

Contentious cross-strait relations improved considerably from 2008 to 2016 under Taiwan President Ma Ying-jeou, whose willingness to endorse the so-called 1992 consensus (which he interpreted as “one China, separate interpretations”) reduced tensions and permitted a major expansion of cross-strait economic ties, establishment of direct air and sea links, and the signing of 23 cross-strait agreements. Ma resisted pressure from Mainland China to engage in talks on political issues or to define Taiwan’s status more precisely. Although this period saw stability and a significant expansion in cross-strait contacts, many on Taiwan claimed that the economic benefits went largely to politically connected big businesses and that the Ma administration did not stand up enough for Taiwan’s interests.

Opposition Democratic Progressive Party candidate Tsai Ing-wen won a decisive victory in January 2016 elections; her party won control of the legislature for the first time and she took office as president on May 20, 2016. Mainland China is suspicious of Tsai because of her party’s pro-Taiwan independence stance and her service in former president Chen Shui-bian’s government, although she has pledged not to challenge the status quo and has made subtle policy adjustments to reassure Beijing that she will not take pro-independence actions that might disrupt stability.<sup>25</sup>

Nevertheless, Mainland China officials have insisted that Tsai explicitly acknowledge that Taiwan is part of China and endorse the 1992 consensus, a concession she is unwilling (and perhaps unable) to make. A March 2016 Center for Strategic and International Studies delegation to China and Taiwan concluded that China is deliberately setting the bar high because it wants Tsai’s term in office to be considered a failure. To that end Beijing has severed semi-official cross-strait dialogue mechanisms, reduced the flow of tourists to Taiwan, and may take additional actions to curtail Taiwan’s international space, including by inducing some of Taiwan’s 21 diplomatic allies to shift recognition to the PRC. Beijing’s strategy appears to be to blame Tsai for a downturn in cross-strait relations that damages Taiwan’s economy, and to hope that Taiwan voters choose a candidate committed to improving cross-strait relations in the 2020 election.

This all suggests that cross-strait relations will enter a period of greater turbulence with Beijing seeking to depict Tsai as challenging the status

## Asia Pacific

quo by refusing to endorse the 1992 consensus and Tsai and her government looking to Washington for support in the face of increasing Chinese pressure. At the same time, Beijing knows that any attempt to resolve the Taiwan issue with force would have extremely high costs and risks (including the likelihood of U.S. military intervention) and would severely damage China's relations with the United States and other major countries in the region.

### South China Sea

In contrast to the East China Sea, competing territorial claims and maritime boundaries in the South China Sea involve multiple parties. The disputes center on three sets of overlapping claims. China, Taiwan, and Vietnam all claim the Paracel Islands, which China occupied in 1974 during the last days of the Republic of Vietnam. China, the Philippines, and Taiwan claim Scarborough Shoal, site of a 2012 dispute between Beijing and Manila. China, Taiwan, and Vietnam claim all the land features in the Spratly Islands, while Brunei, Malaysia, and the Philippines each claim a number of specific features. China has not clarified the exact nature or legal basis of its claim to land features and adjacent waters inside the “nine-dash line” that it inherited from the Republic of China. The nine-dash line overlaps with part of Indonesia's exclusive economic zone claim, including part of the Natuna natural gas field.

In 2002, the member states of ASEAN and China adopted the “Declaration on the Conduct of Parties in the South China Sea” to address conflicting claims. In the document, the parties:

- reaffirmed “their respect for and commitment to the freedom of navigation in and overflight above the South China Sea as provided for by the universally recognized principles of international law, including the 1982 UN [United Nations] Convention on the Law of the Sea”
- undertook “to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat of or use of force”
- undertook “to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from . . . inhabiting . . . the presently uninhabited islands, reefs, shoals, cays, and other features and to handle their differences in a constructive manner.”<sup>26</sup>

Finally, the parties reaffirmed that “the adoption of a code of conduct in the South China Sea would further promote peace and stability” and agreed “to work, on the basis of consensus, toward the eventual attainment of this objective.”

