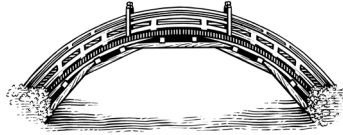


SPECIAL ESSAY

China and the Strategic Imperative for the United States

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KEYWORDS: UNITED STATES; CHINA; U.S. TRADE POLICY; BALANCE OF POWER

EXECUTIVE SUMMARY

This essay examines the implications of China's rise and calls on the U.S. to address the domestic bases for national power and to reassume a leadership role in Asia by executing a grand strategy that is fully cognizant of political, historical, economic, and strategic realities.

MAIN ARGUMENT

The U.S. has deep and long-standing interests in the strategically complex Indo-Pacific region. Now, however, Beijing's multi-decade strategy is bearing fruit as Chinese power and interests are beginning to predominate there. U.S. regional interests and leadership are challenged, and U.S. economic and security policies relevant to Asia are incoherent. Washington must craft effective policies that coordinate economic and diplomatic instruments of power with military instruments of power, and these policies must be executed in a manner consistent with historical yet achievable strategic imperatives.

POLICY IMPLICATIONS

- Xi Jinping is committed to consolidating his and the Chinese Communist Party's grip on Chinese society, basing much of his and the party's legitimacy on nationalism. China appears determined to replace the U.S. as the dominant regional force and compete for global hegemony.
- The U.S. must address the threats to its economy and at the same time remain engaged in crafting the rules of the international economic order. It should improve as needed and consider rejoining the Trans-Pacific Partnership to accelerate economic growth and coordination among coalition members. The U.S. should seek opportunities to strengthen liberal economic behavior in the region.
- The U.S. must develop an appropriate, well-resourced military strategy for the Indo-Pacific and deploy the required weapons and related systems to execute it.
- The U.S. must build coalitions to keep a stable balance of power, as well as reform and lead the institutions that play critical roles in the post-World War II economic and political order.
- The relationship between China and the U.S., together with the actions and strategies of each power, will be the most important determinants of the 21st-century world order. The U.S. has the capacity to rise to the challenge, but it must make serious assessments of what is needed and act accordingly and expeditiously.

China's accession on December 11, 2001, to membership in the World Trade Organization (WTO) was hailed by many in the United States as a breakthrough that could lead to political liberalization in China, peace and security in Asia, and greater prosperity for the American people.¹ This optimism has faded away, replaced by rising pessimism. The first two goals have not been achieved, nor are the prospects for achieving them bright, and the third is a major continuing political issue and increasingly questioned by economists.²

Fueling the pessimism are years of muddled, uncoordinated U.S. policies toward China. These policies have been a Procrustean mix of robust yet distorted economic engagement, ad hoc strategic and diplomatic responses to events, and constrained defense planning due to budgetary paralysis. Neglect of the influence that China is deriving from its enormous economic success and the growing challenges in the U.S.-China relationship, coupled with a failure to properly consider this relationship in the context of a U.S. grand strategy, have constituted a profound policy failure. The situation has been made worse by a succession of Chinese leaders who, in contrast, have carried out a consistent grand strategy in the face of U.S. policy incoherence.

To address this failure, the Trump administration issued in December 2017 the new National Security Strategy, which seeks to clarify the challenges presented by China, especially to the U.S. economy. The Trump administration is also conducting major investigations of Chinese industrial and trade practices.³ In December, with China the clear target, the administration agreed with Japan and the European Union to work together “to enhance trilateral cooperation in the WTO and in other forums, as appropriate, to eliminate...unfair market distorting and protectionist practices by third countries.” The joint statement focused on “government-financed and supported capacity expansion, unfair competitive conditions caused by large market-distorting subsidies and state-owned enterprises, forced technology transfer, and local content requirements and preferences.”⁴ These are positive

¹ See, for example, William J. Clinton, “Remarks Given at the Paul H. Nitze School of Advanced International Studies,” University of California–Santa Barbara, American Presidency Project, March 8, 2000 [~ http://www.presidency.ucsb.edu/ws/?pid=87714](http://www.presidency.ucsb.edu/ws/?pid=87714).

² David H. Autor, David Dorn, and Gordon H. Hanson, “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade,” *Annual Review of Economics* 8 (2016): 205–40. See also Dani Rodrik, *Straight Talk on Trade: Ideas for a Sane World Economy* (Princeton: Princeton University Press, 2017).

³ White House, *National Security Strategy of the United States of America* (Washington, D.C., 2017).

⁴ “Joint Statement by the United States, European Union, and Japan,” Office of the U.S. Trade Representative, Press Release, December 2017 [~ https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states).

first steps, possibly heralding a decisive change in the United States' approach to economic relations with China. At the outset of 2018, such steps and more need to be implemented and placed in a broad policy framework.

Pervading the complexities of the Indo-Pacific region, including continental Asia, is the emerging salience of Chinese power and interests. A number of questions arise. What are the crucial dynamics driving nations' policies in the region today? Which Chinese capabilities and interests conflict with those of the United States and others in the region? What characteristics of China and the United States affect this strategic environment? How can these powers shape their competition, which Aaron Friedberg calls "a struggle for mastery in Asia"?⁵ Can a stable balance of power be maintained to avoid war? Can a liberalized trade system with agreed-upon rules and effective enforcement be sustained, or will a cycle of competing nationalist policies undermine this system as the United States and China, with a shallow basis for trust, jockey with different values, historical legacies, cultures, and political systems? What are the central components of an American grand strategy that is informed by strategic realities and optimizes the chances of success? The relationship between the United States and China, together with the actions and strategies of each power, will be the most important determinants of world order in the 21st century.

