

“What Keeps Xi Up at Night: Beijing’s Internal and External Challenges”

Testimony before the U.S.-China Economic and Security Review Commission
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First, thank you to Senator Talent, Senator Goodwin, and the honorable Commissioners for the opportunity to come speak to you today. The topic of today’s hearing is a particularly important one. Widespread attention to China’s growing power has created a public narrative that often conveys a sense of inevitability and irreversibility around China’s rise. This narrative ignores constraints, both internal and external, that China will face as it continues to work toward its goal of “national rejuvenation”. China is undoubtedly expanding its already significant economic and military power, and in this sense presents a formidable challenge to U.S. leadership. However, Chinese leaders remain acutely aware of the potential for either internal weaknesses or external turbulence to generate instability that could upset China’s current trajectory.

The specific topic I have been asked to discuss today is the response of other Indo-Pacific nations to China’s expanding power, and how China’s regional partnership network will influence its ability to achieve its geostrategic ambitions. In the testimony that follows, I will outline: 1) China’s vision for a new Asian security architecture; 2) how China is operationalizing this vision; 3) regional strategies to respond to China’s growing influence; and, 4) practical implications for both the United States and China. I conclude with a series of recommendations for the U.S. Congress to strengthen and revitalize U.S. security alliances and partnerships.

I. The Indo-Pacific Order and China’s Community of Common Destiny

The resilience of the post-World War II alliance system has been a unique source of strength for the United States. In the Asia-Pacific region, U.S. security alliances form the basis of a broader regional order that has enabled over seventy years of unprecedented economic growth and relative stability. This order, which includes a web of alliances and partnerships, regional institutions, and supporting rules and norms, has not only benefited countries across the Indo-Pacific region—including China—it has also benefited the United States. This is why consecutive U.S. administrations have acknowledged that U.S. prosperity is “inextricably linked” to peace and security in the Indo-Pacific region.

Chinese leaders and scholars have long recognized the significance of the U.S. alliance system and critiqued it as a de facto containment mechanism aimed at preventing China’s rise.¹ In the view of many Chinese experts, this alliance network creates an inherent asymmetry designed to enable the United States to “more effectively maintain its dominant position” and create “a hard constraint on China’s continued development”.² It is therefore unsurprising that Xi Jinping has identified creating a more “favorable external environment” and a “new type of international

¹ John Hemmings, “The myth of Chinese containment,” *The Interpreter*, March 9, 2018, <https://www.lowyinstitute.org/the-interpreter/myth-chinese-containment>.

² Zhou Fangyin, “Meiguo de yatai tongmeng tixi yu zhongguo de yingdui” [United States' Asia-Pacific Alliance System and China's Response], *Shijie jingji yu zhengzhi* [World Economics and Politics], 2013, http://www.sias.org.cn/gqnrMH/info_54.aspx?itemid=738.

relations” as a priority for China’s foreign policy.³ Chinese leaders have made clear they see the present moment as one of strategic opportunity, a period in which both domestic and international conditions are right for China to expand its “comprehensive national power” and seize President Xi’s “China dream of national rejuvenation”.⁴ To achieve this dream, China is actively focused on restructuring the Indo-Pacific regional order and the security relationships within it.

Through a series of speeches and publications, China’s leaders have outlined in recent years Xi’s vision for a “new Asian security concept”, which aligns with his call for China to establish “a community of common destiny for mankind”.⁵ This approach is meant to contrast with what they describe as a more competitive, zero-sum approach enshrined by the U.S. alliance system.⁶

Chinese leaders describe this new Asian security concept as one based on broad principles: common, comprehensive, cooperative, and sustainable security cooperation.⁷ However, this vision is direct on two critical points. First, China’s concept envisions a diluted role for the United States and an enhanced role for China. As Xi outlined in his 2014 speech to the Conference on Interaction and Confidence Building Measures in Asia (CICA), “it is for the people of Asia to run the affairs of Asia, solve the problems of Asia and uphold the security of Asia”.⁸ He later elaborated on this point at the 2016 CICA meeting, arguing that a new Asian architecture should better reflect “Asian needs”.⁹ Second, this new Asian order has no place for treaty alliances, which Xi’s 2014 CICA speech directly critiques as “not conducive to maintaining common security”.¹⁰ Presumably, this would include the U.S. alliance system.

³ Xi Jinping, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era,” Remarks delivered at the 19th National Congress of the Communist Party of China, October 18, 2017,

http://www.chinadaily.com.cn/china/19thcpnationalcongress/2017-11/04/content_34115212.htm.

⁴ U.S. Department of Defense, “Assessment on U.S. Defense Implications of China’s Expanding Global Access,” (December 2018), <https://media.defense.gov/2019/Jan/14/2002079292/-1/-1/1/EXPANDING-GLOBAL-ACCESS-REPORT-FINAL.PDF>.