A binding code of conduct today stands as a distant vision, and much has transpired that is at odds with the spirit of the Declaration of Conduct. Claimants have used a variety of tactics to reinforce their claims, with a significant increase in activity since 2009.<sup>27</sup> Tactics to assert sovereignty include patrols by coast guard and naval forces, occupying land features, enforcing fishing regulations in disputed waters, oil and natural gas exploration, harassment of military ships and aircraft operating in disputed areas, and using legal means (such as the case the Philippines brought against China in the International Tribunal of the Law of the Sea). None of the claimants has clean hands, but China has been the most active in using military and paramilitary means to assert its claims, including by coercion of other claimants.<sup>28</sup> Since 2009 China has become more assertive in enforcing its claims, including harassment of U.S. military ships and aircraft operating legally in international waters or within China’s exclusive economic zone. In May 2014 China deployed an oil rig into waters in the Paracels claimed by Beijing and Hanoi, raising tensions and setting off collisions between Chinese and Vietnamese coast guard ships and virulent anti-Chinese demonstrations in Vietnam.

In 2013 China began land reclamation projects in the South China Sea on several low-tide elevations, geologic features that do not extend above water at high tide. China’s efforts at land reclamation were not unprecedented: Malaysia, the Philippines, Taiwan, and Vietnam have also engaged in such projects since the 1980s. The U.S. Department of Defense *Maritime Security Strategy* notes that, in the period from 2009 to 2014, Vietnam “was the most active claimant in terms of both outpost upgrades and land reclamation,” adding “approximately 60 acres of land at 7 of its outposts and [building] at least 4 new structures as part of its expansion efforts.”<sup>29</sup>

However, China’s land reclamation activities dwarf those of other claimants. By June 2015 China’s land reclamation projects totaled “more than 2,900 acres, or 17 times more land in 20 months than the other claimants combined over the past 40 years, accounting for approximately 95 percent of all reclaimed land in the Spratly Islands.” In comparison Vietnam had reclaimed “a total of approximately 80 acres, Malaysia, 70 acres; the Philippines 14 acres; and Taiwan, 8 acres.”<sup>30</sup> Beijing’s position remains that “China has indisputable sovereignty over the Nansha islands and their adjacent waters,” with “sovereignty and relevant rights . . . formed over the long course of history and upheld by successive Chinese



governments.”<sup>31</sup> In October 2015 President Xi pledged that China would not “militarize” the islands that it had constructed, but the exact nature of this commitment is vague and most observers expect China to use the airfields and port facilities that it is building for both military and civilian purposes.

U.S. policy has been to avoid taking sides in the sovereignty disputes, but to stress the importance of respect for international law and peaceful resolution of disputes without coercion. China’s successful use of incremental salami tactics to expand its effective control of disputed maritime territory in the South China Sea has brought this approach into question, as Beijing has been able to “work around” the United States to gradually expand its naval and coast guard presence and power projection capabilities while avoiding the use of lethal force. More recently, the United States has adjusted its policies to increase security assistance to help improve maritime domain awareness of U.S. allies and partners and has also reinvigorated its Freedom of Navigation program, which challenges excessive or illegitimate maritime claims.<sup>32</sup>

### **U.S. Policy Responses: Sustaining the Rebalance**

U.S. policies must take the broad trends of Asia’s economic dynamism, China’s rising power, and the U.S. rebalance into account even as they grapple with specific regional security challenges. We believe the correct strategy is to work with U.S. allies, partners, and multilateral organizations to build a rules-based regional order that includes China and advances U.S. national interests. This requires sustaining the U.S. rebalance to the Asia-Pacific and intensifying cooperation with other regional actors to shape China’s choices and make it pay a price for aggressive actions that violate international rules and norms.

For over a half century, the U.S. system of bilateral security alliances (with Australia, Japan, the Philippines, the Republic of Korea, and Thailand) has served as the informal security architecture of the Asia-Pacific region, underpinning stability and enhancing economic prosperity. Although most countries in the region share concerns about how China is using its power (and especially about its aggressive pursuit of its maritime territorial claims), they are reluctant to choose between China (a critical economic partner) and the United States or to participate in security cooperation aimed against China. Given the diversity of the region in terms of political culture and security interests, a formal alliance system such as the North Atlantic Treaty Organization has been widely recognized as impractical.

The best approach is to build on the existing bilateral alliance system by encouraging increased cooperation between U.S. allies, engaging other regional security partners, and shaping the evolution of regional organizations through active U.S. participation. U.S. policymakers must recognize China is a powerful country that is also attempting to reshape the regional order in directions favorable to its interests. An open, rules-based regional order that includes the United States will be more attractive to Asia-Pacific countries than Chinese-backed alternatives.

