

## **CHAPTER 4**

### **CHINA AND THE U.S. REBALANCE TO ASIA**

#### **Introduction**

President Barack Obama announced a new emphasis for U.S. foreign policy in a landmark speech to Australia's Parliament in 2011, declaring that "in the Asia Pacific in the 21st century, the United States of America is all in."<sup>1</sup> Referencing a "deliberate and strategic decision" that the United States would, as a Pacific nation, "play a larger and long-term role in shaping this region and its future," the president pledged to increase focus on the region as U.S. involvement in wars in Afghanistan and Iraq declined, and as the Asia Pacific rose in importance.<sup>2</sup> He specifically stated the United States would exercise leadership in promoting regional security, shared economic prosperity, and good governance.<sup>3</sup> This strategy of heightened emphasis and leadership came to be termed the "Rebalance to Asia."

Since its inception, the Rebalance strategy has been a defining feature of U.S. international relations and of U.S.-Asia Pacific and U.S.-China relations in particular. It is an indispensable part of the context in which U.S.-China relations must be examined, and is of particular importance as Congress and a new administration prepare to consider the future direction of U.S.-Asia Pacific policy beginning in 2017. This chapter outlines the different regional approaches of the United States and China since the Rebalance began, examining both security and economic aspects. In doing so, it draws on the Commission's March 2016 hearing on China and the U.S. Rebalance to Asia, unclassified briefings with U.S. officials, the Commission's 2015 and 2016 fact-finding trips to China and other countries in the region, consultations with experts on regional politics and U.S. policy, and open source research and analysis.

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

##### ***Interests and Objectives Driving the Strategy***

While the Rebalance strategy marked a fresh emphasis for U.S. foreign policy, it did not fundamentally change the United States' stated interests and objectives in the Asia Pacific region, nor did it promote interests and objectives that substantially differed from those the United States pursues at the global level. Rather, President Obama's statement outlining the interests driving the security component of the strategy reflected longstanding U.S. principles:

*We seek security, which is the foundation of peace and prosperity. We stand for an international order in which the rights and responsibilities of all nations and all people are upheld. Where international law and norms are enforced. Where commerce and freedom of navigation are not impeded. Where emerging powers contribute to regional security, and where disagreements are resolved peacefully. That's the future that we seek.*<sup>4</sup>

Discussing the economic and governance components of U.S. leadership in Asia, President Obama similarly emphasized an “open international economic system, where rules are clear and every nation plays by them” and “good governance—the rule of law, transparent institutions, [and] the equal administration of justice.”<sup>5</sup> The Rebalance was thus intended to strengthen U.S. regional leadership in order to serve enduring U.S. interests, outlined by the Obama Administration in both the 2010 and 2015 *National Security Strategy* documents:

*The security of the United States, its citizens, and U.S. allies and partners; a strong, innovative, and growing U.S. economy in an open international economic system that promotes opportunity and prosperity; respect for universal values at home and around the world; and a rules-based international order\* advanced by U.S. leadership that promotes peace, security, and opportunity through stronger cooperation to meet global challenges.†*<sup>6</sup>

To this end, the 2011 speech outlined several specific objectives the United States would pursue: a strong and modernized U.S. military presence in the Asia Pacific, untouched by overall reductions in U.S. defense spending, in order to deter threats to peace; strengthened regional alliances and partnerships; deepened engagement with regional multilateral organizations; a more cooperative relationship with China; expanded economic partnerships through new regional trade agreements; and partnerships with

\*A concept for which no common definition exists, the “liberal rules-based international order” is defined by Richard Fontaine and Mira Rapp-Hooper, respectively president and senior fellow at the Center for a New American Security, as “the prevailing constellation of institutions, regimes, rules and norms that seek to govern international behavior, many of which have been put in place under U.S. leadership since 1945. It is a *rules-based* order because it elevates standards above a might-makes-right doctrine, though there remain broad domains—such as cyberspace—in which few rules exist. It is *open*, because any nation-state that wishes to follow those standards can join its ranks; there are no exclusionary regional or ideological blocs. And it is *liberal*, because it is weighted toward protection of free-market capitalism and liberal political values.” Norms against altering borders by force and for access to the open global commons (e.g., freedom of the seas) are inherent to this concept. Richard Fontaine and Mira Rapp-Hooper, “How China Sees World Order,” *National Interest*, April 20, 2016. See also Stewart Patrick, “World Order: What, Exactly, Are the Rules?” *Washington Quarterly* 39:1 (Spring 2016): 12, 17.

†The principle of defending the rules-based regional or international order has also been emphasized/referred to in then secretary of State Hillary Clinton’s 2011 *Foreign Policy* magazine article “America’s Pacific Century,” President Obama’s 2011 address to the Australian Parliament, the 2012 *Defense Strategic Guidance*, and the Department of Defense’s 2014 *Quadrennial Defense Review*, 2015 *Asia-Pacific Maritime Security Strategy*, and 2016 *Annual Report to Congress on Military and Security Developments Involving the People’s Republic of China*. Hillary Clinton, “America’s Pacific Century,” *Foreign Policy*, October 11, 2011; White House Office of the Press Secretary, *Remarks by President Obama to the Australian Parliament*, November 17, 2011, 5, 6, 10; U.S. Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, January 3, 2012, 2–3; U.S. Department of Defense, *Quadrennial Defense Review 2014*, March 4, 2014, 11; U.S. Department of Defense, *Asia Pacific Maritime Security Strategy*, August 21, 2015, 2, 32; and U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2016*, April 26, 2016, iii.

emerging democracies to strengthen governance institutions.<sup>7</sup> The Administration has referenced China's aggressive and coercive behavior, which intensified beginning around 2009 to 2010 and preceded the Rebalance,<sup>8</sup> only insofar as it undermines the international norms the strategy seeks to uphold.<sup>9</sup> In statements on the strategy, the U.S. government has affirmed repeatedly that it welcomes "the rise of a peaceful and prosperous China."<sup>10</sup>

As Walter Lohman, director of the Asian Studies Center at the Heritage Foundation, testified to the Commission, the Rebalance represents a tactical adjustment rather than a strategic innovation in U.S. policy.<sup>11</sup> According to Dan Blumenthal, director of Asian Studies at the American Enterprise Institute, the U.S. presence in the Asia Pacific during the Cold War also sought to promote this international order, and U.S. grand strategy has ultimately helped to tame regional security competitions and create the conditions for remarkable economic growth.<sup>12</sup> While some of the specific Cold War threats the United States sought to deter are no longer present, the United States has strived to maintain its commitment to the region in an era of new challenges and opportunities, viewing its own longstanding strategic interests as being at stake.<sup>13</sup> U.S. Secretary of Defense Ashton Carter reflected on this history at the Shangri-La Dialogue, an annual intergovernmental security forum, in June 2016:

*U.S. engagement in the Asia-Pacific is in America's interests ... America's commitment to the region—and the Rebalance to the Asia-Pacific in particular—is not transient. It is enduring. And that's because the logic of, and the need for, and the value of American engagement in the Asia-Pacific is irrefutable. And it is proven over decades.*<sup>14</sup>

### ***Initial Announcement of the Strategy and Ensuing Changes***

While the Rebalance built upon several initiatives launched under the George W. Bush Administration and early in the Obama presidency, it is widely understood to have been publicly introduced in President Obama's 2011 speech in Australia. A month prior to this speech, then secretary of State Hillary Clinton published an article in *Foreign Policy* titled "America's Pacific Century," which is also seen as a foundational document for the strategy. Both the speech and the article communicated U.S. intentions to increase engagement with the region in the security, economic, and governance realms.<sup>15</sup>

In the years since, the Rebalance has received further articulation and modification from Administration officials. In early 2012 the Administration shifted from using the word "pivot" to "rebalance" when describing the strategy, after concerns were raised that the term "pivot" implied engagement with Asia would come at the expense of U.S. commitments in other regions.<sup>16</sup> Overall, while varying objectives and lines of effort have been attributed to the Rebalance since 2011, U.S. officials have largely described it in keeping with the overarching elements President Obama initially presented.<sup>17</sup>

