February 7, 2013
HEARING: "China's New Leadership and Implications for the United States"

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"Cooperative Balance in Asia"

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INTRODUCTION:

Hearing Co-Chairs Reinsch and Shea, and Members of the Commission:

Thank you for inviting me to share my views with you today.

Whether America and China cooperate or have high levels of conflict in the years to come will be a principal determinant of whether or not peace, prosperity, and stability can be achieved in the Asia-Pacific. The best approach to trying to achieve the best outcome is by pursuing a policy of Cooperative Balance. This involves the major powers not seeking absolute dominance; cooperating to minimize and manage crises; building integrating economic and security structures and supportive norms; increasing regional and bilateral economic interdependence; and, building mechanisms of effective multilateral and bilateral dialogue.

The "Rebalancing" or "Pivot"[1] policy was intended to achieve balance in the region, but initial implementation could have been stronger and further development is needed. The altered

[1] I use the terms "rebalancing" and "pivot" in this Testimony interchangeably simply because the word "pivot" was used initially by the first Obama Administration, because upon occasion the president and/or presidential spokesmen still use it, and because "pivot" conveys the sense of change most Chinese seemingly perceive. I prefer "rebalancing" myself.

foreign policy leadership in Washington, combined with what will soon be a completed team of counterparts in China, offers an opportunity for those adjustments and more self consciously moving toward Cooperative Balance.

Achieving Cooperative Balance will not be easy and presents both Washington and Beijing with a Rubik's Cube of challenges and tradeoffs: How do both China and the United States make prudent "hedges" against downside possibilities, without producing an upward spiral in military competition that is corrosive of cooperation, both bilaterally and throughout the region? Can China's new leaders consolidate power at home without engaging in provocative acts abroad and inflaming nationalism? How can the United States be supportive of treaty allies and other regional friends without seeming in Chinese eyes to be bent on "containment"? How do we reassure our allies without providing them a blank check to pursue goals that are not ours and could inflict great cost on America? What is the appropriate mix of economic, military, diplomatic, and cultural instruments that should be employed to achieve balance? What is the fitting and feasible allocation of financial resources to the Asia-Pacific, versus other regions, much less what resources must be directed to critical domestic needs? Will the Middle East, Central Asia, North Africa, and other hot spots cool down, thereby providing the respite that "rebalancing" presupposes? Finally, what are the benchmarks we should use to judge the success or failure of our policies?

With respect to the evaluation of policy, it should be judged by the degree of regional stability achieved, the degree to which it contributes to continued high-speed economic growth in the Asia-Pacific, and the degree of Sino-American cooperation on regional and global issues that develops. A pivot that is associated with lower economic growth, more big power friction in the region, and less cooperation on global issues ought not to be declared a success, using the rationale that the situation would have been even worse in the policy's absence. With appropriate adjustments and seizing the opportunity that new foreign policy leaderships in both countries provides, there are reasons for cautious optimism.

U.S. POLICY GOALS:

There are several notable and commendable aspects of the current U.S. "rebalancing" policy: 1) It views Asia as a whole, putting U.S. policy vis-à-vis China into a broader Asian context. 2) It puts the strategic emphasis on maintaining balance among the major power centers in the region. 3) It emphasizes the importance of norms and international law in dispute resolution. 4) It seeks to reassure China's smaller neighbors made nervous by a Chinese foreign policy that became notably less reassuring from about 2009 on. 5) It has focused additional diplomatic and cultural resources on an area of ever-greater importance to America and, at a minimum, promises sustained security resources to a region that is divided by volatile nationalistic conflicts and deep distrust—one thinks of South Korea and Japan; Japan and China; North and South Korea; North Korea and everyone else; the Philippines and China; Vietnam and China; the Philippines and Vietnam; without even mentioning South Asia. Conflicting nationalisms in Asia is the central interstate challenge in the region.

Although the latest episode between Japan and China in the East China Sea is not over, at a critical moment Washington appropriately urged caution on Beijing and restraint on Japan. The combination of deterrence of the PRC and restraint of Japan offers a reasonable prospect for moving this conflict off the front burner, with a hopeful sign being the January meeting of Xi Jinping with Natsuo Yamaguchi of the ruling coalition in Japan and the note from Prime Minister Abe that he carried. Likewise, if China moves in the direction of restraining North Korea, as it appears to be trying to do lately, then both of these moves are constructive efforts to pursue a policy of Cooperative Balance. In short, Cooperative Balance involves both America and China throwing their weight in the direction of maintaining stability in particular cases, even if they don't agree in all respects.