### **Strengthening Alliances**

To address the security challenges in 2017–2021 and beyond, a critical first step for the next administration is to focus on strengthening the bilateral alliance structure. This starts with the U.S.-Japan Alliance.

*Japan.* For over half a century, the alliance with Japan has served as the foundation of U.S. strategy toward the Asia-Pacific region and an integral element of U.S. global strategy. Elements of the Seventh Fleet based in Yokosuka, Japan, were among the first U.S. units to support coalition efforts in the Persian Gulf War in 1991 and Operation *Enduring Freedom* in 2001.

Under the government of Prime Minister Abe, Japan has taken steps to enhance security cooperation with the United States. In December 2013, the Abe government released Japan's first-ever national security strategy, which defined Japan as a "Proactive Contributor to Peace" in support of international stability and security. The document set out three objectives for Japan's security policy: to strengthen deterrence, to strengthen the Japan-U.S. Alliance, and to strengthen the rules-based international order. In July 2014 a decision by the Japanese government cabinet reinterpreted Japan's constitution to allow for the exercise of the right of collective self-defense.

In April 2015 the Obama administration and the Abe government released the Revised Guidelines for Defense Cooperation. The new guidelines aim to enhance U.S.-Japan Alliance cooperation by providing for an Alliance Coordination Mechanism; closer operational coordination; a whole-of-government, upgraded bilateral planning mechanism; seamless coordination of efforts "to ensure Japan's peace and security in all phases, from peacetime to contingencies"; and defense equipment and technology cooperation as well as cooperation in space and cyberspace. The limiting geographic reference to "Situations in Areas Surrounding Japan" in the 1997 guidelines was omitted, theoretically expanding the scope of alliance-based security cooperation.

## Asia Pacific

Of increasing concern to Japan is the potential for “gray zone” activities, attempts to change the status quo by force or coercion such as China’s frequent incursions into Japan’s sovereign waters and air space that could cause “unexpected situations” and challenge the alliance in response. In April 2014 President Obama made clear that Article 5 of the alliance extends to the Senkaku Islands given Japan’s administrative control. To strengthen deterrence, it is critical for the new administration to be seen actively planning and exercising with Japan’s Self-Defense Forces to deal “seamlessly” with gray zone situations that could arise in the Senkaku Islands.

With respect to North Korea’s growing missile threat, Japanese strategists are concerned with the potential for “decoupling,” the result of a North Korea inclined to engage in provocations, confident that its nuclear arsenal would preclude a U.S. response. Japanese strategists are also concerned with the deterrence challenge posed by China at both the regional and strategic levels.

Implementation of the new defense guidelines, in particular the U.S. commitment “to extend deterrence to Japan through the full range of capabilities, including U.S. nuclear forces” and to continue forward deployment in the Asia-Pacific region will be critical to sustaining Japanese confidence in the alliance. Implementation of the guidelines will be a critical test both of the new administration’s commitment to the alliance and to the rebalance.

Across the region, the strength of the U.S.-Japan Alliance as well as the U.S. commitment to the defense of the Republic of Korea are widely perceived as a barometer of the U.S. security commitment to the Asia-Pacific region.

***The Republic of Korea.*** For over 60 years, the U.S alliance with the Republic of Korea has succeeded in deterring North Korea from again attempting to unify the Korean Peninsula by force of arms. The resulting armed peace has allowed for a political evolution to take place in which the Korean people have transformed an authoritarian political system into a vibrant democracy, while allowing the native energies of the Korean people to flourish and develop a dynamic market economy with an international presence.

At the same time, the threat posed by North Korea to the security of the ROK and the broader international community remains. The sinking of the ROK navy corvette *Cheonan* in March 2010 and the shelling of Yeonpyeong Island in November 2010 and the August 2015 landmine incident at the DMZ underscore North Korea’s continuing hostility.

While North Korea's conventional capabilities have continued to degrade, the threat posed by its nuclear weapons and missiles is increasing at an accelerating pace. Since the September 19, 2005, Six Party Talks agreement on denuclearization, North Korea has conducted five nuclear tests (in October 2006, May 2009, February 2013, January 2016, and September 2016). The UN Security Council imposed sanctions after the first four tests and is currently considering additional sanctions. Meanwhile North Korea continues to develop and test a ballistic missile arsenal. In October 2014, U.S. Forces Korea (USFK) commander General Curtis Scaparrotti, USA, cautioned that North Korea may have developed a miniaturized nuclear warhead and mated the warhead to missiles capable of striking U.S. territory.