THE STRATEGIC CONTEXT FOR UNDERSTANDING U.S.-CHINA RELATIONS

The United States is a Pacific nation with deep and long-standing interests in Asia and throughout the Indo-Pacific. In his review of U.S. grand strategy in Asia, Michael Green observes that "for over two centuries, Americans have been tied to the Pacific by commerce, faith, geography, and self-defense." He adds, "If there is one central theme in American strategic culture as it applied to the Far East over time, it is that the United States will not tolerate any other power establishing exclusive hegemonic control over Asia or the Pacific."⁶ In the post-World War II era, the United States has aimed to prevent any one power from dominating the Eurasian landmass, to maintain open sea lanes and freedom of navigation, to promote open trade, and to define a line of

⁵ Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W.W. Norton, 2011).

⁶ Michael J. Green, *By More than Providence: Grand Strategy and American Power in the Asia Pacific since 1783* (New York: Columbia University Press, 2017), 1, 5.

defense that safeguards the United States.⁷ It has been supremely successful until recently.

Compared with the United States and Europe in the decade following the war, Asia was an economic backwater. Only in the 1960s and 1970s, with the success of Japan and then the Asian “tigers,” did its economic prominence rise. Still, U.S. economic, military, and political preponderance in Asia remained through the 1990s and early 2000s as the nation drew additional legitimacy from its victory in the Cold War. It continued to lead the stabilizing hub-and-spoke security structure based on mutual defense treaties with five nations; its success also derived from an expanding number of countries in the region sharing its values and developing rule of law and democratic institutions and habits. Finally, the United States derived influence from its leadership in trade liberalization and of multilateral regimes.

Much of this architecture of Pax Americana is in question today, and this is due most fundamentally to core changes in the balance of power. Asia has become far more important in international relations than it was in the nineteenth and twentieth centuries. Indeed, the importance of the Indo-Pacific region can hardly be understated.⁸ Including the United States and Canada, the region contains 37 nations and features the world’s two major powers, the United States and China.⁹ It hosts the four most populous nations in the world, the largest democracy, and the largest Muslim nation. Six declared nuclear powers and eight of the ten largest militaries in the world are located in the region.

The importance of the Indo-Pacific to the global economy is equally significant. The region includes the world’s three largest economies, nine of the ten largest sea ports, and many of the busiest sea lanes. Maritime security is essential in support of \$5.3 trillion in global trade transiting the Strait of Malacca and the South China Sea each year, \$1.2 trillion of which is destined for the United States.¹⁰ In recent years, 25% of global oil and 50% of global

⁷ The major failure of this strategy transpired in the interwar period of Wilsonian idealism, which was followed by a period of isolationism.

⁸ U.S. Pacific Command, briefing to the National Bureau of Asian Research (NBR) Board of Directors, March 2017.

⁹ In this essay, we treat “Asia” as the entire eastern half of the Eurasian land mass and the arc of offshore islands in the western Pacific. This vast expanse can be pictured as an area centered on China and consisting of four distinct subregions arrayed clockwise around it: Northeast Asia (including Russia, the Korean Peninsula, Mongolia, Japan, and Taiwan), Southeast Asia (including the ten ASEAN states, East Timor, Australia, and New Zealand), South Asia (including India, Pakistan, Bangladesh, Nepal, Sri Lanka, and Afghanistan), and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan).

¹⁰ Sara Schonhardt and Saurabh Chaturvedi, “South China Sea Ruling Increases Uncertainty for Shipping, Trade,” *Wall Street Journal*, July 14, 2016.

gas shipments have traversed the Strait of Malacca each day.¹¹ At the center of all this activity is China, which is now by far the world's largest industrial producer, with this sector more vertically and horizontally integrated than in any other economy. China has replaced the United States in other ways as well—for instance, as the major trading partner of Asian countries—and has become the world's largest trading power and entrepôt. The Indo-Pacific, with China at its epicenter, is thus now the engine of the world economy.

What else do these numbers and rankings suggest? From the perspective of the balance of power and its implications for international relations, there are two salient features. The first is the rise of China to superpower status with no peer competitor other than the United States. By a tremendous margin, it is now Asia's largest economic and military power. The second feature is the rapidity of China's rise, especially in relation to Japan's relative stagnation and to slower growth and mercurial politics in the United States. China has possessed the world's fastest-growing major economy and military for three decades. Thus, the balance of power in Asia has undergone a complete transformation, with strategic ambiguity as an unavoidable consequence. Dizzying leaps by China are driving peripheral countries to frequently reassess its growing capabilities, motivations, and objectives. Nearby nations are pursuing an uncomfortable combination of policies: strengthening coalitions to counter economic challenges from China and to balance Chinese power, revising their economic strategies to better compete, engaging and seeking accommodation with China, and building up their militaries. Recently Europeans have become anxious as well. As Robert Gilpin underscored in his book *War and Change*, the most dangerous times in history are those with a fast-rising power.¹²

Add to this combustible mix the historical animosities and distrust in the region. Chinese dwell on their country's "century of humiliation" at the hands of the Japanese, Europeans, and Americans. Chinese leaders' emphasis on Japanese transgressions boosts their popularity at home and serves to justify their stern Japan policy. Many Koreans harbor similar sentiments stemming from their colonial and World War II experiences. Moreover, extreme nationalism frequently grows in societies undergoing industrialization; China appears to be the principal nation of concern in this regard. Plus, political values and systems vary widely in the region. Contrast the democratic values

¹¹ U.S. Energy Information Agency, "The South China Sea Is an Important World Energy Trade Route," *Today in Energy*, April 4, 2013 ~ <https://www.eia.gov/todayinenergy/detail.php?id=10671>.