⁵ Xi Jinping, “New Asian Security Concept For New Progress in Security Cooperation,” Remarks delivered at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia, May 21, 2014, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1159951.shtml; and “Xi urges breaking new ground in major country diplomacy with Chinese characteristics,” *Xinhua*, June 24, 2018, http://www.xinhuanet.com/english/2018-06/24/c_137276269.htm.

⁶ Michael D. Swaine, “Chinese Views and Commentary on Periphery Diplomacy,” *China Leadership Monitor no. 44* (Hoover Institution, July 28, 2014), <https://www.hoover.org/sites/default/files/research/docs/clm44ms.pdf>.

⁷ Ibid.

⁸ Xi Jinping, “New Asian Security Concept For New Progress in Security Cooperation.”

⁹ Ministry of Foreign Affairs of the People’s Republic of China, “Xi Jinping Attends Opening Ceremony of the 5th Meeting of the CICA Ministers of Foreign Affairs and Delivers Important Speech, Stressing to Jointly Create a Better Future of Peace and Prosperity for Asia Through Dialogue and Consensus,” April 28, 2016, https://webcache.googleusercontent.com/search?q=cache:nlQ5OH48hi0J:https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1360245.shtml+&cd=1&hl=en&ct=clnk&gl=us.

¹⁰ Ibid, Xi Jinping, “New Asian Security Concept For New Progress in Security Cooperation.”

Xi's vision of an "Asian community of common future" instead calls for China to develop a "global partnership network", one that will make "Asian countries good partners that trust one another and cooperate on an equal footing".¹¹

Although Xi describes a partnership network based on the principle of "equality", his speeches also notably differentiate between China's relationships with "major powers" and those with smaller states around its periphery. With "major powers", China seems to acknowledge a degree of inevitable friction and differing views, arguing that "major countries should treat the strategic intentions of others in an objective and rational manner, reject the Cold War mentality, [and] respect others' legitimate interests and concerns".¹² In building relationships with smaller neighbors, however, China's "neighborhood diplomacy" focuses more directly on aligning these states with Beijing's worldview. In his 2013 speech at the Work Conference on Peripheral Diplomacy, Xi Jinping emphasized the need to enhance "political good will" and economic ties, "increase China's cultural influence", and "socialize the region to accept China's view of its 'core interests'".¹³

Operationalizing China's Regional Network

China now touts the establishment of 84 "strategic partnerships" with countries across the world.¹⁴ The strategic significance and practical implementation of these agreements varies significantly, but the trend is clear: China is moving rapidly to operationalize Xi's call for a network of partnerships.

In the Indo-Pacific region, China has signed partnership agreements with all of its immediate neighbors, with the exception of Japan, and has more recently expanded its ties in South Asia and the Pacific in particular. In November 2018, China established comprehensive strategic partnerships with eight Pacific Island nations, including Fiji, Vanuatu, Samoa, and the Federated States of Micronesia.¹⁵

Broadly speaking, China aims to achieve four goals through these partnerships: 1) expanding its international strategic and political influence; 2) supporting access to resources and promoting domestic economic growth; 3) advancing its security interests and military access through deeper defense ties; and 4) enhancing the legitimacy of China's "core interests" and preferred values.

¹¹ Ibid, Xi Jinping, "New Asian Security Concept For New Progress in Security Cooperation."

¹² Ministry of Foreign Affairs of the People's Republic of China, "China's Policies on Asia-Pacific Security Cooperation," January 11, 2017, https://web.archive.org/web/20171219010150/https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1429771.shtml.

¹³ Timothy Heath, "Diplomacy Work Forum: Xi Steps Up Efforts to Shape a China-Centered Regional Order Jamestown Article," *China Brief* v. 13 no. 22 (Jamestown Foundation, November 7, 2013), <https://jamestown.org/program/diplomacy-work-forum-xi-steps-up-efforts-to-shape-a-china-centered-regional-order/>.

¹⁴ "Quanmian zhanlv huoban guanxi" [Comprehensive Strategic Partnership], baike.baidu.com, last edited December 4, 2018, accessed January 25, 2019, <https://baike.baidu.com/item/%E5%85%A8%E9%9D%A2%E6%88%98%E7%95%A5%E4%BC%99%E4%BC%B4%E5%85%B3%E7%B3%BB/9229535>.

¹⁵ "China, Pacific island countries lift ties to comprehensive strategic partnership," *Xinhua*, November 17, 2018, http://www.xinhuanet.com/english/2018-11/17/c_137612239.htm.