North Korea's evolving nuclear and missile capabilities raise issues related to deterrence and defense, affecting both the ROK and Japan.<sup>33</sup> Defense planners are concerned that "newly nuclear states often are more assertive at the conventional level because of their confidence in being able to deter a strong adversary response with their nuclear means."<sup>34</sup> To address this potential risk, the ROK and the United States reached agreement on a Counter-Provocation Plan in March 2013. The plan was employed during the August 2015 DMZ landmine incident. Updating the Counter-Provocation Plan to deal with the evolving threats posed by North Korea will be an important alliance management instrument for the new administration.

Enhancing missile defense will also be a critical alliance issue for the new administration. In July 2016 the United States and the ROK agreed to deploy the Terminal High Altitude Area Defense (THAAD) system to the ROK. The deployment will defend against North Korean missile attacks and open the door to the development of an interoperable U.S.-ROK-Japan multilayered missile defense system that would enhance defense and deterrence in Northeast Asia. China, however, has expressed concerns that the U.S. deployment of the THAAD system in South Korea could put China's nuclear deterrent at risk and aggravate tensions on the peninsula. In July 2014 President Xi Jinping reportedly told President Park Geun-hye that THAAD deployment on the peninsula "went against China's security interests."<sup>35</sup> After the deployment decision, China expressed "firm opposition" and has applied economic and diplomatic pressure on the ROK to reconsider. U.S. and ROK policymakers will need to stand firm in the face of Chinese pressure.

Meanwhile, efforts to implement the September 19, 2005, Six Party agreement on the denuclearization of North Korea remain on diplomatic life support. In April 2009 North Korea announced its withdrawal from

the Six Party Talks and subsequently made clear that its nuclear arsenal will not be used as a bargaining chip to secure economic benefits.

The next administration should take the long view with respect to North Korea—not all problems will be solvable within its term in office. An effective policy will aim to strengthen deterrence and defense of the ROK, maintain the external pressure of economic sanctions, and keep the door open to dialogue and diplomacy.

To deal with the possibility of instability or regime collapse, the next administration should work to closely coordinate U.S. and ROK objectives, endstates, and policy responses and, at the same time, make every effort to bring China into the conversation. To date China has considered such official-level discussion to be premature.

***The Philippines.*** In 1992, after the Philippine senate rejected an extension of the basing agreement, the United States closed Clark Air Base and the Subic Bay Naval Base and withdrew its military forces from the Philippines. U.S. military assistance resumed after 9/11, directed to support Manila's counterterrorism efforts in Mindanao and the southernmost islands.

As Philippine concerns about China have increased, Manila has become more willing to expand security cooperation. In 2011, the United States agreed to support programs aimed at enhancing its maritime security capabilities. In 2012, the Balikatan joint exercise took place off Palawan Island, near the contested Spratly Islands in the South China Sea. The United States also transferred two former Coast Guard ships to the Philippines. In 2014, Washington and Manila signed the Enhanced Defense Cooperation Agreement, aimed at “addressing short-term capability gaps, promoting long-term modernization, and helping maintain and develop additional maritime security, maritime domain awareness, and humanitarian assistance and disaster relief capabilities.”<sup>36</sup> During his visit to the Philippines in 2014, President Obama made clear that the U.S. commitment “to defend the Philippines is ironclad and the United States will keep that commitment because allies never stand alone.” Obama reiterated the “ironclad commitment” formulation during his 2015 visit to the Philippines. Despite new Philippine President Rodrigo Duterte's recent remarks questioning the value of security cooperation with the United States, U.S. policymakers should exercise patience and remain focused on the long-term interests of both countries.

### **Moving Beyond the Hub-and-Spokes Alliance System**

Since the turn of the century, the U.S. alliance structure has been evolving from the Cold War bilateral hub-and-spokes construct toward a

more open architecture that includes increased cooperation between U.S. allies and active efforts to engage other regional security partners. The United States has supported increased bilateral security cooperation between U.S. allies, most notably between Australia and Japan and Japan and the Philippines; trilateral cooperation among Australia, Japan, and the United States and among Japan, the ROK, and the United States; and quadrilateral engagement involving the Australia, India, Japan, and the United States. Exercises that began in the context of U.S. bilateral alliances have expanded to include a wide range of regional participants, including China (which participated in the 2014 and 2016 Rim of the Pacific exercises).