¹² Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981).

of institutions in Japan, South Korea, Taiwan, Indonesia, Australia, New Zealand, and India, for example, with the autocratic ones in Russia, China, and North Korea. The Indo-Pacific has emerged as the most likely site of major-power conflict.¹³

Consequently and inescapably, the United States retains vital security interests in the region. Indeed, the core dynamics of international relations today are driven by developments involving the United States and China: their successes or failures in their separate domestic matters; their bilateral interactions, including in multilateral contexts; and their policies across economic, diplomatic, and military affairs. Henry Kissinger posed the dilemma in the following terms:

The question ultimately comes down to what the U.S. and China can realistically ask of each other. An explicit American project to organize Asia on the basis of containing China or creating a bloc of democratic states for an ideological crusade is unlikely to succeed—in part because China is an indispensable trading partner for most of its neighbors. By the same token, a Chinese attempt to exclude America from Asian economic and security affairs will similarly meet serious resistance from almost all other Asian states, which fear the consequences of a region dominated by a single power.¹⁴

Graham Allison, Ted Galen Carpenter, Christopher Coker, Howard French, Aaron Friedberg, and others are writing thoughtfully about the incredible difficulty ahead of sustaining a peace that is acceptable to both China and the United States.¹⁵ Both countries presumably have interests in avoiding conflict, but, at a minimum, only as long as each sees the other as able and prepared to defend its current and claimed interests effectively. Therefore, it is imperative for U.S. policymakers to understand China's changing capacities, interests, goals, will, and actions in relation to their own country's. This is an ongoing project second to none in significance to the United States.

¹³ Given the challenge posed by Russia, Europe constitutes the next most likely site.

¹⁴ Henry Kissinger, "The China Challenge," *Wall Street Journal*, May 14, 2011 ~ <https://www.wsj.com/articles/SB10001424052748703864204576315223305697158>.

¹⁵ See, for example, Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston: Houghton Mifflin Harcourt, 2017); Ted Galen Carpenter, *America's Coming War with China* (Washington, D.C.: Cato Institute, 2015); Christopher Coker, *The Improbable War: China, The United States and Logic of Great Power Conflict* (New York: Oxford University Press, 2015); Howard French, *Everything Under the Heavens: How the Past Helps Shape China's Push for Global Power* (New York: Penguin Random House, 2017); Aaron L. Friedberg, "The Debate over U.S. China Strategy," *Survival* 57, no. 3 (2015): 89–110; and Friedberg, *A Contest for Supremacy*.

CHINA: A NEW ECONOMIC AND MILITARY
LOCUS OF POWER

The strategically critical fact in Asia is the return of China to economic and military preeminence, reflective of its position for centuries prior to the industrialization of Europe and North America. China's economically based influence exerts a "gravitational pull" on every nation around it, as well as across the Pacific to the United States. Many American, Asian, and European companies are highly integrated into the Chinese economy through supply chains, joint ventures, consulting contracts, and product research and development. Americans buy about four times as much from China as they sell to it.¹⁶ China runs an impressive current account surplus with the world, providing the country with vast funds to invest abroad and at home in its military. Likewise, as China rapidly modernizes its military, U.S. forces in the western Pacific find themselves increasingly vulnerable.

Since 1949, the primary imperative for the Chinese Communist Party has been to maintain its monopoly on domestic political power—by all means necessary. These means range from seeking legitimacy through economic success and the achievement of national aspirations to suppressing any threats to the party and its leadership hierarchy; they include control over the People's Liberation Army, all other organizations of any significance, and the policy tools guiding the economy.

A second imperative, commenced under Deng Xiaoping 30 years later, has been to build China into a great and powerful nation. Under his leadership, China began an intensive period of industrial, technological, agricultural, and military development.¹⁷ Deng opened the country to carefully controlled investment and international aid, encouraged entrepreneurship, and allowed some loosening of state control, but the economy continued to be dominated by state-owned enterprises. In the realm of foreign relations, China's strategy during this period is best described by Deng's notion that the country would "hide its power and bide its time." For a quarter century, China thus focused mostly on internal economic development and modernizing its military.

¹⁶ U.S. Census Bureau, "Trade in Goods with China" ≈ <https://www.census.gov/foreign-trade/balance/c5700.html>.

¹⁷ Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: Belknap Press, 2013).

The Consolidation of Power under Xi Jinping

The time of hiding and biding has been ending for half a decade. The hallmarks of Xi Jinping's tenure as chairman of the party and head of state are his consolidation of power, strengthening the party, and his more aggressive policies abroad. The latter seem aimed not only at weakening the postures of the United States and its allies in the region but at extending Chinese influence globally. China's authoritarian and suzerain past appears to be a model for its future.

Xi proved his ascension last fall at the 19th National Congress of the Communist Party of China. Among the members of the Politburo Standing Committee and the wider Politburo, he has no identifiable successors.¹⁸ He has concentrated decision-making authority more than any Chinese leader since Mao Zedong and has surrounded himself with capable managers. After assuming power in 2012, Xi launched a far-reaching anticorruption program as the first step in imposing more uniform party discipline. He has expanded repression of dissidents and human rights and placed further restrictions on NGOs, the press, and the use of the internet. These measures have extended into the academic arena, which previously allowed limited freedom to research sensitive subjects. Xi has made explicit and bolstered what was always the case: that every organization and business operating in China, whether Chinese or foreign, will have party members in key positions and ultimately will be controlled by the party.¹⁹

Harnessing technologies that even George Orwell could not foresee, the party-state has embarked on a massive effort to track the activities of all of its citizens and reward or punish them according to the "social credit" system. People are tracked from their mobile phone usage and payment data, increasingly by facial recognition software and cameras deployed throughout the country, from internet traffic, through the use of big data analytics, and by a massive secret police force.²⁰ Citizens who obey the law and avoid suspicious

¹⁸ "The World's Most Powerful Man," *Economist*, October 14–20, 2017; and William C. McCahill Jr., "The Chinese Communists' New Politburo Standing Committee: More Claque Than Collective Leadership," NBR, Commentary, October 26, 2017 ~ <http://www.nbr.org/research/activity.aspx?id=813/>.