## ***Implementation of the Rebalance Strategy***

### *Security Component*

In the security realm, the United States has undertaken the following steps since the Rebalance began:

#### Strategy

The United States has delineated its Asia Pacific security strategy in new documents, including the *Defense Strategic Guidance*, *Quadrennial Defense Review*, and *Asia Pacific Maritime Security Strategy*.<sup>18</sup>

#### Deployments

- The United States will have shifted to basing 60 percent of its navy in the Asia Pacific by 2020;\*<sup>19</sup> 60 percent of its overseas-based air force assets and two-thirds of its marine corps forces are already assigned to the region.<sup>20</sup> Total force numbers, it should be noted, could be impacted by future defense budgets.
- The United States has deployed or plans to deploy its most advanced asset types to the region, to include the Ford-class aircraft carrier, Virginia-class attack submarine, Zumwalt-class stealth destroyer, Aegis missile defense-equipped vessels, littoral combat ship, B-2 bomber, F-22 and F-35 fighters, and P-8 patrol aircraft.<sup>21</sup>
- The United States plans to strengthen its military presence on Guam as an important component of the Rebalance strategy<sup>22</sup> and has already taken several steps to do so, deploying a fourth attack submarine,<sup>23</sup> three Global Hawk unmanned aerial vehicles,<sup>24</sup> and a Terminal High Altitude Area Defense (THAAD) missile defense system to the island since the Rebalance began.<sup>25</sup> It has also ensured a continuous bomber presence through rotations of B-1, B-2, and B-52 bombers,<sup>26</sup> while continuing rotations of fighter aircraft.<sup>27</sup> The redeployment of 5,000 U.S. Marines to Guam to reduce the U.S. presence on Okinawa, long delayed, is now projected to begin in 2020.<sup>28</sup>
- U.S. and South Korean officials announced in July 2016 that a THAAD battery would be deployed to South Korea by late 2017 (for more information on the planned deployment, see Chapter 3, Section 4, “China and North Korea”).<sup>29</sup>
- U.S. officials announced in June 2016 that an Amphibious Ready Group † comprising three ships and 2,500 marines and

\* In June 2016 U.S. officials announced a shift within the region as well, stating that the U.S. Navy’s Third Fleet (based in San Diego) will send more ships to East Asia to operate alongside the Seventh Fleet (based in Japan). Overall, the Department of Defense (DOD) seeks to increase the number of ships assigned to the Pacific Fleet outside of U.S. territory by 30 percent by 2020. White House Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017*, February 2016, 79–80; Idrees Ali and David Brunnstrom, “U.S. Third Fleet Expands East Asia Role as Tensions Rise with China,” Reuters, June 15, 2016; and U.S. Department of Defense, *Asia Pacific Maritime Security Strategy*, July 27, 2015, 22.

† An Amphibious Ready Group is comprised of a group of ships known as an amphibious task force and a landing force of ground troops. These elements and supporting units are trained, organized, and equipped to perform amphibious operations. U.S. Department of Defense, *The Amphibious Ready Group*. <http://www.navy.mil/navydata/news/www/arg.html>.

sailors would be stationed in Japan by 2019, the second such group in the region.<sup>30</sup>

#### Access Agreements

- Rotations of U.S. Marines to Darwin, Australia, began in 2012 following an agreement announced during President Obama's 2011 visit; these rotations are projected to grow from 1,250 marines today to 2,500 by 2020 (pushed back from the original target of 2017 due to cost-sharing negotiations, now concluded).<sup>31</sup>
- The United States and Australia formalized plans for enhanced military cooperation in the 2014 U.S.-Australia Force Posture Agreement;<sup>32</sup> U.S. officials are specifically discussing B-52 and B-1 bomber rotations<sup>33</sup> and may pursue the use of Australian naval bases for deployments of submarines or surface ships.<sup>34</sup> These initiatives would require further agreements on funding for infrastructure expansion at Australian bases.<sup>35</sup>
- The Enhanced Defense Cooperation Agreement, signed with the Philippines in April 2014<sup>36</sup> and approved by the Philippine Supreme Court in January 2016, has secured U.S. access to four airfields and a land base, with additional locations planned.<sup>37</sup> How the Philippines' new President Rodrigo Duterte—whose rhetoric has signaled a turn away from U.S.-Philippines defense cooperation—will affect these plans is unclear, as discussed in more detail later in this section.
- Singapore has hosted rotations of P-8 reconnaissance aircraft<sup>38</sup> and littoral combat ships; four ships are to be stationed there in the future.<sup>39</sup>
- U.S. officials have also signaled an interest in discussing rotational access to Cam Ranh Bay in Vietnam,<sup>40</sup> and announced in March 2016 that the U.S. Army would stockpile military equipment in Vietnam and Cambodia for humanitarian assistance/disaster relief missions.<sup>41</sup>

#### Security Assistance

In 2015 the Pentagon announced the \$425 million Southeast Asia Maritime Security Initiative, which seeks to fund partner capacity building for the Philippines, Vietnam, Indonesia, Malaysia, and Thailand over five years.\*<sup>42</sup> This single initiative exceeds the average annual funding provided to the entire Asia Pacific region under the Foreign Military Financing program from 2009 to 2015—\$56.3 million, or roughly 1 percent of global outlays.†<sup>43</sup>

\*DOD hopes Congress will authorize a total of \$425 million for the program—\$50 million for fiscal year (FY) 2016; \$75 million for FY 2017; and \$100 million in each of FYs 2018, 2019, and 2020. National Defense Authorization Act for Fiscal Year 2016, § 1263, Pub. L. No. 114-92, 129 STAT. 1073 (2015), codified at 10 U.S.C. § 2282 (2015); Aaron Mehta, "Carter Announces \$425M in Pacific Partnership Funding," *Defense News*, May 30, 2015.

†2015 numbers are estimates. U.S. Department of State, *Congressional Budget Justification: Foreign Assistance*, 2016, 3. <http://www.state.gov/documents/organization/238223.pdf>.

### Engagement

- U.S.-China military exchanges have grown since the Rebalance began,<sup>44</sup> headlined by China's participation in the 2014 and 2016 U.S.-led Rim of the Pacific (RIMPAC) exercises.\*
- According to an August 2016 statement by U.S. Army Pacific Commander General Robert Brown, U.S. Army forces now participate in more than 100 bilateral and multinational exercises each year in the region, and the number of multilateral exercises has grown over the past ten years.<sup>45</sup> The U.S. Army introduced the Pacific Pathways program in 2014, through which units are sent to a series of foreign countries for three to four months to carry out prearranged exercises and engagements; as of 2016 foreign units are brought to the United States as well.†
- The United States and India implemented the Defense Technology and Trade Initiative in 2012, aimed at facilitating co-production and technology exchange; the U.S.-India Joint Strategic Vision in 2015, providing generally agreed-upon principles for security in the Indo Pacific;<sup>46</sup> and a memorandum of agreement regarding logistics in 2016, which allows for the mutual use of land, air, and naval bases for repair and resupply<sup>47</sup> (for an additional discussion of U.S.-India defense relations, see Chapter 3, Section 1, "China and South Asia").
- The United States established a "comprehensive partnership" with Vietnam that includes enhanced military-to-military cooperation,<sup>48</sup> and during a visit to Hanoi in May 2016 President Obama announced that the United States would lift its longstanding ban on lethal weapons exports to Vietnam.<sup>49</sup>
- A U.S. naval vessel is scheduled to visit New Zealand in November 2016, the first such visit since New Zealand passed its 1984 anti-nuclear law and a mark of progressively improving bilateral defense relations over the past several years.‡<sup>50</sup>

### Diplomatic Component

U.S. diplomatic engagement under the Rebalance has largely been a continuation of preexisting efforts to expand U.S. participation in Asia's regional governance institutions. The United States assigned an ambassador to the Association of Southeast Asian Nations (ASEAN) in 2008 (the first non-ASEAN country to do so),<sup>51</sup>

\* RIMPAC is the world's largest international maritime exercise, hosted biennially by the commander of the U.S. Pacific Fleet.