At the same time, the United States has developed Comprehensive Partnerships with Indonesia, Malaysia, and Vietnam and a Strategic Partnership with Singapore. Japan and Australia, both U.S. allies, have developed similar partnerships with Indonesia, Malaysia, Singapore, and Vietnam. These non-alliance partnerships help to enhance broad-based regional security cooperation and contribute to stability.

Australia, Japan, and the United States are focusing on maritime issues in Southeast Asia and the South China Sea, including maritime capacity-building, maritime domain awareness, joint training and exercising, and port calls. In 2013 the United States committed \$156 million (2014–2015) to support maritime capacity-building in Southeast Asia, including \$18 million to Vietnam.<sup>37</sup> In November 2015, the White House announced its intention to enhance capacity-building efforts by committing more than \$250 million over the 2015–2016 period, focused on Indonesia, Malaysia, the Philippines, and Vietnam.<sup>38</sup>

In November 2015 Japanese and Vietnamese ministers of defense agreed to strengthen defense cooperation, including joint maritime exercise and a 2016 port call at Cam Ranh Bay by Japan's Maritime Self-Defense Force. Earlier, in 2006, Japan, making strategic use of its Official Development Assistance program, sent three patrol boats to Indonesia and in 2012 transferred 10 Japanese Coast Guard ships to the Philippines. Similarly, Australia has used the Pacific Patrol Boat Program to donate aging Australian ships to South Pacific and Southeast Asian neighbors.

One of the most difficult regional security issues is maritime territorial disputes, which are sensitive domestic political issues (but not existential interests) for all the claimants. China's efforts to use military and paramilitary means to expand its effective control of disputed territories and waters pose a challenge to key U.S. interests and principles such as peaceful resolution of disputes, respect for international law, and freedom of navigation. The United States should continue to resist pressure

to take sides in sovereignty disputes and maintain an even-handed approach. However, when countries, including China, take actions that we view as inconsistent with international law, the United States should impose costs, including via official statements, diplomatic efforts to organize opposition to illegal or destabilizing actions, and enhancing security cooperation with regional allies and partners. The United States must maintain its military capabilities and be willing to act to assert its own interest in freedom of navigation, including by military activities that challenge excessive maritime claims. If carried out on a routine basis, there will be less need to publicize each freedom of navigation operation.

Enhancing the rebalance's focus on maritime capacity-building in Southeast Asia will be an important benchmark of the next administration's commitment to regional stability and security. At the same time, given the diversity and complexity of the Asia-Pacific region, alliances and partnerships should not be viewed as being exclusively threat-centric. They can also play an important role in building regional order by strengthening cooperation in dealing with nontraditional security issues, thereby enhancing confidence among states. Efforts to work with allies and partners in enhancing regional security cooperation will strengthen U.S. political and diplomatic leadership in the region.

### **Shaping the Asia-Pacific Order**

Scholars have long argued that the Asia-Pacific region lacks the web of multilateral organizations that have facilitated European integration. Explanations for Asia's under-institutionalization include the region's economic and cultural diversity, mutual suspicions between countries, and the impact of Cold War political divisions. In 1967, the governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand came together to create ASEAN. For over two decades, ASEAN stood as the lone multilateral institution in the region. However, recent decades have seen the creation of new regional organizations and meetings that may become building blocks for a new regional order.

As the Cold War was ending in 1988, Malaysia's Prime Minister Mohammed Mahathir advanced the concept of an East Asia Economic Caucus that would exclude the United States. U.S. opposition doomed the caucus, but in 1989 Australia, with strong U.S. support, established the Asia-Pacific Economic Cooperation to advance regional trade liberalization. With the establishment of APEC, Asian multilateralism gathered momentum. In 1993, ASEAN created the ASEAN + 3 (China, Japan, South Korea) format, followed by the ASEAN Regional Forum in 1994, the East Asian Summit in 2005, and the ASEAN Defense Ministers Meeting Plus in 2010—ASEAN + Australia, China, India, Japan, New Zea-

land, the ROK, Russia, and the United States. In addition, the annual Shangri-la Dialogue sponsored by the International Institute for Strategic Studies in Singapore has served as a high-level multilateral forum for the discussion of political and security issues.