¹⁹ Michael Martina, "Exclusive: In China, the Party's Push for Influence Inside Foreign Firms Stirs Fears," Reuters, August 24, 2017 ~ <https://www.reuters.com/article/us-china-congress-companies/exclusive-in-china-the-partys-push-for-influence-inside-foreign-firms-stirs-fears-idUSKCN1B40JU>.

²⁰ See, for example, Simon Denyer, "China's Watchful Eye: Beijing Bets on Facial Recognition in a Big Drive for Total Surveillance," *Washington Post*, January 7, 2018 ~ <https://www.washingtonpost.com/news/world/wp/2018/01/07/feature/in-china-facial-recognition-is-sharp-end-of-a-drive-for-total-surveillance/>.

political behavior are rewarded; those who transgress are punished. In short, the Chinese government is conducting an extraordinary experiment to achieve unprecedented control of its large national population.²¹

As reported widely in the Western press, China's quest to put together dossiers and track people extends well beyond its borders. The successful cyberattack in 2015 against the U.S. Office of Personnel Management (OPM) nabbed the personal information of more than 21 million Americans, including their fingerprints. In addition, China is the chief suspect in the Anthem medical data attack that compromised close to 80 million records.²² Although the Chinese government has vehemently denied involvement in these data breaches, experts believe that the "attacks were carried out by the Chinese government hackers in order to collect information to help identify Chinese dissidents in the U.S., as well as to track people who may frequently visit China."²³ In August 2017, a Chinese national was arrested for supplying and using the malware Sakula, the same malicious software tool used in the OPM and Anthem attacks.²⁴

The Four Elements of Chinese International Strategy

The strengthened party leadership is charting the path for Chinese international strategy. Four basic elements of this strategy are coming into focus.

Retaining control of the economy. The first element is to retain ultimate control of the economy through a fusion of central planning and market forces under the watchful eye of the party-state. As in the past, the strategy incorporates mercantilist trade practices and a range of protectionist measures, with the explicit goals of developing the Chinese economy and building domestic wealth by capturing emerging industries and achieving world-leading indigenous innovation. The government continues to make the transfer of technology and intellectual property (IP) a precondition for

²¹ In December 2017, Xi ordered officials to accelerate implementation of the party-state's big data strategy, entailing the completion of the national digital infrastructure, data collection, analysis, cybersecurity, and sharing among official organizations. See Denyer, "China's Watchful Eye"; and "China Must Accelerate Implementation of Big Data Strategy: Xi," *China Daily*, December 9, 2017.

²² Drew Harwell and Ellen Nakashima, "China Suspected in Major Hacking of Health Insurer," *Washington Post*, February 5, 2015.

²³ Robert Abel, "Hacked American Businesses Are Using China as a Scapegoat," Outline, February 13, 2017 ≈ <https://theoutline.com/post/1071/when-big-companies-get-hacked-it-s-tempting-to-blame-china>. See also Joseph Menn, "Chinese National Arrested in Los Angeles on U.S. Hacking Charge," Reuters, August 24, 2017; and Ellen Nakashima, "Chinese Government Has Arrested Hackers It Says Breached OPM Database," *Washington Post*, December 2, 2015.


²⁴ "Chinese National Arrested for Supplying Malware Connected to OPM Breach," Meritalk, August 25, 2017.

market entry and has acquired IP at a prodigious rate using these measures. In addition, it has acquired IP illicitly through a variety of traditional and cyber means, accounting for up to 80% of IP theft internationally. The cost to the United States alone is hundreds of billions of dollars per year.²⁵

To further bridge the innovation gap, China is directing ever more resources into R&D in strategic industries, seeking to create national champions that play a dominant role in the global market. There is also a concerted effort to recruit the best and brightest around the world to enhance these initiatives. On the international stage, China continues to promote its status as a developing country in order to broadly seek an advantage in the global market and international forums. At the WTO, however, it now is disputing treatment as a non-market economy by the European Union, a status that allows the EU to level higher tariffs. This is but one example of China's continued attempt to bend global trade rules to its advantage.

Building hard power. The second element of China's new international strategy is the buildup of hard power. China has traditionally been a continental power. In recognition of this historical vulnerability, the country has taken steps to enhance its air force and to build a true blue water navy. In addition, China deploys its coast guard fleet and numerous allegedly private craft, such as fishing boats, that work in strategic coordination with official vessels to probe and challenge Japan's and other nations' maritime areas. Copying current Russian behavior, and reminiscent of Soviet tactics during the Cold War, Chinese air force fighters and bombers regularly conduct threatening operations toward Japanese airspace, causing Japan to scramble its fighters to intercept them hundreds of times per year. China's space, cyber, and nuclear forces are also world-class.

In the South China Sea, China issued a map with a nine-dash line claiming most of the sea as Chinese territory and followed this announcement with land-reclamation projects and the construction of airstrips and military infrastructure on these former islets and reefs. Brought to the international tribunal in The Hague by the Philippines in 2013, China simply rejected the court's jurisdiction and later the court's ruling against it in 2016. China is also expanding its sea port access along the Indian Ocean, most notably in Gwadar, Pakistan, for strategic and energy security purposes. Moreover, to further increase power projection, it has built its first remote military base in Djibouti. Added up, China continues to develop its already powerful,

²⁵ See Commission on the Theft of American Intellectual Property, *The Report of the Commission on the Theft of American Intellectual Property* (Seattle: NBR, 2013), 3  http://www.ipcommission.org/report/ip_commission_report_052213.pdf.

multidimensional military, and it is finding more ways to use this tool kit in day-to-day policy.