† Thus far, this program has included stops in Indonesia, Japan, Malaysia, Mongolia, the Philippines, South Korea, and Thailand, with stops in Australia and Vietnam under consideration for the future. Units from Canada, Japan, and Singapore have come to the United States. Caroline Houck, "The U.S. Holds More Pacific Exercises Than You Probably Realize," *Defense One*, August 25, 2016; Michelle Tan, "Army Grows Pacific Pathways, Ties with Asian Partners," *Army Times*, August 24, 2016.

‡ The anti-nuclear law bans visits to New Zealand by warships carrying nuclear weapons or operating with nuclear propulsion; the United States does not disclose whether its ships are carrying nuclear weapons. The anti-nuclear legislation remains in place, but New Zealand recently determined it would no longer require U.S. declarations regarding nuclear propulsion or armaments. The United States lifted its reciprocal ban on New Zealand port visits in 2014 and has also relaxed its restrictions on joint military training and high-level visits. Sam LaGrone, "U.S. Plans to Send Destroyer for New Zealand Port Call," USNI News, July 21, 2016.

signed ASEAN's "Treaty of Amity and Cooperation" (the organization's founding document) in 2009,<sup>52</sup> joined the East Asia Summit in 2011,<sup>53</sup> upgraded its ties with ASEAN to a strategic partnership in 2015,<sup>54</sup> and engaged more heavily in the Asia-Pacific Economic Cooperation (APEC) forum and ASEAN Regional Forum,<sup>55</sup> completing a shift from the view in the 1980s and early 1990s that multilateralism would undermine the U.S. "hub-and-spoke" approach to Asia Pacific diplomacy.<sup>56</sup> The Administration also increased the number of diplomatic visits to the region by senior officials.<sup>57</sup> On the development side, the State Department created the Lower Mekong Initiative in 2009 and the Asia-Pacific Strategic Engagement Initiative in 2012.\* The State Department's total spending on diplomatic engagement and foreign assistance† in the East Asia and Pacific region increased from roughly \$743 million to \$780 million in nominal terms from 2011 to 2015, although it did not rise consistently over that period and represented only 2 percent of global spending each year.<sup>58</sup> A 2014 Congressional report noted that the U.S. Agency for International Development (USAID) staff in East Asia increased, while Department of Commerce and Department of the Treasury staff in the region slightly increased, from 2008 to 2013.‡<sup>59</sup>

The United States has invested extensively in its regional bilateral relationships as well.<sup>60</sup> Most notable is Burma (Myanmar), with which the United States took successive steps to restore full diplomatic relations beginning in 2009, after imposing sanctions for two decades.§<sup>61</sup> U.S. relations with Vietnam have also continued to improve, as illustrated by the historic first visit to Washington by the Vietnamese Communist Party general secretary in 2015¶ and a visit to Hanoi by President Obama in 2016, the third such visit by a U.S. president.<sup>62</sup> These engagements culminated in the aforementioned U.S. decision in 2016 to fully remove its ban on lethal weapons exports to Vietnam. President Obama became the first U.S. president to visit Laos when he attended the ASEAN summit

\*Through the Lower Mekong Initiative, the United States provides assistance to Burma (Myanmar), Cambodia, Laos, Thailand, and Vietnam in the areas of environment, health, education, and infrastructure development. The Asia-Pacific Strategic Engagement Initiative is a framework for assistance programs to ASEAN. U.S. Department of State, *Lower Mekong Initiative*. <http://www.state.gov/p/eap/mekong/>; Council on Foreign Relations, "Clinton's Remarks at the U.S.-ASEAN Ministerial Meeting, July 2012," July 11, 2012.

†Diplomatic engagement and foreign assistance covers funding for development assistance: the Economic Support Fund; Foreign Military Financing; Global Health Programs through State and USAID; International Disaster Assistance; International Military Education and Training; International Narcotics Control and Law Enforcement; international organizations and programs; nonproliferation, anti-terrorism, demining, and related programs; peacekeeping operations; transition initiatives; and other accounts. U.S. Department of State, *Congressional Budget Justification: Foreign Assistance Summary Tables*, 2017.

‡Overall, USAID increased its total staff dedicated to Asian development issues by 8.5 percent from 2011 to 2016 (an increase from 886 employees to 961). Official, United States Agency for International Development, interview with Commission staff, September 29, 2016.

§ In 1988 the United States suspended all aid to Burma after the Burmese army violently suppressed a peaceful democratic protest. In following years, due to Burmese human rights abuses, the United States enacted further sanctions on Burma including a prohibition on Burmese imports, visa bans, restrictions on U.S. investment in Burma, and a freeze on Burmese assets in the United States. Congressional Research Service, *U.S. Sanctions on Burma*, October 19, 2012, 12–14, 29.

¶ Unlike in China, the Vietnamese Communist Party general secretary does not also hold the role of president of Vietnam. Vietnam's president visited Washington for the second time in 2013. Ernest Z. Bower and Phuong Nguyen, "Vietnam Party Chief's Historic Visit to Washington: Establishing Strategic Trust," *Center for Strategic and International Studies*, July 3, 2015; Human Rights Watch, *Vietnam: President's Visit to Washington Puts Rights in Spotlight*, July 22, 2013.

hosted there in September 2016; during the visit, he addressed war legacy issues and emphasized the U.S. commitment to the Rebalance strategy.<sup>63</sup> With India, the United States has continued to grow its bilateral relations and established joint defense industrial and strategic agreements during this time.<sup>64</sup>

Although U.S.-Philippines diplomatic and defense relations have advanced in several respects in recent years, it remains to be seen how the Philippines' election of Rodrigo Duterte, who took office in June 2016, might affect the further development of bilateral ties. In September, President Duterte seemed to signal a turn away from the Philippines' previously robust defense relations with the United States, calling for the departure of U.S. Special Operations forces from the southern Philippines, where they have served on a rotational basis as military advisors to the Armed Forces of the Philippines' counterterrorism efforts since 2002.<sup>65</sup> That same week President Duterte said his administration should explore procuring arms from China and Russia, suggesting a departure from the country's longstanding reliance on U.S. arms exports (underscored by his statement that "we don't need F-16 jets; that is of no use to us").<sup>66</sup> In these and other remarks, he emphasized his personal dislike of the United States, culminating in his declaration of a "separation from the United States" during his state visit to Beijing in October 2016, although he later clarified that this did not mean a severance of ties.<sup>67</sup> The Philippines defense minister announced the suspension of joint patrols with the United States in the South China Sea earlier in October 2016, and indicated he may request the departure of U.S. military advisers once the Philippines military is able to carry out counterterror operations on its own—perhaps years away.<sup>68</sup> As this Report went to print, the U.S. Department of Defense had not received any formal request for the withdrawal of U.S. forces or other specific changes in the U.S.-Philippines military relationship.<sup>69</sup>

With China directly, the United States accelerated meetings and visits beginning in 2009 and expanded the role of bilateral fora such as the U.S.-China Strategic and Economic Dialogue and Strategic Security Dialogue (established before the Rebalance but incorporated into the strategy).<sup>70</sup>