In 2008, the Bush administration appointed the first U.S. Ambassador to ASEAN, a clear recognition of the growing importance of ASEAN and of the region's expanding multilateral, diplomatic, economic, and security forums. One explicit goal of the rebalance was to increase the U.S. ability to help shape the emerging multilateral architecture in the Asia-Pacific region. The Obama administration has paid particular attention to high-level participation in the region's multilateral institutions and dialogues, with the President, Secretary of State, and Secretary of Defense regularly attending meetings in Asia. Countries across the region have welcomed the Obama administration's sustained high-level attention, but are concerned whether the next administration will place an equally high priority there. U.S. interests would be best served by continued high-level U.S. participation and active U.S. engagement in efforts to shape the regional order.

### **The Trans-Pacific Partnership**

The priority that almost all Asia-Pacific governments place on economic growth means that trade and investment agreements are a critical aspect of international relations in Asia and important building blocks for the emerging regional order. If the United States is not actively engaged, other countries will be allowed to shape regional economic rules, norms, and standards in ways that may work against U.S. interests. The centerpiece of the Obama regional economic agenda has been the Trans-Pacific Partnership, a "gold-standard" free trade agreement. Ten countries reached agreement on the deal in October 2015, but Congress will need to approve the agreement in an up-or-down vote.

Ambassador Michael Froman, the U.S. official in charge of negotiating the agreement, told a Center for Strategic and International Studies audience:

*TPP is a critical part of our overall Asian architecture. It is perhaps the most concrete manifestation of the President's rebalancing strategy toward Asia. It reflects the fact that we are a Pacific power and that our economic well-being is inextricably linked with the economic well-being of this region. . . . TPP's significance is just not economic, it's strategic—as a means of embedding the United States in the region.<sup>39</sup>*



## Asia Pacific

Similarly, Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel cast TPP as a “strategic agreement . . . the economic leg and ‘crown jewel’ of the Obama Rebalance Strategy . . . one that convincingly demonstrates that sustained engagement by the U.S, as a Pacific nation, is shaping an open, prosperous, rules-based region.” Russel went on to state, “That’s why TPP is worth as much to Defense Secretary Carter as a new aircraft carrier, as he recently said.”<sup>40</sup>

In interviews across the region over the past 2 years, political leaders, diplomats, and military officials all underscored the strategic importance of TPP as a benchmark of long-term U.S. commitment to the region and the cornerstone to securing a rules-based, open international trading order in Asia. Failure to enact TPP would be viewed as a sign of U.S. strategic withdrawal from the region. Beyond TPP, negotiations with the European Union on the Trans-Atlantic Trade and Investment Partnership (TTIP) will provide the next administration an opportunity to structure a rules-based trade and investment order that includes more than one-third of global gross domestic product. Taken together, TTIP and TPP provide the United States an opportunity to shape a rules-based international economic order that advances its long-term economic and strategic interests.

### **China Policy: Managing a Mixed Relationship**

One of the most difficult policy challenges will be dealing with China, which has the ability to affect a range of U.S. global, regional, and domestic interests. The U.S.-China relationship is marked by a mix of cooperation and competition; the policy challenge is to maximize cooperation in areas where common interests exist, while competing successfully in areas where U.S. and Chinese interests are opposed. Both countries have a strong interest in maintaining an effective bilateral working relationship in order to pursue important global, regional, and domestic goals. High-level leadership will be needed on both sides to keep the competitive and cooperative aspects of the relationship in balance.<sup>41</sup>

Cooperation is important for the United States because China has become an important global actor, with the ability to influence the effectiveness of global institutions such as the UN Security Council and World Trade Organization. On some issues, such as climate change and dealing with North Korea’s nuclear and missile ambitions, progress is impossible without cooperation with China. While Chinese leaders view some aspects of global institutions as unfair and are not interested in shoring up U.S. hegemony, they like a rules-based global economic system and view the United Nations as the most legitimate institution of global governance.<sup>42</sup> China has been one of the biggest beneficiaries of

the open global trade system established by the United States after World War II, which facilitated its economic rise. Beijing seeks to wield greater influence within global institutions, and where possible to work with other countries to adjust international rules and norms to better reflect its own interests and perspectives. Nevertheless, China remains reluctant to take on the costs, risks, and commitments necessary to play a global leadership role; its actions are usually focused on defending narrow Chinese interests rather than aspiring for global leadership. Given that China's main interest in most parts of the world is to maintain stability and secure access to resources and markets, its interests will often be relatively compatible with those of the United States.<sup>43</sup>