Leading regional integration with Chinese characteristics. The third element of Xi's strategy is the launch of the ambitious Belt and Road Initiative, in which China seeks to lead broad integration in Eurasia by combining infrastructure, development, aid, and expanded trade and investment.²⁶ This is a long-term strategy designed to further build Chinese economic power and put China at the center of developing institutions and rules throughout Eurasia and along the sea routes connecting Asia and Europe. The initiative elevates Xi's reputation on the global stage by giving him convening authority among world leaders, and by doing so, it enhances his legitimacy in the eyes of the Chinese people. Though implementation of the Belt and Road Initiative will be challenging, other countries in the region will have difficulty gaining leverage because of the absence of significant alternative sources of capital. In fact, the pull of the initiative is even extending into Western Europe.²⁷

In 2016, China also opened the Asian Infrastructure Investment Bank (AIIB) to further enhance its influence while leveraging additional investment opportunities globally. This bank is arguably the first step by China to create a specific alternative to one of the Bretton Woods institutions developed under U.S. leadership. Chinese leaders are also taking carefully orchestrated steps to internationalize the renminbi with the goal of competing with the dollar as the world's reserve currency. In particular, the Belt and Road Initiative creates a platform for international transactions in renminbi. China has managed fluctuation in its currency within a narrow band and is the largest foreign holder of U.S. sovereign debt. If successful, these new policies will give the country more monetary tools to manage its currency as it diversifies away from holdings of U.S. Treasuries. The cumulative effect of these initiatives is that China is building an alternative economic order to compete with the one constructed by the United States after World War II. U.S. policymakers have yet to fully respond to this challenge.

Deploying sharp power. The fourth element of Xi's strategy involves what has been called the deployment of "sharp power," along with the traditional use

²⁶ See Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (Seattle: NBR, 2017).

²⁷ In addition, China has begun trade discussions with Canada and Mexico, following its investments in Africa and South America, and is demonstrating leadership in the Regional Comprehensive Economic Partnership, which aims to expand multilateral trade in Asia.

of soft power.²⁸ Sharp power is more intrusive and coercive, yet diffuse, so as to be difficult to trace directly to the state. In the case of China, the *Economist* describes sharp power as seeking “to penetrate and subvert politics, media, and academia, surreptitiously promoting a positive image of the country, and misrepresenting and distorting information to suppress dissent and debate.” It adds that “China’s sharp power has three striking characteristics—it is pervasive, it breeds self-censorship, and it is hard to nail down proof that it is the work of the Chinese state.”²⁹ Sharp power is used to soften and mold opposition to meet Chinese interests. Examples include influence-peddling through foundations connected to the Chinese Communist Party that fund think tanks in Washington, D.C.;³⁰ large investments in Hollywood and theater chains;³¹ distribution of the *China Daily* and news-like inserts in major newspapers; Confucius Centers in academic institutions across the United States; and claimed enforcement of embargoes against North Korea even as trade continues (maybe coordinated with Russia), despite official statements.³² China also informally sanctions its neighbors when it is displeased: for example, cutting off exports of rare earths to Japan when Japan arrested a fishing boat captain; blocking Chinese tourism in Taiwan when Tsai Ing-wen was elected; and imposing unofficial sanctions against South Korea when it decided to deploy the U.S. Terminal High Altitude Area Defense (THAAD) missile defense system.³³

In sum, Xi is committed to the consolidation of both his position as chairman of the Chinese Communist Party and the party’s grip on Chinese society. Xi and his colleagues thereby intend to avoid the fate of the Soviet Communist Party domestically and the Soviet Union internationally. In essence, China appears determined to replace the United States as the preeminent military, economic, and political force throughout the Indo-Pacific and to establish itself as the world’s dominant power.

²⁸ Christopher Walker and Jessica Ludwig, “From ‘Soft Power’ to ‘Sharp Power’: Rising Authoritarian Influence in the Democratic World,” in “Sharp Power: Rising Authoritarian Influence,” National Endowment for Democracy, December 2017, 13.

²⁹ “How China’s ‘Sharp Power’ Is Muting Criticism Abroad and Stealthily Trying to Shape Public Opinion in Its Favour,” *Economist*, December 14, 2017.

³⁰ See, for example, Bethany Allen-Ebrahimian, “This Beijing-Linked Billionaire Is Funding Policy Research at Washington’s Most Influential Institutions,” *Foreign Policy*, November 28, 2017; and Eric Lipton, Brooke Williams, and Nicholas Confessore, “Foreign Powers Buy Influence at Think Tanks,” *New York Times*, *Economist*, September 6, 2014.

³¹ Matthew Garrahan and Henny Sender, “Chinese Investors Flood into Hollywood,” *Financial Times*, June 7, 2016.

³² Nicola Smith, “Chinese Ships Spotted by Satellites ‘Selling Oil to North Korea’ 30 Times since October, Despite Sanctions,” *Telegraph* (UK), December 28, 2017.

³³ Kristian McGuire, “Dealing with Chinese Sanctions: South Korea and Taiwan,” *Diplomat*, May 12, 2017.

THE UNITED STATES: RESPONDING WITH INCOHERENCE

In the face of the economic and security challenges posed by China, the response of the United States has been strategic incoherence—a failure to properly assess these challenges, define goals, and apply the instruments of national power to achieve explicit goals in a coordinated and integrated fashion.