### *Economic Component*

In describing the economic goals of the Rebalance, former national security advisor Thomas Donilon stated that the Administration seeks to create an "economic architecture" in the Asia Pacific that builds open, transparent economies with free trade and international investment.<sup>71</sup> The Rebalance economic initiative that comes closest to this goal of creating a region-wide system of trade and investment rules is the Trans-Pacific Partnership (TPP), to which Mr. Donilon referred as the "centerpiece" of the economic rebalance,<sup>72</sup> and which Assistant Secretary of State for East Asia and Pacific Affairs Daniel Russel called the "economic leg and crown jewel of the Obama Rebalance strategy."<sup>73</sup> Administration officials regard TPP as a "high-standard" free trade agreement (FTA) since it goes beyond tariff reductions to include provisions on intellectual property rights protection, labor and environmental standards, for-



eign investment, government procurement of goods and services, and state-owned enterprise (SOE) transparency.<sup>74</sup> While the United States did not initiate TPP (which was launched in 2006 by Brunei, Chile, New Zealand, and Singapore), it has assumed an active role in TPP's development since joining negotiations in 2008.<sup>75</sup>

TPP currently includes the United States and 11 other countries in Asia, Oceania, and North and South America, although the agreement allows for new countries to join if they can meet its standards.\*<sup>76</sup> China was not party to TPP negotiations, but the Administration has not ruled out China's participation in the agreement—provided it adheres to the necessary standards. National Security Advisor Susan Rice remarked that the United States would “welcome” Chinese membership.<sup>77</sup> While TPP negotiations concluded in 2015 and President Obama has signed the agreement, he has not introduced implementing legislation to bring the agreement into effect (the legislation must pass both the House and Senate for TPP to become law).<sup>78</sup>

Beyond TPP, the Administration has made other economic efforts under the Rebalance, though none are on a comparable scale. Over the course of the Rebalance, the Export-Import Bank of the United States signed new memoranda of understanding to facilitate financing with the governments of Brunei, India, Indonesia, the Philippines, and Vietnam.<sup>79</sup> From 2011 to 2015 the bank financed \$32.6 billion worth of exports to Asia, roughly a quarter of its total transactions over that time period.<sup>†</sup><sup>80</sup> The Department of Commerce focused on the region under the National Export Initiative—a bid to double U.S. exports through trade promotion—with four of its top ten target markets in Asia.<sup>‡</sup> The Department of Commerce has also opened new Foreign Commercial Service§ offices in Wuhan, China, and Rangoon, Burma.<sup>81</sup> Overall, Department of Commerce staffing in Asia has increased modestly, with most additional commercial officers directed to China. Total foreign commercial staff in Asia increased by 21 percent (from 338 in 2011 to 410 in 2016); however, staff in Asia offices outside China increased only 6 percent (from 193 to 200).<sup>82</sup> Staff in China grew 70 percent over this timeframe, from 85 to 144.<sup>83</sup> The United States has also launched regional initiatives such as the U.S.-ASEAN Expanded Economic Initiative, a series of dialogues and trainings designed to boost U.S.-ASEAN trade and prepare ASEAN countries for entrance into TPP.<sup>84</sup> Despite these additional efforts, many policy experts regard TPP as the “linchpin” of the economic side of the Rebalance.<sup>85</sup>

While the economic components of the Rebalance have not been fully implemented, as Figure 1 shows, U.S. merchandise trade with Asia has risen, although China accounts for the lion's share of that

\* Currently, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam have signed the agreement as founding members. Colombia, Indonesia, the Philippines, Taiwan, Thailand, and South Korea have expressed interest in joining TPP in the future. Only Malaysia has ratified the agreement.

† While the Export-Import Bank is available to U.S. exporters in foreign markets, it is a demand-driven agency that does not directly guide or initiate projects in target countries.

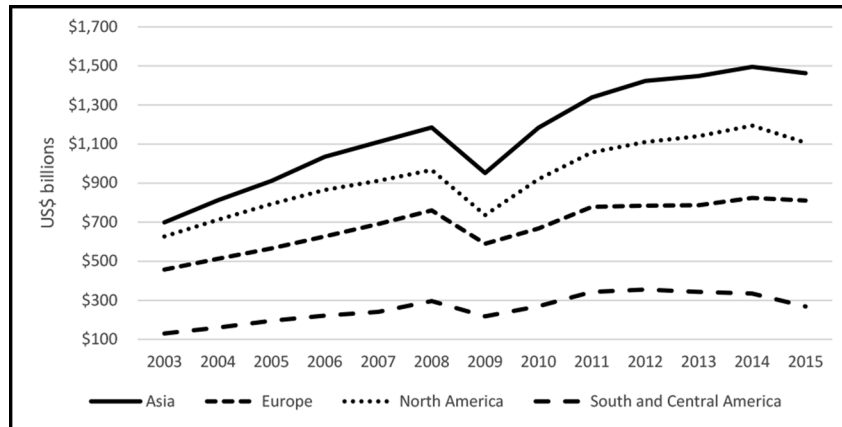
‡ The four countries are China, India, Indonesia, and Vietnam. Robert G. Sutter et al., “Balancing Acts: The U.S. Rebalance and Asia-Pacific Stability,” *George Washington University Elliott School of International Affairs*, August 2013.

§ The U.S. Foreign Commercial Service provides export promotion and matchmaking services for U.S. firms looking to export.

growth. From 2010 to 2015, U.S. trade in goods with Asia increased 23.6 percent from \$1.18 trillion in 2010 to \$1.46 trillion in 2015.<sup>86</sup> Over the five-year timeframe before the global financial crisis, U.S. goods trade with Asia grew twice as fast—at 53.3 percent—from \$700 billion in 2003 to \$1.18 trillion in 2008.<sup>87</sup> U.S. merchandise exports to Asia have also grown, going from \$387 billion in 2010 to \$458 billion in 2015—an increase of 18.1 percent.<sup>88</sup> Growth of U.S. merchandise exports to Asia is also slower under the Rebalance compared to the period before the financial crisis, when U.S. goods exports grew 74.3 percent from 2003 to 2008 (from \$206 billion to \$359 billion).<sup>89</sup> Nevertheless, over the course of the Rebalance, U.S. goods trade with Asia grew faster than trade with Europe, North America, or South and Central America, and as of 2015 accounts for 39 percent of all U.S. trade in goods.<sup>90</sup>

U.S. trade with China has grown at a faster rate than with other Asian countries. As seen in Table 1, U.S. exports to China increased 150 percent before the global financial crisis (from \$28 billion in 2003 to \$70 billion in 2008) and 26 percent after (from \$92 billion in 2010 to \$116 billion in 2015) compared to a 62.5 percent (from \$178 billion to \$289 billion) and 15.5 percent (from \$295 billion to \$341 billion) increase in exports to other Asian countries over the same time periods.<sup>91</sup> U.S. imports from China have also grown more quickly than those from the rest of Asia, increasing 122 percent from 2003 to 2008 and 32 percent from 2010 to 2015, compared to 44 percent and 21 percent for other Asian countries.<sup>92</sup> Since 2003, China has been the United States' largest trading partner in Asia, accounting for 41 percent of all U.S. merchandise trade in that region in 2015 (\$600 billion).<sup>93</sup>

**Figure 1: U.S. Goods Trade with Asia, Europe, North America, and South and Central America, 2003–2015**



Source: United States Census Bureau, *U.S. Trade in Goods by Country*. <http://www.census.gov/foreign-trade/balance/index.html>.

**Table 1: U.S. Goods Trade with Asia and China, 2003–2015**  
(US\$ billions)

Year	Asia		China		China's Share of U.S.-Asia Trade	
	Exports	Imports	Exports	Imports	Exports	Imports
2003	\$206	\$493	\$28	\$152	14%	31%
2004	\$231	\$581	\$34	\$197	15%	34%
2005	\$252	\$659	\$41	\$243	16%	37%
2006	\$291	\$743	\$54	\$288	19%	39%
2007	\$327	\$783	\$63	\$321	19%	41%
2008	\$359	\$825	\$70	\$338	19%	41%
2009	\$308	\$644	\$69	\$296	22%	46%
2010	\$387	\$796	\$92	\$365	24%	46%
2011	\$439	\$900	\$104	\$399	24%	44%
2012	\$457	\$966	\$111	\$426	24%	44%
2013	\$475	\$973	\$122	\$440	26%	45%
2014	\$481	\$1,018	\$124	\$468	26%	46%
2015	\$458	\$1,007	\$116	\$483	25%	48%

Source: U.S. Census Bureau, *U.S. Trade in Goods by Country*. <http://www.census.gov/foreign-trade/balance/index.html>.