U.S. and Chinese interests are less aligned at the regional level, where there is increasing competition for influence. Over the last decade Beijing has become more critical of the U.S. alliance system, arguing that it reflects Cold War thinking and emboldens U.S. allies to challenge Chinese interests. The U.S. rebalance to the Asia-Pacific and increased U.S. regional security cooperation have stoked Chinese fears of U.S. encirclement or containment. Beijing's proposed alternatives emphasize nontraditional security cooperation and the importance of resolving disputes through peaceful dialogue. Beijing has resisted making any binding commitments that might restrict its military capabilities or ability to employ military power to defend its core interests. Its increasing military capabilities and more assertive approach to maritime territorial disputes have heightened regional concerns about how a strong China will behave, leading most countries to improve their security ties with the United States. If the United States emphasizes its alliances, expanding security cooperation with other partners, and active engagement with regional multilateral institutions, it will be able to deal with Chinese regional security initiatives and actions from a position of strength and successfully resist Chinese efforts to erode the U.S. alliance system.

Although cooperation with China is important, U.S. policymakers should be careful to resist Beijing's efforts to create a U.S.-China condominium or "G-2"-like arrangement. Such an arrangement would be unlikely to last and would probably require unacceptable compromises to accommodate China's so-called core interests (including accepting China's territorial claims to Taiwan and in the South China Sea and East China Sea). Accepting a Chinese sphere of influence or giving the appearance of siding with Beijing against U.S. allies would damage U.S. credibility and compromise the U.S. position in the Asia-Pacific region.

The next administration will have the opportunity to develop a new label for the U.S.-China relationship to replace Beijing's preferred formulation of a "new type of major country relationship." It will be important

to adopt a label that reflects the importance of the U.S.-China relationship but does not suggest that the United States values its relationship with China above its relationships with its treaty allies.

China's more assertive regional behavior is partly the product of misreading global power trends (including the mistaken assessment that the 2008 global financial crisis marked a fundamental shift in the relative balance of power between the United States and China). Current Chinese Communist Party efforts to tighten political control over the Chinese population and restrict the flow of information into China reflect increasing concerns about domestic stability in the face of slowing economic growth. China's successful economic model needs to be adapted to place more weight on markets and domestic demand, but there are widespread concerns that the political system may not be able to push through the necessary reforms. Moreover, past efforts to stimulate the economy in the wake of the financial crisis have created debt burdens at various levels of the Chinese financial system that increase the risk of a major financial crisis.

Although an economic collapse that brings down the Chinese regime is unlikely, the next U.S. President will likely face a Chinese leadership more focused on maintaining domestic stability and less inclined to engage in provocative international behavior. This will heighten the importance of a cooperative working relationship with the United States to give China the space to deal with its internal problems and should give U.S. policymakers more leverage. China will continue its military modernization and regional infrastructure investments through the Asian Infrastructure Investment Bank and One Belt, One Road initiative but may have fewer resources to devote to these efforts. Chinese leaders are unlikely to engage in provocative international behavior to divert attention from domestic problems but will be concerned that other countries may seek to exploit a distracted Chinese leadership.<sup>44</sup> The result may be an increased interest in stabilizing maritime territorial disputes and avoiding challenges to Chinese sovereignty claims. This approach might also spill over into more interest in engaging with the Democratic Progressive Party on Taiwan to work out an acceptable formulation for cross-strait relations.

## Conclusion

Over the next 4 years, the United States will be challenged to maintain its leadership of a rules-based order in the Asia-Pacific region. U.S. diplomacy must play a leading role in strengthening our alliances, partnerships, and regional institutions that widely share the U.S. commitment

to a rules-based order as the foundation of regional peace and stability. The engagement of the highest levels of U.S. leadership with the region will be critical. Allies, partners, and potential challengers will all judge the regular presence of the President, Secretary of State, and Secretary of Defense in the region as a key indicator of U.S. commitment.

The U.S. bilateral alliances with Australia, Japan, the Philippines, the Republic of Korea, and Thailand remain the foundation of our strategic presence in the Asia-Pacific region and need appropriate high-level attention. At the same time, the alliance structure is evolving toward a more open system, with new security partnerships forming across the region. This has been most noticeable in Southeast Asia, where Australia, Japan, and the United States are all engaged in maritime capacity-building with states bordering on the South China Sea. The United States should expand bilateral and multilateral security cooperation with its allies and partners and support their efforts to promote regional security cooperation. Given U.S.-China regional competition, initiatives from other countries may sometimes be the best means of moving forward.