Abdicating Leadership in the Global Economy

The decision in early 2017 to withdraw from the Trans-Pacific Partnership (TPP) fulfilled a presidential campaign promise and was supported by a majority of Americans.³⁴ It was made, however, without a formal review of the consequences or the presentation of an alternative that might have better achieved U.S. economic and strategic goals. This constituted a significant departure from the United States' traditional position of regional leadership and was perceived as such by key allies and friends in the region. By backing out of the TPP, the United States was seen to be retreating. The decision thus raised serious questions about U.S. leadership and credibility at a time when China was seeking to step into any power vacuum. In just a few months, there was evidence that some Americans were modifying their views on trade agreements, giving them more support.³⁵

Japan has also sought to fill the economic leadership role, in its case to implement the TPP in hopes that the United States will recognize its mistake and rejoin. Australia and New Zealand have expressed similar hopes.

³⁴ In January 2017, a Rasmussen survey found that most voters “applauded the end of TPP” and “want changes in NAFTA,” noting that “just 33% of voters think most free trade deals with other countries have been good for America. Forty-two percent (42%) believe they have been bad for the country instead. Only eight percent (8%) say those deals have had no impact. Sixteen percent (16%) are not sure.” “Most Applaud End of TPP, Want Changes in NAFTA,” Rasmussen Reports, January 26, 2017 ~ http://www.rasmussenreports.com/public_content/politics/trump_administration/january_2017/most_applaud_end_of_tpp_want_changes_in_nafta.

³⁵ In April 2017, the Pew Research Center found that “support for free trade agreements rebound[ed] modestly,” reporting that “currently 52% say free trade agreements between the United States and other countries are a good thing for the U.S., while 40% view them as a bad thing.” Specifically regarding the U.S.-China trade relationship, however, an April 2017 Rasmussen survey found that “52% of likely U.S. voters say the current trade situation between the U.S. and China is better for China,” although Pew found that “U.S. attitudes toward China [are] soften[ing].” A Pew Research Center study in 2016 on economic power found that 55% of Americans had an unfavorable view of China. By July 2017, 47% of Americans expressed a negative attitude toward China, while 44% had a positive attitude. See Bradley Jones, “Support for Free Trade Agreements Rebounds Modestly, but Wide Partisan Differences Remain,” Pew Research Center, April 25, 2017; “Most Voters Not Happy with Current U.S.-China Trade Situation,” Rasmussen Reports, April 6, 2017; and Richard Wike, Jacob Poushter, Laura Silver, and Caldwell Bishop, “Globally, More Name U.S. Than China as World’s Leading Economic Power,” Pew Research Center, July 13, 2017.

In late 2017, the EU completed a trade agreement with Japan, and it has also shown interest in filling the void left by the United States. A recent white paper by the EU Commission described in some detail a strategy for setting European standards for trade in the Asia-Pacific region, clearly recognizing the opportunity presented by the United States' seeming retreat.³⁶

Without a clear strategy, the United States is abdicating its position as the most credible partner for keeping the peace and sustaining rules-based, liberalized trade and innovation. A major concern is that new rules will be written by others. To put this in perspective, there are around 350 trade agreements in effect today worldwide and another 250 that are proposed. Beyond membership in the WTO and regional trade regimes, the United States is party to only 14 trade agreements, which include twenty countries.³⁷ The United States is not party to a free trade agreement with any of the other ten leading economies, with the exception of Canada. In that case, however, Washington is currently renegotiating the North American Free Trade Agreement (NAFTA), which badly needs updating, and the Trump administration has threatened to withdraw from it. Those negotiations are being watched around the world for signs of either an American retreat into isolation or a recommitment to leadership.

As a tactical matter, it would be wise for those advocating a new or revised TPP to insist that such a trade group be intended for any country (including China) that truly meets the highest trade standards, including on new 21st-century issues such as digital trade, cross-border data flows, IP protections, privacy standards, state-owned enterprises, and other non-tariff measures. Meeting these standards is in China's long-term interest as well as that of the United States, and China would have the choice to join or not. By taking this approach, the United States would be in a stronger leadership position in the region. This approach might also enhance the position of reformers in China and certainly would test the intentions of the Chinese leadership. The Truman administration used this approach to test the intentions of Soviet leadership when the Marshall Plan was proposed after World War II. It put the United States on the high ground as the plan was implemented, while Stalin's refusal to participate revealed much. This knowledge was important as the Truman administration crafted a postwar strategy that positioned the United States to shape the events to come.

³⁶ European Commission, *Trade for All: Towards a More Responsible Trade and Investment Policy* (Luxembourg: Publication Office of the EU, 2014).

³⁷ Office of the U.S. Trade Representative, "Free Trade Agreements" \approx <https://ustr.gov/trade-agreements/free-trade-agreements>.

Still Asia's Security Guarantor?

Over the decades, U.S. security policy in the Pacific theater has been relatively consistent, albeit with occasional, incremental adjustments. Efforts have been made to strengthen the alliances and adjust to developments in allies' domestic circumstances. Modest rebalancing of the global distribution of U.S. military assets is underway in an attempt to respond to China's rise. But in the past ten years these dimly lit tweaks have been lost in the shadow of the dramatic changes in Asia's strategic environment. Not surprisingly, therefore, little if any progress has been achieved in settling security problems. In some cases, there have been serious setbacks from the U.S. perspective—notably the advances in the North Korean nuclear and missile programs and China's base building in the South China Sea. Moreover, there has been scant policy appreciation of the direct linkage of foreign economic and trade policy with security policy. Washington has yet to respond effectively to the persistent U.S. trade and balance-of-payments deficits with China. Manufacturers continue to be incentivized by China's low labor rates and subsidies to move businesses there, and defense contractors—and most manufacturers—remain vulnerable to Chinese industrial espionage and rampant IP theft.