The centerpiece of China's economic cooperation with regional partners is the "Belt and Road Initiative" (BRI), its signature global infrastructure development plan. Through BRI, China is working with partners on traditional infrastructure needs—building roads, ports, dams, and bridges—but it is also leveraging BRI to build expanded cooperation on trade, transportation agreements, and a new "digital silk road".¹⁶ The majority of China's BRI spending is going to projects in the Indo-Pacific region—the largest recipients of Chinese funds are currently Pakistan, Bangladesh, Malaysia, and Indonesia¹⁷—and most of China's neighbors have endorsed some form of cooperation under the BRI rubric.¹⁸

Although many of China's neighbors have accepted BRI investments, there have nonetheless been signs of growing pushback and discontent about the terms and conditions of these agreements. Lack of transparency, unsustainable debt levels, and poor environmental standards have sparked backlashes in several countries, moving leaders in countries like Malaysia, Nepal, and even Pakistan, to cancel or revisit the terms of various BRI projects. In spite of these challenges, China's economic ties to its Indo-Pacific neighbors remain robust—China is the largest two-way trading partner for the majority of Indo-Pacific countries, including ASEAN,¹⁹ Australia, India, and Japan.²⁰ These economic relations are the foundation of China's regional influence and engagement.

China has also moved in recent years to enhance the military and defense aspects of its regional partnerships. The most prominent aspect of China's defense ties has been its arms sales to regional neighbors, especially those countries who may not be able to purchase, or could have difficulties affording, U.S. weapons systems. Between 2012 and 2016, Chinese arms sales totaled \$20 billion dollars, with nearly half of these sales (eight billion) going to partners in the Indo-Pacific region. Pakistan, Bangladesh, and Myanmar have been the three largest importers of Chinese arms in recent years.²¹ Notably, China has also stepped up defense sales and technology cooperation with two U.S. allies—Thailand and the Philippines.

In addition to arms sales, the PLA has significantly increased the pace and scope of its international military exchanges and joint exercises in recent years. This includes an increased pace of high-level defense exchanges, as well as professional military education and Chinese language training for foreign officers through PLAAF and PLAN Command Schools. According to a new report by the U.S. Department of Defense, from 2008-2017, China participated in 62

¹⁶ Jonathan E. Hillman, "How Big Is China's Belt and Road?" (Center for Strategic and International Studies, April 3, 2018), <https://www.csis.org/analysis/how-big-chinas-belt-and-road>.

¹⁷ Cecilia Joy-Perez and Dereck Scissors, "The Chinese State Funds Belt and Road but Does Not Have Trillions to Spare," (American Enterprise Institute, March 2018), <https://www.aei.org/wp-content/uploads/2018/03/BRI.pdf>.

¹⁸ Daniel M. Kliman and Abigail Grace, "Power Play: Addressing China's Belt and Road Strategy," (Center for a New American Security, September 2018), <https://s3.amazonaws.com/files.cnas.org/documents/CNASReport-Power-Play-Addressing-Chinas-Belt-and-Road-Strategy.pdf?mtime=20180920093003>.

¹⁹ ASEAN, "Top ten ASEAN trade partner countries/regions, 2015," November 2016, https://asean.org/wp-content/uploads/2016/11/Table20_as-of-6-dec-2016.pdf.

²⁰ World Integrated Trade Solution, "Top Exporters and Importers 2016," <https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/2016/TradeFlow/EXPIMP>.

²¹ Ibid, U.S. Department of Defense, "Assessment on U.S. Defense Implications of China's Expanding Global Access."

bilateral military exercises and 42 multilateral exercises with partners across the Indo-Pacific.²² Russia and Pakistan are by far the most frequent partners for these exercises, but China now conducts regular training engagements with countries across the region, including Australia, Singapore, Thailand, and Indonesia. China also recently inaugurated a new multilateral maritime exercise with ASEAN, which was held in 2018 for the first time.²³ Most interestingly, China has reportedly begun to explore military access arrangements with foreign partners, to help secure the logistical access it will need to sustain longer overseas deployments. Recent reports suggest China has explored access arrangements with both Cambodia and Vanuatu.²⁴

Finally, China is actively seeking to expand its “soft power” and influence with its neighbors, in support of Xi Jinping’s exhortation to “tell China’s story well”.²⁵ Beijing’s cultural diplomacy supports its broader strategic aims by encouraging greater alignment with China’s preferred policy positions, as well as aiming to lessen regional threat perceptions among its neighbors.

In the past several years, China has increased its cultural diplomacy on multiple fronts, including new Chinese-language media outlets across the region; establishing Confucius Institutes; expanding youth, political party, and business exchanges; and creating new sister city initiatives with foreign partners. For example, since 2004, China has opened 89 Confucius Institutes and 159 Confucius Classrooms in East Asia and the Pacific. It has also more than doubled its sister city arrangements with East Asian partners since 2000, up from 400 to 950. China also hosts nearly half a million foreign students in China, over 40% of whom hail from other Indo-Pacific nations.²⁶ Many of these initiatives have been well-received, but much like China’s BRI projects, there are also concerns that elements of China’s cultural diplomacy appear to have a sharper edge. In particular, Indo-Pacific democracies such as Australia and New Zealand have raised concerns that China has leveraged ties to elite policy, expert, and business communities to exert political pressure and shape domestic policy debates.