The United States is best positioned to deal with China if it has devoted sufficient attention to its regional alliances, partnerships, and participation in multilateral organizations. The U.S. President will need to engage directly with his Chinese counterpart in order to keep both governments focused on a cooperative agenda and to manage the more competitive aspects of the relationship. The relationship with Beijing will be challenging, but Chinese internal economic and political problems are likely to give U.S. policymakers more leverage. Chinese leaders will remain suspicious about U.S. intentions to contain China. U.S. policymakers should stress that the United States supports open, rules-based regional and global organizations, which will require China's active participation and support if they are to achieve their goals and, at the same time, can help generate international pressure on China to be a constructive participant.

As it has since the turn of the century, U.S. trade and investment in the region will continue to expand. The U.S. economic presence is the ultimate foundation of long-term U.S. presence and commitment. Providing a rules-based order for commerce and investment and, in turn, sustained economic growth is the focus of the Trans-Pacific Partnership. Legislation to provide for U.S. accession is now before Congress. There are many competing studies on the effect of TPP on U.S. growth and employment, and political leadership will be faced with a truly historic decision in terms of U.S. participation. U.S. accession to TPP will be viewed as a test of U.S. leadership and commitment to a trade and investment rules-setting agenda.

### Notes

<sup>1</sup> The Association of Southeast Asian Nations (ASEAN) is made up of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam.

<sup>2</sup> The World Bank, “East Asia Pacific Economic Update, October 2015: Staying the Course,” available at <[www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update](http://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update)>.

<sup>3</sup> U.S. Census Bureau, “Trade in Goods with Asia,” available at <[www.census.gov/foreign-trade/balance/c0016.html](http://www.census.gov/foreign-trade/balance/c0016.html)>.

<sup>4</sup> U.S. Census Bureau, “U.S. Direct Investment Abroad for 2012–2014,” September 2015, available at <[http://bea.gov/scb/pdf/2015/09%20September/0915\\_outward\\_direct\\_investment\\_detailed\\_historical\\_cost\\_positions.pdf](http://bea.gov/scb/pdf/2015/09%20September/0915_outward_direct_investment_detailed_historical_cost_positions.pdf)>.

<sup>5</sup> East-West Center, “Asia Matters for America,” available at <<http://www.asiamatters-foramerica.org/overview>>. Note that the Asia Matters for America project includes 40 countries as comprising the Asia-Pacific region.

<sup>6</sup> Walter Lohman, Olivia Enos, and John Fleming, *2014 Asia Update: What’s at Stake for America*, Special Report No. 158 (Washington, DC: The Heritage Foundation, October 8, 2014), available at <[www.heritage.org/research/reports/2014/10/asia-update-whats-at-stake-for-america-2014](http://www.heritage.org/research/reports/2014/10/asia-update-whats-at-stake-for-america-2014)>.

<sup>7</sup> China’s official growth statistics for 1998 and 2008 do not fully reflect this slowdown, which was partly offset by large economic stimulus packages.

<sup>8</sup> Bonnie S. Glaser, “China’s Coercive Economic Diplomacy—A New and Worrying Trend,” *PacNet* 46 (Honolulu, HI: Center for Strategic and International Studies, July 23, 2012).

<sup>9</sup> Christopher Bodeen, “China’s Military Spending Increase to Be Smallest in 6 Years,” Associated Press, March 4, 2016.

<sup>10</sup> State Council Information Office, “China’s Military Strategy,” May 2015, available at <<http://eng.mod.gov.cn/Database/WhitePapers/>>.

<sup>11</sup> See *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2015* (Washington, DC: Department of Defense, 2015).

<sup>12</sup> David Shambaugh, ed., *Power Shift: China and Asia’s New Dynamics* (Berkeley: University of California Press, 2006); Evelyn Goh and Sheldon W. Simon, eds., *China, the United States, and Southeast Asia: Contending Perspectives on Politics, Security, and Economics* (New York: Routledge, 2008).

<sup>13</sup> See David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013); Phillip C. Saunders, “China’s Role in Asia: Attractive or Assertive?” in *International Relations of Asia*, ed. David Shambaugh and Michael Yahuda, 2<sup>nd</sup> ed. (Lanham, MD: Rowman and Littlefield, 2014), 147–172.

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## Przystup and Saunders

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## Asia Pacific

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