CHINESE POLICY GOALS, PERCEPTIONS, AND CONSTRAINTS:

It also is important how Chinese leaders, citizens, and key interest groups (such as the People's Liberation Army, PLA) conceive of their own objectives and view Washington's rebalancing/pivot policy. The historical moment in which the Chinese polity currently finds itself shapes behavior.

My recent trips to China in September of last year and January of this year make it clear that there is a debate occurring in China, skewed (heavily) toward those who see Washington's rebalancing policy and actions as principally directed at Beijing—"containing China's growth and influence." Within the more cosmopolitan corners of the Chinese policy process and at its senior levels, however, there are individuals and groups that recognize there are several non-China-directed reasons for the United States to pursue "rebalancing," including: Growing U.S. economic interests in the world's most dynamic economic region; Reassuring U.S. allies and smaller neighbors that they will not be dominated by Beijing; Guarding against warlike North Korean behavior; Dampening proliferation and arms spiral pressures in the region; Securing the sea lanes of communication from a variety of threats; And, there is even recognition in Beijing that the budgetary competition in Washington requires big problems to justify big budgets. Not a few in China also candidly admit that the PLA uses the same tactics in Beijing's budget wars. Further, the level of alarm in Beijing is dampened by the belief among many observers in the PRC that instability elsewhere in the world likely will remain so high as to diminish Washington's ability to dramatically shift leadership attention and resources (from Central Asia, the Middle East, and new hotspots) to the Asia-Pacific. Still others think that, in financial terms, the pivot may end up meaning that the Asia-Pacific simply gets a somewhat larger fraction of a shrinking U.S. defense pie. In other words, "more U.S. emphasis" on the Asia-Pacific may be a relative, not absolute, concept.

While there are more and less skeptical PRC observers of the U.S. pivot/rebalancing, this debate is unfolding as China is transitioning from the era of Hu Jintao to that of Xi Jinping. Consequently, U.S. actions and policy are filtered through the lenses of domestic currents and domestic political needs in the PRC. Xi Jinping faces an immediate need to consolidate his power, a requirement that places great importance on winning the support of the PLA and playing to domestic nationalistic passions. At the same time that this is a pressing, short-term

need, I believe and have been told that this will give way to the overwhelming first, second, and third priority of the new regime. Those priorities revolve around domestic issues—reducing the corrosive degree of corruption; building a new economic growth engine; addressing severe socio-economic inequalities; pushing ahead with restructuring of the State Council; and, accelerating economic reform. The point is that Xi Jinping is walking a tightrope. On the one hand, he is consolidating domestic power, in part through a muscular external policy (which means standing up against Japan, and for sovereignty), while, on the other hand, Xi does not want to so agitate the external environment that he engenders a countervailing coalition and has to divert major attention to external crises and security challenges. As part of this effort, Xi also is improving relations with Russia and his initial trips abroad in his first year may well be aimed at the BRICS, sending the message that he is not overly dependent on the United States.

Once this transitional phase is largely completed, however, I expect to see Xi assume a posture much more aligned with what all knowledgeable Chinese continue to say—the United States is China's most important bilateral relationship. As for the United States, it is my understanding that the Obama Administration has concluded that Xi Jinping is a person with whom it can productively deal. Further, the concatenation of foreign policy leadership I expect to come out of next month's National People's Congress in Beijing, and (at this writing) the presumed new Secretaries of State and Defense in Washington, I believe will provide a reasonably strong basis to move positively forward. All this suggests that the question for the United States is: How can we get through this awkward transition period with the least possible damage? This brings us to the initial implementation of the "pivot" or "rebalancing" policy, a policy that the Obama Administration has been adjusting since its initial unveiling in late 2011.