II. Regional Responses: Shifting Perceptions of Chinese Partnerships

How are regional partners responding to China’s growing influence? It is difficult to answer this question in a comprehensive way, given the significant differences in individual nations’ relationships with Beijing. On the one hand, close U.S. allies, such as Australia and Japan, have enhanced coordination with the United States and other like-minded democracies. Other countries, such as Cambodia and Pakistan, have more whole-heartedly embraced strategic ties to Beijing. The response of most nations, however, lies somewhere in between.

²² Ibid.

²³ Lim Min Zhang, “China, Asean kick off inaugural maritimes field training exercise in Zhanjiang, Guandong,” *Straits Times*, October 22, 2018, <https://www.straitstimes.com/asia/east-asia/china-asean-kick-off-inaugural-maritime-field-training-exercise-in-zhanjiang>.

²⁴ Ibid, U.S. Department of Defense, “Assessment on U.S. Defense Implications of China’s Expanding Global Access.”

²⁵ Justyna Szczudlik, “‘Tell China’s Stories Well’: Implications for the Western Narrative,” Policy Paper no. 9 (169) (Polish Institute of International Affairs, September 2018), <http://www.pism.pl/Publications/PISM-Policy-Paper-no-169>.

²⁶ Samantha Custer et al, “Ties that Bind: Quantifying China’s public diplomacy and its ‘good neighbor’ effect,” (Williamsburg: AidData at William & Mary, June 2018), 12, <https://www.aiddata.org/publications/ties-that-bind>.

Given China's substantial economic and military power, engagement with Beijing is not really a choice, but a fact of life for countries in the Indo-Pacific region. Regional partners are both pragmatic about this reality, as well as clear-eyed about the potential challenges associated with China's regional influence. To the extent that it is possible to decipher a common strategic approach, most countries are broadly focused on three goals: sovereignty, balance, and stability.

First, countries desire the strategic space to make independent economic and foreign policy decisions, free from coercion or influence. As Australia states in its most recent Foreign Policy White paper, the aim is to be "sovereign, not reliant".²⁷ To maintain this strategic space, countries are seeking greater diversity in their economic and security ties, even as they continue to maintain cooperative relations with Beijing. In particular, most regional partners are eager for deeper U.S. engagement in the Indo-Pacific, to provide a counterweight against Beijing's growing power. And finally, countries are seeking stability. Many regional partners remain wary of China's rapidly expanding military presence and capabilities, including the potential for Chinese activities to destabilize areas such as the East or South China Seas. On the other hand, although most partners welcome American pushback against Chinese actions that encroach on their freedom of action, they are also leery of the impact that major power competition could have in the region.

China remains a vital economic partner for most of its Indo-Pacific neighbors, a reality which creates a more complex and at times muted approach toward strategic balancing than might be expected. However, Beijing's more openly assertive foreign policy behavior under Xi Jinping has also fueled cynicism about China's strategic intentions. While countries continue to seek pragmatic cooperation with Beijing, there are signs that some regional partners are increasingly skeptical and pessimistic about the costs and benefits of this partnership. For example, in a recent survey of Southeast Asian policymakers and experts, only 9% of respondents assessed that China was a "benign and benevolent power" in the region.²⁸ In particular, some countries have begun to more openly voice questions about China's commitment to 'equality' and 'win-win' outcomes. Three developments in particular have increased perceptions that China is wielding its economic and political influence to achieve outcomes that advantage Beijing at the expense of its neighbors.

China's Activities in the South and East China Sea: China's aggressive pursuit of its territorial claims in the South China Sea has played a significant role in reshaping regional and global perceptions about Beijing's foreign policy behavior and its treatment of regional partners.

In particular, China's rapid 2013-2015 land reclamation campaign, followed by its deployment of wide-ranging new military capabilities to the South China Sea, called into question its commitment to resolving disputes without the use of force or coercion. Beyond Chinese land reclamation, China's use of maritime militias to exert sovereignty over disputed maritime areas, its efforts to prevent neighbors from exploiting resources and fishing within their own exclusive

²⁷ Department of Foreign Affairs and Trade, "Foreign Policy White Paper 2017," (Canberra: Australian Government, November 2017), iii, <https://www.fpwhitepaper.gov.au/>.

²⁸ Tang Siew Mun et al., "State of Southeast Asia: 2019," *ASEAN Focus*, January 11, 2019, https://www.iseas.edu.sg/images/pdf/ASEANFocus%20January%202019_FINAL.pdf.

economic zones, as well as its refusal to recognize the 2016 ruling issued by the Hague's Permanent Court of Arbitration, all raised serious concerns in the international community about China's commitment to the rule of law, freedom of navigation, and the principles of sovereignty and non-interference.