### China's Regional Activities since the Rebalance

Numerous factors influence China's foreign policy decisions, and it is difficult to judge how the Rebalance may have prompted or affected China's behavior.<sup>94</sup> Further, the Rebalance is intended to sustain the U.S. regional presence in the long term and should not be evaluated based solely on short-term changes in China's actions, even if these actions could be attributed to the strategy. However, Beijing's rhetorical response to the strategy and its policy decisions since the Rebalance was announced can provide early indicators of how China's regional approach may unfold in the long term.

### China's Public Response to the Rebalance

China at first officially responded to the Rebalance by welcoming it cautiously,<sup>95</sup> but later negative statements and continued endorsement of alternative international norms indicate underlying tensions with the U.S. regional presence. During his 2012 trip to the United States, then vice president Xi Jinping stated that "China welcomes a constructive role by the United States in promoting peace, stability, and prosperity in the Asia Pacific," while it "hope[s] the United States will respect the interests and concerns of China and other countries in this region."<sup>96</sup> Beijing has since continued to declare that it welcomes the United States' establishment of close relations with Asian countries.<sup>97</sup> Official rhetoric since this time, however, has included measured criticism of the strategy, particularly of its military aspects and its support for U.S. allies and partners that have territorial disputes with China.<sup>98</sup> China's 2013 defense white paper, for example, refers to "some

<sup>94</sup>According to Michael D. Swaine of the Carnegie Endowment for International Peace, references by Chinese officials to the "constructive role" of the United States in Asia predate the Rebalance and imply that China's acceptance of the U.S. presence is conditional, dependent on Beijing's view of the type of regional role Washington plays. Michael D. Swaine, "Chinese Leadership and Elite Responses to the U.S. Pacific Pivot," *China Leadership Monitor* 38 (July 17, 2012): 5.

country” that has made the regional situation tenser,<sup>99</sup> while the 2015 version references the Rebalance as one of many trends that “have a negative impact on the security and stability along China’s periphery.”<sup>100</sup> China’s ambassador to the United States criticized the military component in 2014, stating:

*The problem with this rebalancing is that it’s not balanced. There has been too much stress on the military and security aspect, stressing traditional alliances without addressing adequately the real needs and concerns of the regional countries for economic prosperity and sustainable development.*<sup>101</sup>

Other critiques have focused on the South China Sea issue in particular: China’s ambassador to ASEAN argued in May 2016 that the Rebalance strategy’s initiation was “the watershed of the South China Sea issue” and that the United States was “the main driving force” behind tensions there;<sup>102</sup> a Ministry of Foreign Affairs spokesperson made the point several times in 2016 that the region was calm and peaceful before “the Americans came along with the rebalance stuff,” as he termed it on one occasion.<sup>103</sup> In 2015 a spokesperson stated that the United States was using the territorial disputes as an excuse for pursuing the Rebalance strategy.<sup>104</sup> Chinese officials have nonetheless continued to stress that the “underlying trend” characterizing U.S.-China relations is positive,<sup>105</sup> an assessment made both before and after the Rebalance began.

Official statements aside, many in China appear to hold deeply suspicious and negative views toward the Rebalance. David Lampton, director of China studies at the Johns Hopkins School of Advanced International Studies, testified to the Commission that “China immediately, and indelibly, saw [the Rebalance] as part of a neo-containment strategy,” and that dissuading Beijing from this view has proven difficult, despite deepened U.S. engagement efforts.<sup>106</sup> Reflecting this viewpoint, statements by media and academic sources in China have tended to be harshly critical of the Rebalance,<sup>107</sup> describing the strategy as pursuing “containment,” identifying China as a threat and an enemy, attempting to check China’s rise,<sup>108</sup> and creating tension in the South China Sea.<sup>109</sup> Remarks by Chinese military officials not explicitly “speaking for the regime” have been more directly critical as well.<sup>110</sup> A recent opinion poll shows the strategy to be highly unpopular among policy experts in China, in stark contrast to most of the region.<sup>111</sup>

### ***China’s Proposal of Alternative Regional Security and Economic Frameworks***

#### *Security Framework*

Since the announcement of the Rebalance strategy, one broad course of action taken by China has been to propose a regional security framework different from that upheld by the United States. While this effort was reflected in official Chinese statements dating before the Rebalance,<sup>112</sup> Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping’s keynote address at the Conference on Interaction and Confidence-Building

Measures in Asia (CICA)\* summit held in Shanghai in 2014 represented an inflection point. There, he called for the establishment of “a new regional security cooperation architecture,” stating that “in the final analysis, it is for the people of Asia to run the affairs of Asia, solve the problems of Asia, and uphold the security of Asia.”<sup>113</sup> President Xi specifically criticized military alliances targeted at third parties as “outdated thinking from the age of [the] Cold War,” and stated that “no country should attempt to dominate regional security affairs,” clearly referring to the United States.<sup>114</sup> China has emphasized that this “New Asian Security Concept” should instead be marked by “dialogue” and “consensus” among all parties.<sup>115</sup> An April 2016 commentary in official CCP newspaper *People’s Daily* specifically contrasted this idea with the Rebalance:

*The launch of the Asia-Pacific Rebalance strategy by the U.S. in recent years did not bring Asia peace, but only uncertainty. It proved that a U.S.-led alliance system is not the right option to safeguard the peace and stability of Asia. Instead, a system of security governance with Asian features, as suggested by China, will be best for Asian development.*<sup>116</sup>

While President Xi advocated that CICA be expanded and made the basis for this new regional security architecture,<sup>117</sup> the potential for the development of this vision is unclear. China was able to utilize the CICA foreign ministers’ meeting in Beijing in April 2016 to promote its views on specific issues such as the South China Sea<sup>118</sup> (which it did not do at the 2014 summit<sup>119</sup>), but the broader concept has gained little traction thus far.<sup>120</sup> CICA remains a forum rather than an official organization;† it is geographically weighted toward Central Asia, South Asia, and the Middle East and emphasizes antiterrorism concerns;<sup>121</sup> and it is missing key Asia Pacific players such as Japan (an observer but not a member), Australia, Taiwan, and seven of ASEAN’s ten members.<sup>122</sup> Building consensus on a security agenda among such a wide range of countries (several of them U.S. allies) will prove to be a significant challenge.<sup>123</sup> In his address at the 2016 meeting, President Xi appeared to recognize these difficulties, reiterating his call for a new architecture—but on the basis of “gradually channel[ing] cooperation” among Asia’s multiple security frameworks toward this goal,<sup>124</sup> a departure from his previous emphasis on CICA alone. China may view the inaugural ASEAN-China Defense Ministers’ Informal Meeting, which it hosted in Beijing in October 2015 after pushing for it for several years, as an indicator of progress in this regard. China’s Minister of National Defense promoted the new concept at the meeting (to a positive reception, according to Chinese media),<sup>125</sup> but it remains to be seen whether this will evolve into expanded cooperation on security issues. Ulti-

\*CICA was founded in 1993 and currently has 26 members: Afghanistan, Azerbaijan, Bahrain, Bangladesh, Cambodia, China, Egypt, India, Iran, Iraq, Israel, Jordan, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Palestine, Qatar, South Korea, Russia, Tajikistan, Thailand, Turkey, the United Arab Emirates, Uzbekistan, and Vietnam. It also has 11 observers, which include the United States and Japan. Conference on Interaction and Confidence-Building Measures in Asia, “About CICA,” 2014. <http://www.cica-china.org/eng/gyyx/1zyxjij/>.