THE ROUGH EDGES OF THE "PIVOT'S" INITIAL IMPLEMENTATION:[2]

The Obama administration's rhetorical flourishes surrounding the initial launch of the "pivot" ("back to Asia" and "forward-deployed diplomacy") obscured the facts that the United States never had departed the region and that key features of the effort date back to the presidencies of Bill Clinton and George W. Bush—namely reshaping the U.S.-Japan Alliance (not least with North Korea in mind), gradually enlarging military facilities and forces on Guam, emphasizing long-range strike capability, and improving relations with Vietnam and India. The newest, and very beneficial, part of the effort was the Obama administration's seizure of the opportunity to improve relations with Myanmar (Burma), afforded by hopeful indications of possible political change in that country.

To the degree that rebalancing has provided incentives for restraint and cooperative Chinese behavior—as appears to have been the case in some aspects of recent PRC policy toward North Korea and Iran—as well as renewed emphasis on soft power as an element of PRC statecraft, the policy has had upsides. The downside is that rebalancing as it initially was launched compounded mutual strategic distrust between Beijing and Washington. Further, there always

[2] This section draws very heavily from, David M. Lampton, "China and The United States: Beyond Balance," Asia Policy, No. 14 (July 2012), pp. 40-44.

is the fear in the region that Washington will go too far in hedging against Beijing and put China's neighbors in the unwelcome position of having to choose between the two powers, to choose between their economic and security interests.

In some areas where the new initiative represented or proposed genuine change, one could ask hard questions. Was it wise to place a small number of U.S. marines and air assets in Darwin and elsewhere in Australia on a rotating basis, given that these forces are located so remotely as to be largely irrelevant while at the same time signaling hostile intent to Beijing? Is the insertion of the United States more centrally into disputes over rocks and atolls in the vast South and East China Seas unwise (since great nations do not fight over rocks)? Does U.S. involvement incentivize Vietnam and the Philippines to stake out positions that are designed to align Washington (and U.S. energy companies) ever more closely with their claims? Quite frankly, none of the parties to these disputes have the best interests of the United States in mind. It was troubling when Secretary of State Clinton stood on the deck of a U.S. warship in Manila Bay and said, "We will stand and fight with you." President Obama's remarks in his October 22, 2012, debate with Mitt Romney referring to China as an "adversary" didn't help matters

Further, credibility is not simply a Cold War concept—it is the coin of the realm in international affairs. Given the pressures on the U.S. budget, and the defense budget in particular, is it credible to say that defense resources in the Asia-Pacific will be insulated from the pain that nearly every other corner of American life, and every other theater of military operations, is going to feel? Is it feasible to think that a Japan with rapidly rotating governments and a weakened economy will provide the resources for the significant levels of burden-sharing that the U.S. policy seemingly presupposes? In short, rebalancing is premised on U.S. resources that may not be available and on the provision of allied resources that may not fully materialize. The recent U.S.-Japan agreement to relocate 9,000 marines on Okinawa to Guam and elsewhere in the Asia-Pacific, even as Tokyo continues to be unable to deliver on earlier promises germane to Okinawa, is just one troublesome indicator of possible gaps between rhetoric and action. Further, the capacity of the United States to move resources from Central Asia and the Middle East to the Asia-Pacific presumes that those turbulent theaters to China's west will cooperate with Washington's plan. Turning to South Korea, governments come and go, and with each succession, how Seoul positions itself in the complex Washington-Beijing-Pyongyang triangle is subject to change. Although Washington had an unusually cooperative partner in the administration of South Korean president Lee Myung-bak (though the Japanese would have a somewhat different view), his successor, President Park Geun-hye, may "rebalance Seoul" both on the Peninsula and vis-à-vis Beijing, while maintaining sound relations with Washington.

Another dimension of the rebalancing effort pertains to the genuine need for the United States to further strengthen its position as a free trade leader in the region. A great first step was the Korea-U.S. Free Trade Agreement (KORUS) that went into force in March 2012, brought to fruition by the Obama administration's hard work and bipartisan support in Congress. However, the move in the rebalancing initiative to promote the Trans-Pacific Partnership (TPP) of generally modestly sized Pacific Basin economies (that now includes Mexico and Canada which

participated in the 15th round of negotiations) seems weak compared to Beijing's push for a free trade agreement with Japan and South Korea, and even to the PRC's strengthening of free trade (and now currency) ties with Taiwan through the Economic Cooperation Framework Agreement (ECFA). It is unclear whether the major economic players in Asia (China, South Korea, and Japan) can or will ever join a TPP free trade area. The United States ought to be doing what it can to come up with feasible arrangements with the region's major financial and economic players, not relying to such an extent on a "high-quality" arrangement with smaller economies, and in the process sending the message to Beijing that Washington is not interested in PRC participation except on U.S. terms. In this regard, one might also find it odd that Vietnam is in the TPP negotiating structure while China is not—are Vietnam's free-trade practices of higher standard than China's? It is fitting to note that Beijing, too, has been pushing alternative trade groupings designed to exclude Washington. Instead, the United States and China should forge a shared vision of a unified Pacific trading system, not a balkanized structure.