ELEMENTS OF U.S. STRATEGY:
RECOMMENDATIONS FOR U.S. POLICY

As China continues to test U.S. intentions where the United States' response is weak or nonexistent, Beijing is emboldened. The United States must craft coherent and effective policies that coordinate economic and diplomatic instruments of power with military instruments of power, and these policies must be executed in a manner consistent with historical yet achievable strategic imperatives. While the United States possesses superior military capability, it must maintain its edge wherever practicable.

Economics and Diplomacy

Without effective alternatives, unilateral steps are underway and will represent improvements over past policies. These steps include strengthening the Committee on Foreign Investment in the United States (CFIUS) and both clarifying and broadening its mission. They entail penalizing violators of IP protections and enhancing protection from predatory practices overseas. The ongoing Section 301 investigation of Chinese IP theft and forced transfers, together with pending U.S. Commerce Department actions on dumping

charges regarding steel, aluminum, and other products, will undoubtedly lead to national policy responses such as targeted tariffs and other penalties. Concluded in December was the important step of lowering tax rates to make U.S. producers competitive with their counterparts overseas.

More is needed, however, and on the international stage, building on the December agreement by the United States, Japan, and Europe to collaborate on stopping China's predatory trade and industrial policies. The United States should seek to strengthen the existing Bretton Woods and derivative institutions that are the foundation of the international economic order. Doing so will invigorate U.S. legitimacy. Working together with its partners, the United States should use these institutions to challenge China calmly, firmly, and consistently to achieve standards consonant with the rule of law and national interests. U.S. policymakers must also put forth reforms in these institutions to address deficiencies as well as make a robust diplomatic effort to build the necessary international support for those reforms. In doing so, U.S. diplomats should apply lessons learned about China's strategic culture and negotiating behavior.³⁸

Reform of the WTO must be a priority, as the organization is ill-equipped to deal with the problems posed by non-market economies and state-directed mercantilist practices. Overcoming Chinese resistance to these reforms will require measures to create leverage or bypass China. Building on unilateral U.S. actions, a multinational approach with the EU, Japan, and other like-minded countries would assist in dealing with predatory Chinese trade practices. By sharing export control and CFIUS information and coordinating policy on IP theft and forced transfers, U.S. cooperation with allies and friends would not only better secure the U.S. economy but apply further pressure on China to change and build a basis for needed reforms at the WTO.

With our interests understood and draft revisions in hand, re-engagement with the TPP process would also make sense to restore lost U.S. credibility while pursuing national strategic and economic goals. Re-engagement would bolster confidence in the United States, reaffirm the country's commitment to maintaining a strong economic footprint in the region, and build leverage for other useful trade negotiations. U.S. leadership in negotiating this high-standard, rules-based multilateral agreement would give these countries an alternative to dealing with China

³⁸ See Ashley J. Tellis, Alison Szalwinski, and Michael Wills, eds., *Strategic Asia 2016–17: Understanding Strategic Cultures in the Asia-Pacific* (Seattle: NBR, 2016); and Richard H. Solomon, *Chinese Negotiating Behavior: Pursuing Interests through Old Friends* (Washington, D.C.: United States Institute of Peace, 1999).

from weaker positions. The emphasis on high standards would be a template for WTO reform and create leverage in future engagement with China. The price for dealing only bilaterally with countries in the region would be the loss of the influence that is inherent in a coalition. Furthermore, bilateral agreements add enormous complexity and inefficiencies to the conduct of trade and would be a cumbersome approach to keep apace of changes in economic activity. It would likely be more difficult to grapple with barriers by pursuing bilateral agreements alone. Re-engagement in the TPP need not lead to protracted negotiations and would create momentum for a second round of countries to negotiate accession. This strategic coalition, in other words, could grow.³⁹

The United States also should consider how it might participate in the AIIB. The decision several years ago to dismiss the initiative summarily was counter-strategic; any opportunity to shape the structure and governance of this new institution at the outset was missed. The United States should seek ways to ensure that the AIIB operates transparently using accepted banking practices or limit its reach if it does not. U.S. involvement in the bank would offer an additional opportunity to test China's intentions and rules of engagement as it attempts to implement the Belt and Road Initiative. In doing so, the United States and other countries could better push the AIIB to collaborate with other financial institutions to bring much-needed reform, particularly in Central Asia. The alternative is leaving recipient nations to cope with unchallenged Chinese influence.

The Nexus between Economics and Defense at Home

The economic bases for American power are competitive industrial, agricultural, energy, scientific, and service sectors and the country's large market. Day to day, it is the more narrowly conceived defense industrial base—far more than just industry—that enables the United States to produce and deploy the weapons and equipment that sustain the world's leading military power. Here the strategic issues are vital. One of the main issues is the vulnerability of supply chains that are now international. Another challenge is that supply interruptions and illicit substitutions are a constant headache for

³⁹ As mentioned earlier, the Trump administration has chosen to renegotiate NAFTA. The implications of reaching an optimal outcome are important beyond the regional economic benefit to North America. Successful renegotiation would further enhance North America as a manufacturing and export platform to global markets, would potentially improve relations with South America, and could further provide leverage in dealing with China and WTO reforms.

planners,⁴⁰ in addition to cyberattacks and other espionage aimed at stealing technologies for incorporation into enemy weaponry. Since the 1970s, China has stolen large amounts of our nation's top military technology. The first major breaches were in the nuclear field; more recently, it has stolen the plans for the most modern U.S. fighter aircraft.⁴¹ Today, the competitiveness, self-sufficiency, and capacity of the United States' defense industrial base is a major issue.