The most notable regional impact of China's behavior has been on its relationships with neighbors in Southeast Asia. Beijing's activities in the South China Sea have been the single largest source of friction with its ASEAN neighbors. China's standoff with the Philippines in 2012 at Scarborough Shoal, and then with Vietnam in 2014 over China's deployment of an oil rig in disputed waters, not only soured government-to-government relations, they also did serious damage to public opinion toward Beijing. China's aggressive pursuit of its South China Sea claims has also been a significant factor in accelerating Southeast Asian military modernization, including Indonesia's military buildup around the Natuna Islands, as well as incentivizing new maritime cooperation between ASEAN claimant states and partners, including the United States, Japan, and India.

Belt and Road Initiative: The impact of China's Belt and Road Initiative (BRI) on its smaller Indo-Pacific neighbors has become a subject of great debate. Although most countries initially welcomed the initiative, the absence of clear standards and lack of economic sustainability surrounding many of the projects has sparked political pushback and grassroots protests in a number of Indo-Pacific countries. China's insistence on using primarily Chinese companies and materials for these projects has generated frustration in smaller nations, such as Thailand, Cambodia, and Malaysia, where workers complain that Chinese development has come at their expense.²⁹ In other countries, such as Laos and Indonesia, concerns about the potential environmental impact of Chinese hydropower and railway projects have also sparked objections.³⁰

Perhaps the most significant worry emerging around China's BRI investments, however, is that China may be promoting highly risky loan arrangements that are saddling smaller nations with unsustainable levels of debt. The turning point in this debate seemed to be the revelation that Sri Lanka found itself so deeply indebted to Beijing that it offered up a 99-year lease to the port of Hambantota and the surrounding land.³¹ Increasingly, public perceptions that Chinese deals are crippling smaller neighbors and impinging on their sovereignty has become a political liability for China in various places, including Malaysia, Bangladesh, and the Maldives, where domestic opposition has led political leaders to step back from closer cooperation with Beijing.

²⁹ Wichit Chaitrong, "China's loan terms rejected," *The Nation*, August 14, 2017, <http://www.nationmultimedia.com/detail/national/30323682>; Tom O'Connell, "China's ambitious plans meet resistance in Southeast Asia," *Southeast Asia Globe*, September 11, 2018, <http://sea-globe.com/chinas-belt-and-road-initiative-meets-resistance-in-southeast/>.

³⁰ Basten Gokkon, "Environmentalists Are Raising Concerns Over China's Belt and Road Initiative," *Pacific Standard*, July 18, 2018, <https://psmag.com/environment/environmental-concerns-over-chinese-infrastructure-projects>.

³¹ Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

Domestic Interference and Influence: Finally, a more recent point of concern for some countries has been China's efforts to cultivate influence with specific elite leaders and constituencies. In some cases, such as in Sri Lanka and Malaysia, reports suggest that China enabled corrupt political leaders in order to secure its preferred infrastructure deals.³² With both the construction of the Hambantota Port and Malaysia's agreements for new railway and pipeline projects, Chinese funding appears to have flowed not just to development, but also into the direct coffers of political leaders.³³

In other cases, countries have expressed concerns that China leveraged close ties to specific political leaders to secure unbalanced economic deals. For example, the newly elected government in the Maldives expressed deep concerns about the Free Trade Agreement former President Abdullah Yameen signed during a visit to Beijing in December 2017. Describing the agreement as a "one-way treaty" with no economic logic for the Maldives, the new Solih government has vowed to review the deal.³⁴

There has also been a heated debate within some democracies—Australia and New Zealand, in particular—about Chinese efforts to leverage financial ties to business and political elites. In both instances, the conversation was partially precipitated by revelations of policymakers with personal or financial linkages to the Chinese Communist Party (CCP). Australia's domestic intelligence agency, ASIO, warned the two major parties in 2015 that Chinese donations "might come with strings attached".³⁵ The following year, a high-profile scandal emerged over Australian Senator Sam Dastyari's financial ties to Chinese donors and support for Chinese talking points on the South China Sea.³⁶ In late 2016, responding to rising concerns about potential foreign influence, the Turnbull administration commissioned a classified report on foreign interference into Australia's domestic politics, which was reported to have identified Chinese influence as a key threat to Australia's political independence.³⁷ This resulted in the passage of new legislation to ban foreign political donations and force disclosures on foreign lobbying practices.³⁸

³² Tom Wright and Bradley Hope, "China Offered to Bail Out Troubled Malaysian Fund in Return for Deals," *Wall Street Journal*, January 7, 2018, <https://www.wsj.com/articles/how-china-flexes-its-political-muscle-to-expand-power-overseas-11546890449>; Ibid, Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

³³ Ibid, Tom Wright and Bradley Hope.

³⁴ Sanjeev Miglani and Mohamed Junayd, "Maldives set to pull out of China free trade deal, says senior lawmaker," *Reuters*, November 19, 2018, <https://www.reuters.com/article/us-maldives-politics-china-exclusive/exclusive-maldives-set-to-pull-out-of-china-free-trade-deal-says-senior-lawmaker-idUSKCN1NO0ZC?il=0>.