In short, to some extent there was less to rebalancing than meets the eye, though the increased senior U.S. leadership attention to, and travel in, the region has been striking and welcome. To the degree that there is substance to the policy, some of it is unnecessarily provocative, some of it may be infeasible, some of it is good, and some is well received in the region as long as the United States does not push too far. The military soundtrack was initially turned up too loud, while the volume on the economic soundtrack initially was too low. Some, perhaps much, of this has been recognized and partially addressed in the intervening year-plus and further adjustments in this direction are warranted, particularly if the East China Sea continues to move in the direction of what (hopefully) seems to be the back burner, at least for a while.

SO, WHAT ARE THE MOST PRODUCTIVE NEXT STEPS?

The central strategic challenge that the United States and China face is how to get along with each other so that each country can focus on rebuilding itself. Just as the anti-Soviet rationale provided a foundation for relations that proved durable in the 1970s and 1980s, and as economic mutual interest buttressed productive ties in the 1990s and up to the present, the shared imperative today is to rebuild our respective homelands—we are both societies in need of reform. Beijing's and Washington's commitment to those similar projects is the foundation for sound ties on which both should build, knowing that cooperation and competition will both be features of relations. Neither the United States nor China can afford to be at loggerheads if we each wish to build better homes for ourselves and cooperate on pressing global issues such as climate change. I further believe that Xi Jinping and those around him have concluded that they cannot free-ride in the international system for ever, and that there is increasing consensus in Beijing that the PRC cannot remain a passive observer to ever more numerous situations in which its interests are increasingly engaged—we see China pledging to boost UN contributions,[3] at the moment being modestly helpful regarding North Korea, and attacking

[3] Cheng Guangjin, "Xi Vows to boost UN cooperation, equality," Chinadaily.com , updated December 28, 2012 (accessed January 26, 2013).

climate change with arguably as much or more commitment than Washington. We will see, but there is reason for hope.

Another step that is needed is to gradually develop integrative economic and security structures in Asia that bring nations together, rather than divide them. A place to start in which the Chinese have expressed interest is a Northeast Asia Security Forum including China, Japan, the Koreas [North Korea obviously is a problem], the United States, and Russia. I would like to see the United States and China in the same organizations rather than building competing organizations in both security and economic domains.

Now is a fitting moment to reassess and modify the mechanism of dialogue between Beijing and Washington--the Strategic and Economic Dialogue (S&ED). Annual S&ED meetings have come to involve hundreds of persons. Getting the right handful of leaders with clout on a given issue in the room together is worth more than a cast of hundreds, though having working groups interacting frequently on key issues and projects is a feature of the current dialogue that should be preserved. Beefing-up military-to-military exchange and strategic dialogue also is essential, and the development of regular meetings between assistant secretary-level Foreign Ministry and State Department officials responsible for U.S.-China relations has been a good development. In a related vein, putting one very senior person visibly in charge of coordinating major policy in the relationship has worked in the past (e.g., Secretary of the Treasury Hank Paulson and Vice Premier Wang Qishan) and something equivalent should be done again. Our two heads of state should get together as early as possible to articulate a strategic foundation for bilateral relations that is compelling to our people, and durable.

In the economic realm, local leaders in both China and the United States often are the most predisposed toward cooperation and building the interdependencies that moderate conflict. More vigorous efforts should be made to encourage Chinese investment in the United States and vice versa, in part by fostering state-province and local-level cooperation. Governors-to-Governors forums of increased scope, duration, and frequency should be encouraged.

Finally, America's friends and third parties can, in their zealous pursuit of their own society's interests and concerns, drag the United States into confrontations that are not in U.S. interests. The George W. Bush Administration's experience with Taiwan's Chen Shui-bian and the recent experience in the East China Sea are suggestive in this regard. No one should be given a blank check to be filled out in American blood.