† For comparison, CICA is similar to the “Shanghai Five Mechanism” that was the precursor to the Shanghai Cooperation Organization. Mu Chunshan, “What Is CICA (and Why Does China Care about It)?” *Diplomat* (Japan), May 17, 2014.

mately, Beijing's proffering of an alternative framework appears thus far to have been largely rhetorical and defined by its opposition to the United States' approach.

### *Economic Frameworks*

China has also worked to create and promote new economic institutions in the Asia Pacific, notably the Asian Infrastructure Investment Bank (AIIB) and the Regional Comprehensive Economic Partnership (RCEP). Largely led by China, the AIIB is a multilateral development bank founded in 2015 with 57 member countries.\* It is seen by many as a way for China to exert greater influence in development finance, prompted, in part, by the delay at the International Monetary Fund (IMF) of reforms that would have increased China's IMF voting power.<sup>126</sup> The bank is based in Beijing, and China enjoys veto power over major decisions such as the selection of a president or the increase of the bank's capital stock.<sup>127</sup> The AIIB was founded to provide funding for infrastructure projects in Asia on the basis that existing multilateral development banks were not providing sufficient infrastructure financing to the region.<sup>128</sup> Based on the bank's mission, it appears well placed to work hand-in-glove with China's "One Belt, One Road" (OBOR) program, an initiative to build a network of ports and transportation infrastructure linking China with Europe through Central Asia, South Asia, and the Middle East (for more on China's OBOR initiative, see Chapter 3, Section 1, "China and South Asia"). To date, the AIIB has partnered with the Asia Development Bank and the European Bank for Reconstruction and Development to fund a pair of highway projects in Central and South Asia, and has funded projects for electrification in Bangladesh and upgrading urban infrastructure in Indonesian slums.† The bank is also considering funding road construction in Kazakhstan, a hydropower expansion project in Pakistan, and electrical grid improvements in India.<sup>129</sup> Both Chinese and U.S. scholars have suggested the AIIB could serve as a mechanism for China to use its excess industrial capacity.<sup>130</sup>

On the trade front, China is a key backer of RCEP, a so-called "mega-FTA" that would include a large share of the world's population and economic activity within its membership: RCEP countries would account for more than three billion people and 40 percent of global trade.<sup>131</sup> Historically, China has pursued FTAs that are regarded as "low quality"—that is, agreements that focus principally on tariff reduction but omit provisions that might be difficult for China to enact, such as firm labor protections or open foreign investment.<sup>132</sup> While still under negotiation, RCEP is anticipated to be a "low-quality" FTA in comparison to TPP, containing no conditions that would significantly overhaul China's market access policies.<sup>133</sup> China's push for what is expected to be a regional FTA sympathetic to China's existing economic structure forms the

\* 57 countries have signed AIIB articles of agreement, but nine have still not ratified them. Asian Infrastructure Investment Bank, "Signing and Ratification Status of the AOA of the AIIB." <http://www.aiib.org/html/aboutus/introduction/Membership/?show=0>.

† The two highway projects are a road in Tajikistan and a highway in Pakistan linking Shorkot and Khanawal. Jane Perlez, "China-Led Development Bank Starts with \$509 Million in Loans for 4 Projects," *New York Times*, June 25, 2016.

basis for President Obama's claim that China is seeking to "write the rules" for the regional economy in the absence of TPP.<sup>134</sup> Many TPP countries are simultaneously participating in RCEP negotiations.\*

China's promotion of RCEP may be motivated by the advancement of TPP.<sup>135</sup> If approved, TPP may slow China's growth as trade is diverted to TPP countries. One estimate put China's losses at 0.3 percent of its gross domestic product (GDP) by 2020 and 1.2 percent of its exports by 2025.<sup>136</sup> It will likely be difficult for China to join TPP, as TPP provisions on SOEs and government procurement would require significant Chinese reforms.<sup>137</sup> If RCEP is approved, China will have low-tariff access to regional countries, Japan in particular, which will ameliorate trade diversion from TPP. A study funded by the UK government simulated how TPP and RCEP would each affect China's economy.<sup>138</sup> As seen in Table 2, the simulation predicted significant losses to China's economy if TPP moved forward, but also predicted that these losses could be prevented and even overcome if RCEP were passed and China consequently gained low-tariff access to many TPP countries.<sup>139</sup>

**Table 2: Simulated Effects of TPP and RCEP on Chinese Economy**  
(US\$ billions)

	TPP Passed	TPP Not Passed
RCEP Passed	\$72 gain	\$88 gain
RCEP Not Passed	\$22 loss	No Change

*Source:* Ronglin Li and Yang Hu, "The Regional Comprehensive Economic Partnership, the Trans-Pacific Partnership, and China's Free Trade Strategies," in Harsha Vardhana Singh, ed., *TPP and India: Implications of Mega-Regionals and Developing Countries*, Wisdom Tree, 2016, 209–210.

Some experts argue that any negative trade impacts imposed on China by TPP will be undercut by the agreement's rules of origin provisions, which in some cases could allow goods mostly manufactured in China access to TPP countries at low tariff rates. For example, in terms of automotive trade, under TPP rules of origin a vehicle would only need to have 45 percent of its content, by value, to originate in TPP countries to enter TPP markets at low tariffs. This percentage could be reduced by an additional 8 percent through provisions in the TPP Annex.<sup>140</sup> Thus, Chinese auto parts could make up 63 percent of a vehicle's content, by value, and still qualify for the trade preferences in the agreement. This low threshold could provide goods with substantial Chinese content low-tariff access to TPP countries.

Chinese officials have expressed some interest in joining TPP. Initially, Chinese media depicted it as an effort to isolate China economically, but after Japan joined TPP negotiations, China's Vice Finance Minister Zhu Guangyao commented that the agreement is

\* TPP countries currently engaged in RCEP negotiations include Australia, Brunei, Burma, Japan, New Zealand, Singapore, South Korea, and Vietnam. Cambodia, China, India, Indonesia, Laos, Malaysia, the Philippines, and Thailand are also participating in RCEP talks. Asia Regional Integration Center, "Trade and Investment, Regional Comprehensive Economic Partnership." <https://aric.adb.org/fta/regional-comprehensive-economic-partnership>.

“incomplete without China.”<sup>141</sup> Premier Li Keqiang noted that “China is open to negotiations on the TPP.”<sup>142</sup>

China also urged members of the APEC summit to form a Free Trade Area of the Asia-Pacific (FTAAP) that would join APEC members—including China, Japan, and the United States—in an FTA. Analysts have seen Beijing’s push for FTAAP as a reaction to TPP—largely as a bid to create a trade agreement larger than TPP that would have rules and conditions sympathetic to China’s economic priorities.<sup>143</sup> In 2014, APEC stated that a strategic study on issues surrounding the realization of FTAAP would be launched, despite reported U.S. resistance to FTAAP progress.<sup>144</sup>

### ***Ongoing Military Buildup and A2/AD Focus***

China’s rapid military buildup, featuring over two decades in which its reported annual defense budget has grown in most years by double digits in nominal terms,<sup>145</sup> has continued to shift the regional balance of military power away from the United States and its allies and associates and toward China. This trend features most prominently in China’s investments associated with the antiaccess/area denial (A2/AD)\* component within the People’s Liberation Army (PLA) missions. China has sought (since before the Rebalance) to expand its ability to strike specific U.S. facilities in the Asia Pacific with conventional missiles.<sup>146</sup> Beijing anticipates these facilities may complicate its freedom of action in a contingency.<sup>147</sup>

China’s ability to conduct conventional strikes against U.S. regional facilities reached an inflection point in 2015 with the fielding of new intermediate-range ballistic missiles able to reach Guam, providing a benchmark for evaluating China’s expanding A2/AD buildup.† The United States plans to enhance its military presence on Guam as part of the Rebalance strategy, as described previously, and many PLA academic and military analysts have noted the island’s importance as an “anchor” of the U.S. force posture in the region.<sup>148</sup> In a conflict, conventional attacks could hold key U.S. assets stationed on Guam at risk and also disrupt their region-wide response effort, slowing deployment timetables and reducing the effectiveness of U.S. forces in the theater.<sup>149</sup> Guam is thus growing in importance to U.S. strategic interests, even as China’s ability to strike the island is increasing.