³⁵ John Garnaut, "Australia's China reset," *The Monthly*, August 2018, <https://www.themonthly.com.au/issue/2018/august/1533045600/john-garnaut/australia-s-china-reset>.

³⁶ Stephanie Peatling and Fergus Hunter, "China scandal: Embattled Labor senator Sam Dastyari resigns from Parliament," *Sydney Morning Herald*, December 12, 2018, <https://www.smh.com.au/politics/federal/china-scandal-embattled-labor-senator-sam-dastyari-resigns-from-parliament-20171211-h02ddn.html>.

³⁷ Tara Francis Chan, "A secret government report uncovered China's attempts to influence all levels of politics in Australia," *Business Insider*, May 29, 2018, https://www.businessinsider.com.au/secret-australian-government-report-uncovered-china-influence-campaign-2018-5?r=US&IR=T&_ga=2.124305930.1665568208.1548881313-1754222265.1494863903.

³⁸ Electoral Legislation Amendment (Electoral Funding and Disclosure Reform) Act 2018 (Cth), https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=s1117; Foreign

Regional Responses: Diversification and Balancing

In response to these concerns, many Indo-Pacific partners are taking steps to expand their strategic space and maintain balance in the region. Although there is some evidence of military balancing underway in the Indo-Pacific, this trend is highly uneven across the region, reflecting vastly different threat perceptions and security priorities among regional partners. Traditional military balancing, for most countries, is an infeasible strategy to respond to China's rise. Instead, the most prevalent strategic response is one of diversification. Partners are seeking to enhance ties to the United States, both economically and militarily, while also building a more diverse network of intra-regional partnerships.

Engagement with the United States

Over the past several years, there has been an increased demand signal from Indo-Pacific allies and partners for the United States to strengthen its role as a regional security guarantor. In response, the United States and its partners have taken numerous steps to bolster security cooperation and increase U.S. forward presence in the region. This includes notable new agreements enabling rotational deployments of Littoral Combat Ships in Singapore, U.S. Marines in Australia, and access to air and naval facilities in the Philippines. U.S. partners are also seeking enhanced training and assistance from the United States, in order to shore up their own self-defense capabilities, especially in the maritime domain. This has led to new defense cooperation with partners such as Vietnam and the Philippines, as well as the establishment of a new U.S.-ASEAN maritime security exercise, which will be held for the first time in 2019.

Another noteworthy trend is the newfound strength of the U.S.-India partnership, as highlighted by the inaugural U.S.-India 2+2 Dialogue that was held this past September. India's concerns about China's growing presence in the Indian Ocean region have incentivized robust growth in bilateral defense ties between Washington and New Delhi in recent years, including agreements to jointly develop and co-produce defense equipment. Equally notable, India has shown greater openness to multilateral coordination with the United States and other allies, such as Japan and Australia. While still relatively nascent, India's openness to greater multilateral cooperation—for example, Japan's regular participation in the U.S.–India Malabar exercise—mirrors a broader trend toward integrating security ties among the United States and close partners. For example, the United States, Japan, and Australia agreed in a leaders' summit in 2014 to a suite of new trilateral defense exercises,³⁹ and just this past year the United States agreed to collaborate with Australia in developing a naval base in Papua New Guinea.⁴⁰

Influence Transparency Scheme Act 2018 (Cth),

https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6018.

³⁹ The White House, "Australia-Japan-United States Trilateral Leaders Meeting Joint Media Release," November 15, 2014, <https://obamawhitehouse.archives.gov/the-press-office/2014/11/15/australia-japan-united-states-trilateral-leaders-meeting-joint-media-rel>.

⁴⁰ Jonathan Barret, "U.S. joins Australian plan to develop new Pacific naval base," *Reuters*, November 17, 2018, <https://www.reuters.com/article/us-apec-summit-port/u-s-joins-australian-plan-to-develop-new-pacific-naval-base-idUSKCN1NM06X>.

Beyond security cooperation, however, the more significant priority for many Indo-Pacific partners is to strengthen and restore U.S. economic leadership in the region. The U.S. withdrawal from the Trans-Pacific Partnership agreement, and the critiques of this agreement expressed throughout the 2016 presidential campaign, shook regional leaders and generated deep anxiety about continued U.S. leadership in the region. China's strong economic influence, and increasing ability to reshape and circumvent international economic rules, has only heightened calls, from U.S. allies in particular, for a stronger U.S. hand in sustaining a fair and open economic order. Over the past year, the United States and several partners have established a range of new economic initiatives, including an agreement between the United States, Australia, and Japan to facilitate private sector-driven infrastructure development in the Indo-Pacific and a new U.S.-ASEAN Smart Cities Initiative to collaborate on digital infrastructure in Southeast Asia. These and other similar efforts highlight the ongoing appeal of U.S. investment and economic leadership. On their own, however, they will do little to sustain the open trading architecture the United States helped establish.