Another critical issue we have identified is the future of U.S. innovation. Beyond IP protection, an environment that encourages innovation includes effective rule of law more broadly, an educated and entrepreneurial workforce (including targeted immigration), a reasonable and predictable tax structure, robust university research, and government support for science, all of which should be considerations in a new comprehensive strategy.⁴²

Defense and Diplomacy at a Historical Turning Point

In order to develop an appropriate strategy in view of China's efforts to re-establish its preeminence in Asia, the United States needs to integrate a new military strategy and develop and field the weapons and related systems appropriate to execute it. Distracted by wars in the Middle East and Central Asia, and hampered at home with budget sequestration, the United States is guilty of neglecting military considerations as much as economic and diplomatic ones. We simply have not been operating from assessments of our core, defendable interests in Asia and of the directions in which key players are moving. We have failed again and again to understand and anticipate Russian intentions and policy, North Korean intentions and policy, and most importantly Chinese intentions and policy. We have not undertaken a serious assessment of the kinds of coalitions that we may face should international tensions rise further and polarization take place in different areas of the region. There is no peacetime U.S. strategy built on a tough-minded global assessment. If pursued, this strategy might reduce the

⁴⁰ U.S. Senate, Committee on Armed Services, *Inquiry into Counterfeit Electronic Parts in the Department of Defense Supply Chain*, 112th Cong., 2d session, Report 112-167 (Washington, D.C., May 21, 2012).

⁴¹ U.S. House of Representatives, Select Committee, *Report of the Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China*, 105th Cong., 2d session, Report 105-851 (Washington, D.C., 1999), vol. 1, chap 2; Jeremy Bender, "Espionage Is Fueling China's Development of High-End Weapons Systems," *Business Insider*, November 2, 2015; and "China's Military Built with Cloned Weapons," U.S. Naval Institute Staff (USNI), USNI News, October 27, 2015.

⁴² Although beyond the scope of this essay, education reform in the United States is another area ripe for attention.

chances of the United States facing such coalitions and thereby prevent war, or if war breaks out, contain it to the commons.

In fact, the United States does not have a clear military strategy for the Indo-Pacific. We have not decided how to respond to China's "gray-zone aggressions"—its island building in the South China Sea or harassment of the Senkaku Islands. We have not decided what is essential to advance U.S. interests or what winning would be in various contingencies. Have we adequately prepared, should war be thrust upon us, for a conventional arms victory fought over the commons? What are the red lines for responding militarily in the commons? Is a military strategy of attacking the Chinese mainland in the event of a war with China a viable one? Once a military strategy is decided, what weapons systems are needed to accomplish its goals?

Moreover, do we appreciate the difficult situations that our allies are in? South Korea is the poster child in this regard. It sits on the edge of Asia—a short flight from China, its major trading partner, and adjacent to North Korea, an immediate and dire nuclear power enemy that is backed by China and supported to a lesser degree by Russia. The delicate balance on the Korean Peninsula is simultaneously sustained by the United States' military presence, joint military exercises and planning with South Korean forces, nuclear deterrent, and formal alliance obligations. That same United States, however, is not keeping up with China's economic growth and yet is not supporting the formation of a true free trade area among the more liberal states of Asia that should accelerate economic growth among its prospective members. The United States is also not keeping up with the rate of increase in China's defense investments. Adding new missile defense capabilities in South Korea is necessary but inadequate; defenses are rarely 100% effective, and in this case just one failed intercept could mean disaster. Deterrence is the bedrock of peace. If there are to be effective negotiations to de-nuclearize the North, with China having a clear incentive to help, they will have to be based on the United States and its allies having stronger strategic leverage. This can derive from enhancing the United States' regional position by deploying more advanced conventional and nuclear second-strike forces there. Without a change in economic and military trends soon, there will not be successful negotiations to rid the peninsula of nuclear weapons, South Korea will have good reason to doubt alliance promises, and China will increasingly set the rules for international relations in much of East Asia.

CONCLUSION

At several junctures since its founding, the United States has confronted extraordinary challenges to its vital interests. And it has answered. For each challenge, whether the secession of the Confederacy or Soviet ambitions immediately following World War II, Washington responded strategically. In the case of the Cold War, it committed to a strategy lasting a half century.

The United States was successful in grappling with major challenges because its leaders came to understand them, faced them, defined the nation's purposes, and explained confidently to the American people and peoples overseas the fundamental values at stake. These leaders harnessed the instruments of power and stayed the course through mercurial events. Implementation in peacetime as well as wartime was not easy, but success was achieved when our elected leaders set understandable goals, crafted supportive economic policies, and made the necessary military investments and deployments. In addition, success came when our leaders reached out to nations that shared our interests, nurturing close relationships in the Americas, Europe, and Asia, and used diplomacy wisely.

There is nothing inevitable about the path of history. Nonetheless, as we have argued, China has pursued a consistent strategy whose elements were first assembled by Deng Xiaoping in 1978. The results are that the balance of power and patterns of interdependence in the Asia-Pacific and globally have been transformed, causing the calculations of all affected countries to change. At the same time, the goals of U.S. engagement with China have largely gone unfulfilled. Political liberalization in China and peace and security in Asia are nowhere in sight, while the outlook for greater prosperity for the American people due to economic engagement with China is unclear. Moreover, U.S. international leadership and the post-World War II international institutions appear weaker. These are the stark realities. Nonstrategic engagement and hopes have not been rewarded.

The peaceful integration of China into a world in which the United States and its allies thrive and preserve their values remains, arguably, the greatest challenge to humanity. Serious assessments and strategy are needed now. 