Several new conventional platforms and weapons systems developed by China in recent years have increased its ability to hold U.S. forces stationed on or near Guam at risk in a potential conflict. The current array of Chinese conventional missiles able to

\*According to DOD, “antiaccess” actions are intended to slow the deployment of an adversary’s forces into a theater or cause them to operate at distances farther from the conflict than they would prefer. “Area denial” actions affect maneuvers within a theater, and are intended to impede an adversary’s operations within areas where friendly forces cannot or will not prevent access. China, however, uses the term “counterintervention,” reflecting its perception that such operations are reactive. U.S. Department of Defense, *Military and Security Developments Involving the People’s Republic of China 2013*, 2013, 1, 32, 33; U.S. Department of Defense, *Air-Sea Battle: Service Collaboration to Address Anti-Access & Area Denial Challenges*, May 2013, 2.

†For a more detailed examination of the drivers behind China’s regional strike buildup, the importance of Guam in particular as a focal point, and potential U.S. responses, see Jordan Wilson, “China’s Expanding Ability to Conduct Conventional Missile Strikes on Guam,” *U.S.-China Economic and Security Review Commission*, May 10, 2016.



reach Guam and nearby areas includes: (1) the DF-26 intermediate-range ballistic missile unveiled at China's September 2015 military parade, not yet a precision strike weapon but potentially of concern in large numbers; (2) the DF-26 antiship ballistic missile also revealed at the 2015 parade, unproven against a moving target at sea like the shorter-range DF-21D (and likely facing greater targeting challenges), but undergoing further development; (3) air-launched land-attack cruise missiles, launched from bombers with a high probability of being detected and intercepted by U.S. aircraft and anti-aircraft systems; (4) air-launched antiship cruise missiles, with the same aircraft limitation; (5) sea-launched antiship cruise missiles, of concern should the platforms be able to move into range undetected, a challenge for China's relatively noisy submarines; and (6) sea-launched land-attack cruise missiles, which China does not currently field but is likely working to develop.<sup>150</sup> At present, accuracy limitations and platform vulnerabilities render the risk these missiles would pose to U.S. forces on Guam in a conflict relatively low, but China's commitment to continuing to modernize its strike capabilities indicates the risk will likely grow going forward.

### ***Coercive Actions to Advance Maritime Goals***

The most significant characteristic of China's security approach in the Asia Pacific since the Rebalance began has been a continued series of coercive actions against neighboring states in the maritime realm (perceived as having begun around 2009 to 2010) that has exceeded many observers' expectations.<sup>151</sup> Beijing has maintained its claim to nearly the entire South China Sea (though it refuses to clarify the precise meaning of these claims<sup>152</sup>) and continues to insist that all territorial disputes there be addressed bilaterally.<sup>153</sup> Far from valuing "consensus" and mutual benefit as proposed under its New Asian Security Concept, Beijing has sought to preemptively divide ASEAN to prevent it from taking a unified stance on the dispute and enlist other countries' support for its own position.<sup>154</sup> (See Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs," for a comprehensive discussion of developments in the South China Sea in 2016.)

In June 2012, China established *de facto* control over Scarborough Reef, a land feature disputed with the Philippines but previously unoccupied, and began preventing access to the area. Philippines officials and experts interviewed by the Commission in 2012 viewed this as an effort by China to "test" the United States' commitment to defending the Philippines.\*<sup>155</sup> Since this time, China has pursued land reclamation on other disputed features it controls at an "absolutely breakneck" pace, according to Mira Rapp-Hooper, senior fellow at the Center for a New American Security,<sup>156</sup> reclaiming 3,200 acres of new land over just 18 months beginning in December 2013.<sup>157</sup> Around many of these features, China has declared what it refers to as "exclusion zones," a unique

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\* China secured control of the reef after a two-month-long standoff between Chinese and Philippine vessels that culminated in the Philippine ships' withdrawal. According to Manila, China backtracked on an agreement to simultaneously withdraw. For an in-depth examination of the Scarborough Reef standoff, see U.S.-China Economic and Security Review Commission, *2012 Annual Report to Congress*, November 2012, 231–233.

status with no explicit basis in international law, and attempted to warn off U.S. aircraft and warships.<sup>158</sup> China has also conducted well-publicized combat drills in the disputed region,<sup>159</sup> notably declaring a prohibition on foreign ships and aircraft entering the area involved during a July 2016 exercise.\* Philippine officials reported a larger-than-usual number of ships operating near Scarborough Reef in early September 2016, while China was hosting the G20 summit. These ships reportedly included coast guard vessels and barges, raising concerns that China might plan to begin island reclamation.<sup>160</sup>

In the course of its growing assertiveness in the South China Sea, China has also violated several of its international commitments: the 2002 China-ASEAN “Declaration on the Conduct of Parties in the South China Sea,” which requires parties to refrain from “inhabiting” uninhabited features;<sup>161</sup> the UN Convention on the Law of the Sea (UNCLOS), specifically its rules defining territorial zones and features, its standards for clarifying claims, its environmental protection obligations, and the July 2016 ruling by the Permanent Court of Arbitration in The Hague that major elements of China’s claim were unlawful, which Beijing declared “null and void;”<sup>†</sup><sup>162</sup> and President Xi’s public promise not to “militarize” its artificial islands in the South China Sea, made in Washington in September 2015.<sup>163</sup>

China has undertaken these efforts with an apparent disregard for their strategic costs, namely the negative perceptions of other regional countries and their resulting favorability toward the United States. As Dr. Rapp-Hooper testified to the Commission, “Washington’s South China Sea security strategy has focused on diplomatic engagement and changes to its military posture that will bear fruit over time. Beijing, on the other hand, has employed an opportunistic strategy focused on quick, incremental gains.”<sup>164</sup> She noted that China has, however, been able to shift the short-term, tactical military balance through this approach, as “[Beijing] has been building islands faster than the United States can build coalitions.”<sup>165</sup>

### ***China’s Bilateral Economic Engagement***

Bilaterally, China has forged a series of FTAs with regional countries and committed billions of dollars to regional infrastructure projects through its OBOR initiative. Since 2011, China has concluded bilateral FTAs with key U.S. allies Australia and South Korea.<sup>166</sup> China also began negotiations with Japan and South Korea on a joint FTA in 2012.<sup>167</sup> This push for new FTAs can be seen as a reaction to the Rebalance and a way for China to main-

\*Prior to a large-scale July 2016 exercise in the South China Sea near Hainan Island and the Paracel Islands, the Chinese government announced that an area of 100,000 square kilometers (38,610 square miles)—which included waters claimed by Vietnam—would be off limits. State practice under international law has been that countries issue these kinds of notices prior to military exercises for safety reasons, but they cannot prohibit ships and aircraft from entering the area. Steve Mollman, “China Illegally Cordoned off a Huge Part of the South China Sea for Military Drills—And Will Likely Do So Again,” *Quartz*, July 11, 2016.