Intra-Regional Cooperation Networks

Perhaps the most significant development of the past few years is the degree to which Indo-Pacific middle powers, including Australia, Japan, and Vietnam are driving a new wave of intra-regional networking and agreements. While this trend is partially driven by concerns about rising Chinese power, it's also important to note that it is equally driven by fear of U.S. abandonment and unreliability, a worry that has deepened in recent years. In a recent poll, nearly 70% of respondents expressed a lack of certainty in American commitment and reliability in the region.⁴¹

Japan has been a particular leader in driving intra-regional cooperation on both the security and economic side. The Abe administration's initiative to salvage the Trans-Pacific Partnership Agreement resulted in the historic signature of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership on March 8, 2018—an agreement that is projected to result in \$147 billion in global income gains, and notably includes neither China nor the United States.⁴²

Beyond economic cooperation, Japan has been one of the most energetic champions of increased engagement between Indo-Pacific democracies. Though the renewed establishment of the Quadrilateral Security Dialogue between Australia, India, Japan, and the United States has received much attention, in many ways it is the bilateral and trilateral collaboration between Australia, India, and Japan that has been much more substantive. Japan and India now hold regular leaders' level meetings and 2+2 ministerials, and have emerged as significant economic partners. India is now the largest recipient of Japanese Official Development Assistance (ODA), and Japan is India's fourth largest provider of foreign direct investment. The two countries have also agreed to collaborative research and development on military robotics and are working on an acquisition and servicing agreement (ACSA) that would grant reciprocal access to defense facilities such as Japan's base in Djibouti and India's bases on the Andaman Islands. Japan and Australia have similarly increased their bilateral economic and security cooperation, including

⁴¹ Ibid, Tang Siew Mun et al., "State of Southeast Asia: 2019," 10.

⁴² Matthew P. Goodman, "From TPP to CPTPP," (Center for Strategic and International Studies, March 8, 2018), <https://www.csis.org/analysis/tpp-cptpp>.

signing a new Japan-Australia Economic Partnership Agreement in 2014, to reduce tariffs and labor market barriers, and establishing a new acquisition and servicing agreement in 2017 to facilitate closer defense cooperation.⁴³

Australia, Japan, and India are not only increasing ties to each other, they are also each enhancing their cooperation with smaller countries in the region, especially in Southeast Asia and the Pacific. For example, the India-Vietnam relationship has been a notable new node of regional cooperation. In the past five years, their bilateral cooperation has included Vietnam hosting three Indian warships, joint coast guard exercises in India, Indian-provided training for Vietnamese submariners, as well as an Indian offer of a \$500 million defense line of credit to Vietnam. Similarly, while Australia has historically been the largest aid donor to the Pacific islands, increased Chinese infrastructure investment and loans have prompted Australia to recommit itself to the region through a new “stepping up” strategy.⁴⁴ This includes providing 21 patrol boats to island nations stretching from the South Pacific to Palau, as well as agreements to help Fiji develop a new military facility and a joint agreement with Japan and the United States to fund an undersea cable project for both Papua New Guinea and the Solomon Islands.⁴⁵

III. Implications and Recommendations for Congress

There is no doubt China has broadened the scale and scope of its partnership network across the Indo-Pacific region. China’s overwhelming economic and military power make some degree of cooperation with Beijing a fact of life for most Indo-Pacific nations. Yet unless China’s leaders can more effectively reassure partners in the region about its benign intent, China may face difficulties in establishing more meaningful partnerships outside of the economic arena. Many partners will continue to pursue a bifurcated approach that balances closer economic ties to Beijing with closer security ties to the United States. This will have practical implications on many fronts:

- The absence of reliable security alliances and partnerships could make it more difficult for China to obtain the overseas military access it needs to support an increasingly global military presence;

⁴³ Department of Defence (Australia), “Joint Statement: Eight Japan-Australia 2+2 Foreign and Defence Ministerial Consultations,” October 10, 2018, <https://www.minister.defence.gov.au/minister/cpyne/media-releases/joint-statement-eighth-japan-australia-22-foreign-and-defence>.

⁴⁴ Rajat Pandit, “With an eye on China, India to hold naval exercise with Vietnam,” *Times of India*, May 20, 2018, <https://timesofindia.indiatimes.com/india/with-an-eye-on-china-india-to-hold-naval-exercise-with-vietnam/articleshows/64241913.cms>; Press Trust of India, “Coast Guards of India, Vietnam hold joint exercise off Chennai,” *Times of India*, October 4, 2018, <https://timesofindia.indiatimes.com/india/coast-guards-of-india-vietnam-hold-joint-exercise-off-chennai/articleshows/66076682.cms>.

⁴⁵ Naval Technology, “Guardian Class Pacific Patrol Boat,” <https://www.naval-technology.com/projects/austal-pacific-patrol-boat-40/>, accessed January 30, 2019; Christopher Mudaliar, “Australia outbids China to fund Fiji military base,” *The Interpreter*, October 4, 2018, <https://www.lowyinstitute.org/the-interpreter/australia-outbids-china-fund-fiji-military-base>; Tom Westbrook, “Pacific leaders sign on to Australian internet cabling scheme, shutting out China,” *Reuters*, July 11, 2018, <https://www.reuters.com/article/us-australia-pacific-internet/pacific-leaders-sign-on-to-australian-internet-cabling-scheme-shutting-out-china-idUSKBN1K202Q>.

- Absent strong security alliances, China would be forced to bear a greater share of the burden in protecting its growing overseas commitments. This could be a particularly risky and costly prospect given instability in many parts of the Middle East and Africa;
- Growing skepticism about the terms of China’s development assistance could lead partners to seek out other options, making it more difficult for Beijing to find new partnership opportunities and export markets abroad;
- A deficit of soft power with regional partners could serve as a sort of tax on Beijing’s ambitions, forcing it to expend greater resources to bend regional norms and rules to more closely align with China’s preferences.

China may face very real limitations and challenges in consolidating its regional partnership network. However, it would be a mistake for U.S. policymakers to assume that Beijing cannot, or will not, adapt its policies to better assuage regional concerns. Although countries are not rushing to embrace China’s regional leadership, for the most part they are still seeking to find some kind of middle path between Washington and Beijing. Recent analysis suggests that there is a decided trend toward “under-balancing” in the Indo-Pacific, with nations taking the “minimum steps necessary to preserve their security and sovereignty”.⁴⁶ As a result, many partners will remain leery of more open strategic competition between the United States and China, and reluctant to be pulled in directions that force a choice between the two major powers.

More importantly, the United States cannot afford to underestimate the crisis of confidence it is currently facing with many regional allies and partners. Far more worrisome than China’s expanding influence is the notable decline in regional trust in U.S. leadership and commitment. Director of National Intelligence Dan Coats offered a dire warning about the state of the U.S. alliance system in his recent testimony to Congress, noting: “some U.S. allies and partners are seeking greater independence from Washington in response to their perceptions of changing U.S. policies on security and trade”.⁴⁷ Evidence of this concern is abundant. Experts in Australia and Japan—two of America’s closest allies—are openly debating the need for new self-defense capabilities and questioning the firmness of the U.S. security guarantee. U.S. partners are seeking out new partnerships and trade arrangements outside the region, such as the recent concluded Japan-EU trade deal. The trend lines are clear. Many U.S. partners are worried they can no longer wait on the United States to lead in shoring up the international rules, norms, and institutions it helped create, and are increasingly convinced they will need to work together to fill the void.

This erosion of confidence and trust in U.S. leadership, partnership, and reliability is the greatest challenge facing the United States in the Indo-Pacific region. Over the past seventy years, U.S. alliances and partnerships have provided strategic, financial, and operational advantages that

⁴⁶ Ibid, Jeff Smith, “China’s Rise and (Under?) Balancing in the Indo-Pacific: Putting Realist Theory to the Test.”

⁴⁷ Daniel R. Coats, “Statement for the Record to the Senate Select Committee on Intelligence,” *Worldwide Threat Assessment of the US Intelligence Community*, January 29, 2019. <https://www.dni.gov/files/ODNI/documents/2019-ATA-SFR---SSCI.pdf>.

enabled America's global leadership. America's ability to effectively compete in the Indo-Pacific region will depend on its ability to restore the strength and sustainability of these relationships. To begin addressing this task, I offer the following recommendations:

#1: Provide increased reassurance of sustained U.S. commitment to the Indo-Pacific region

- Fully fund the recently passed Asia Reassurance Initiative Act for the entire five-year authorization period.
- Request a Department of Defense review of opportunities and requirements for U.S. force posture in the Indo-Pacific region, including an assessment of the potential implications of reduced operational readiness on the Korean peninsula.

#2: Enhance the strategic and operational effectiveness of U.S. security alliances

- Encourage closer coordination between the United States and its allies/partners on reforming and strengthening the World Trade Organization and regional economic institutions such as the Asian Development Bank.
- Support the request of the Philippines' Ministry of National Defense to review the bilateral Mutual Defense Treaty and encourage support for clarification of its scope in the South China Sea.
- Increase funding levels for joint exercise programs in the Indo-Pacific, to facilitate greater readiness for U.S. and allied forces.
- Create legislation to enable closer cooperation between the United States and regional allies in the realm of defense innovation, including data-sharing initiatives, and research and development.

#3: Improve the ability of U.S. allies and partners to preserve their economic independence and self-defense

- Provide additional funding for technical and legal assistance to educate small Indo-Pacific nations about how to maintain sustainable debt levels and evaluate infrastructure projects.
- Mandate a comprehensive assessment of the most pressing infrastructure requirements and priorities in key Indo-Pacific nations that could be shared with partners such as India, Japan, and Australia.
- Explore legislation to enable greater multinational security education between the United States and Indo-Pacific allies, including establishing funding for new shared schoolhouses and integrated training centers such as those shared with NATO.