†The tribunal specifically ruled that China’s nine-dash line, recent land reclamation activities, and other activities in Philippine waters were unlawful. For a summary of the arbitration ruling, see Caitlin Campbell and Nargiza Salidjanova, “South China Sea Arbitration Ruling: What Happened and What’s Next?” *U.S.-China Economic and Security Review Commission*, July 12, 2016.

tain favorable trade access to current and future TPP countries. Both Japan and Australia are TPP members, while South Korea already has FTAs with most TPP countries and has stated its desire to join the agreement.<sup>168</sup> The FTA with Australia had been under negotiation for more than a decade but did not accelerate until after Japan joined TPP negotiations in 2013.<sup>169</sup> The contents of China's FTAs show a desire to create agreements that are generally weaker in their standards than U.S. FTAs (such as TPP) and require little reform to China's economy. For example, U.S. FTAs typically require stronger intellectual property protection such as longer copyright periods and more binding requirements for intellectual property right enforcement.<sup>170</sup> By contrast, with the exception of China's FTAs with Switzerland and South Korea, Chinese FTAs do not typically include intellectual property protections stronger than those commitments China has already made to the World Trade Organization.<sup>171</sup>

China has also committed several billion dollars to OBOR projects, which have been seen as a response to the Rebalance.<sup>172</sup> OBOR has two components: the 21st Century Maritime Silk Road initiative, which aims to establish an economic corridor through the South China Sea and Indian Ocean to Europe, and the Silk Road Economic Belt, which is a series of transportation infrastructure projects through Central Asia linking China to Europe by land.<sup>173</sup> While OBOR is in many ways a rebranding of several Chinese projects that were already underway, the Chinese government has pledged significant resources to it. The Silk Road Fund has an endowment of \$40 billion, and the China Development Bank has stated it would provide \$890 billion for OBOR projects.<sup>174</sup> While Chinese development pledges can often overstate their total commitment, even a fraction of this amount would still be a massive allocation of resources—in 2015, World Bank Group lending totaled \$60 billion worldwide.<sup>175</sup> OBOR is seen as a crucial part of a strategy that ensures China will become the economic center of gravity in Asia with all roads leading to Beijing.<sup>176</sup>

### ***Potential Factors Contributing to China's Response***

Two broad observations help shed light on why Beijing may be taking the regional approach outlined in this section.

#### *Conditional Approach to International Order*

As Dr. Rapp-Hooper noted in her testimony to the Commission, there is not "one singular answer to the way that China intends to engage with the liberal international order writ large."<sup>177</sup> China does not reject or accept the system wholesale; rather, its approach varies based, among other factors, on geographic proximity and the presence of perceived core interests such as territorial claims.\*<sup>178</sup> Recognizing that China has benefited from the order, China's lead-

\*Thomas Woodrow, former senior intelligence analyst for the Pacific Command's Joint Intelligence Operations Center—China Division, notes that Chinese leaders describe "national strategic priorities as 'core interests' ... [which] include 'the political stability of China' and the 'sovereignty and security, territorial integrity, and national unity of China.' These core interests can also be viewed as red lines indicating a Chinese threshold for the potential use of military force." Thomas Woodrow, "The PLA and Cross-Border Contingencies in North Korea and Burma," in Andrew Scobell et al., *The People's Liberation Army and Contingency Planning in China*, National Defense University Press, 2015, 206.

ers primarily seek to operate within the system when it benefits them, while attempting to exert influence and participate in “writing the rules” where possible,<sup>179</sup> and at times in rewriting existing rules. As do many states in the international system, China takes an interest-based approach to this question; on issues such as climate change and Iran’s nuclear program, for example, China has been willing to cooperate with other stakeholders in a context that largely upholds the system.<sup>180</sup> In the Asia Pacific region, however, proximity and the presence of territorial claims have driven China to pursue its interests unilaterally or in opposition to this system. This likely influences its underlying opposition to the Rebalance, endorsement of new security and economic orders, and pursuit of tactical changes to facts on the ground in territorial disputes.

Importantly, China’s willingness to challenge the rules-based international order when convenient indicates a more fundamental point of friction with the U.S. regional and global position—one that cannot be tied to a specific U.S. strategy such as the Rebalance. As Kathleen Hicks, senior vice president and director of the International Security Program at the Center for Strategic and International Studies, testified to the Commission, “China’s apparent willingness to challenge vital elements of the existing rules-based regional and international order should be of concern to U.S. policymakers and to others around the world who believe a rules-based order provides benefits to all.”<sup>181</sup> Sheila Smith, senior fellow for Japan studies at the Council on Foreign Relations, identified China’s unwillingness to abide by dispute resolution mechanisms in particular as “the question of the Asia Pacific at the moment.”<sup>182</sup>

#### *General Continuity in Objectives*

Expert observers have argued that China’s leaders probably do not have foreign policy goals that are fundamentally different from those in decades past, but more assertive, less constructive forces “have the ascendancy,” as stated by Dr. Lampton, when it comes to making tactical decisions.<sup>183</sup> China’s leaders have long made clear their claims to Taiwan, the Senkaku Islands (called Diaoyu in China), and the South China Sea, as well as their dislike for the regional U.S. military presence, for example.<sup>184</sup> The departure from former CCP Chairman Deng Xiaoping’s maxim that China should “hide capabilities and bide time” in favor of the larger role in shaping the international system explicitly sought by China’s leaders today<sup>185</sup> would best be understood as an amplification in volume rather than a change in objectives.

China’s more assertive actions in relation to these goals in recent years can perhaps be attributed in part to President Xi himself: experts have referenced his “China Dream” vision and its emphasis on elevating China’s international status as a stated goal for the first time;<sup>186</sup> his centralized approach to policymaking that bypasses the CCP’s traditional foreign policy institutions<sup>187</sup> and is more open to advice from the military;<sup>188</sup> a perceived need for action after a series of crises and the sense of a “lost decade” under his predecessor,<sup>189</sup> perhaps reinforced by his own personal leadership style and aspirations;<sup>190</sup> and the apparent popularity of China’s assertiveness in the international arena among domestic audi-

ences.<sup>191</sup> Importantly, some experts have also noted that popular nationalism is not sufficiently powerful to cause the leadership to take actions it does not want to take.<sup>192</sup> Observers have debated whether President Xi has fully “consolidated power” and thus has more leeway to act assertively,<sup>193</sup> or has not yet done so and sees an assertive foreign policy as potentially advantageous.<sup>194</sup> Some experts note that the Rebalance has sparked a debate in Chinese foreign policy circles regarding the utility of China’s assertive approach, with some elites reportedly preferring less provocative policies.<sup>195</sup> Seen in this light, China’s suspicion of the Rebalance and agitation for alternative systems probably reflect the longstanding interests of the CCP, while the specific coercive tactical actions it has undertaken reflect the interests and characteristics of its current leadership.

### Conclusions

- U.S. government statements have tied the Rebalance strategy to the upholding of the “liberal, rules-based international order” in the Asia Pacific, viewing the preservation of this order as broadly aligning with U.S. interests. It represents a tactical adjustment rather than a strategic shift in U.S. policy, seeking to maintain U.S. commitments to the region in an era of new challenges to these interests.
- Although China has voiced measured criticism of the Rebalance in official statements, opposition at other levels indicates a deeply negative perception overall. China has also expressed support for alternative regional security and economic frameworks, pursued coercive actions against neighboring countries in violation of its international commitments, and sought to promote its own free trade agreements since the Rebalance began.
- China alternately supports or challenges the international order based on varying interests, a point of friction in the Asia Pacific, where proximity and core territorial interests factor into Beijing’s views. China’s current leaders probably do not have foreign policy goals that are fundamentally different from those in the past, but are more assertive in making tactical decisions. These observations shed light on why Beijing has undertaken its current regional approach.
- The United States has attempted to emphasize that the Rebalance is focused on upholding principles, not on countering China for its own sake.
- To date, the Trans-Pacific Partnership is the only fully-developed significant economic component under the Rebalance. By its very nature as a free trade agreement, it does not address all U.S. economic interests and objectives in the region.
- Other economic initiatives under the Rebalance have been relatively small. Trade with Asia has increased under the Rebalance, and U.S. trade with China has grown faster than in other Asian countries.

## RECOMMENDATIONS

### ***China and the U.S. Rebalance to Asia***

The Commission recommends:

- Congress express support for more frequent U.S. freedom of navigation operations in the South China Sea in conjunction with U.S. allies and partners.
- Congress direct the U.S. Department of Defense to include a permanent section in its *Annual Report on Military and Security Developments Involving the People's Republic of China* on the role and activities of China's maritime militia and the implications for U.S. naval operations.

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