

China's Rising Influence in Asia: Implications for U.S. Policy

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Key Points

The balance of power in East Asia is stable and favors the United States, but the balance of influence is tipping toward Beijing. China's growing weight stems from its size and market dynamism, reinforced by newfound military restraint and skillful diplomacy that have enhanced its ability to translate power into influence. The shift in the balance of influence, if unaddressed, could undermine U.S. interests.

China's regional goals include expanding Chinese influence, isolating Taiwan politically, marginalizing Japan, maximizing energy security, and limiting vulnerability to U.S. pressure without stimulating balancing behavior. Beijing has sought to avoid confrontation with Washington and to reassure its neighbors of China's benign intentions. Most East Asians now view China as a key trading partner and an economic opportunity rather than a threat.

China's influence in Asia does face limits. Its booming export industries depend on imports from other Asian countries, and its military power lags far behind that of the United States and will continue to do so for the foreseeable future. Severe social and environmental problems tarnish China's image.

Asian elites regard China's military buildup as primarily aimed at Taiwan but harbor a residual wariness about China's long-term intentions. East Asian governments are hedging by engaging China bilaterally and multilaterally while maintaining security ties with the United States and encouraging a larger Japanese and Indian regional role.

A perceived U.S. neglect of the region, coupled with American preoccupation with the war on terror, is accelerating the shift in

the balance of influence. A concerted effort to refocus and enhance U.S. engagement with Asia is sorely needed. This should include active and high-level participation in regional diplomacy, enhanced cooperation on nontraditional security issues, welcoming a constructive Chinese regional role, and development of a comprehensive, government-wide strategy to pursue the full range of American objectives in Asia.

China's Resurgence

Asia's strategic landscape is shifting. With colonialism and the Cold War now distant memories, regional political alignments are more flexible, open-ended, and constructive than they have been since the mid-20th century. Region-wide stability and the adoption of market-oriented economic policies have unleashed growth and sparked record levels of trade and investment. The peaceful management of disputes has become the rule rather than the exception.

Of the various structural changes marking this new landscape, none stands out more than China's resurgence as the leading power in East Asia. China's combination of a large and growing economy, newfound military restraint, and skillful diplomacy is a recipe for expanded influence. Its growing regional role reflects both an increase in underlying power resources (fueled primarily by rapid economic growth) and improvements in Beijing's ability to translate power into influence via effective diplomacy.

Until the mid-1990s, China was wary of regional organizations, preferring to deal with other Asian governments on a bilateral basis. Its

regional security behavior was mixed, to say the least. China maintained assertive positions on its territorial and sovereignty claims and sometimes used military means to reinforce its positions. In February 1995, China seized Mischief Reef in the South China Sea, and its military forces conducted military exercises and missile tests near Taiwan in July-August 1995 and March 1996—both provoking critical reactions from the region and the United States.

Beijing's concerns about the unfolding "China threat" debate prompted a significant adjustment in its approach to the region.¹ Chinese leaders decided that economic modernization and the maintenance of domestic stability required constructive relations with the United States and a peaceful environment in Asia. These goals in turn demanded restraint in the use of military threats and active efforts to reassure neighboring countries of China's benign intentions.

This policy reorientation included, or was at least consistent with, more diplomatic engagement with other Asian countries, skillful use of commercial diplomacy (including trade agreements, foreign aid, and investment), and a more welcoming approach to participation in regional institutions. Beijing now plays a constructive role in the Asian integration movement and has embraced interactions with regional organizations such as the Association of Southeast Asian Nations (ASEAN).² Most East Asian officials and defense intellectuals now see China as a status-quo power, at least for the foreseeable future.

China's strengths in the region should not be exaggerated, however. Its soft and hard

power alike lag far behind the United States. Much has been made of China's alleged soft power, but its behavior and stated intentions reflect adjustment to Southeast Asian norms, not vice versa.³ Moreover, China's domestic political stability remains vulnerable to potential moves by external actors that lie largely outside of Beijing's control. These include decisions affecting the future of Taiwan, the fate of the North Korean regime, the legacy of Japan's wartime record, and the outcome of territorial disputes in the East and South China Seas. Also relevant to China's domestic future are possible U.S. moves to restrict Chinese imports, American and European pressure to revalue the *yuan*, and the possibility of a global recession. Any combination of such events could stall China's economic modernization, thwart rising expectations, and threaten domestic stability.

East Asian elites are well aware of China's severe social and environmental problems, authoritarian political system, and ugly human rights record. They have no intention of becoming dominated by China or anyone else. They respect American power, even if they think it is misused. Virtually all of them want the United States to engage with the region on a more sustained and high-level basis. It is China's surging economy—not its popular culture, educational system, or form of government—that commands the most attention and respect.

China's Market Power

China's size and market power convey leverage. From the 1960s on, Japan and the so-called Asian Tigers (South Korea, Taiwan, Hong Kong, and Singapore) experienced explosive growth. But no single nation has ever opened its economy and expanded its international economic role as quickly as China, and none of the others had a noteworthy military force at the time of its growth. Expectations that China's rapid growth will continue and support the development of other forms of power in the future reinforce and amplify Beijing's current political influence.

Since economic reforms began to take effect in the early 1980s, China's share of global trade

has grown tenfold. In 2004, China overtook Japan to become the world's third largest trading economy, and in the following year, trade reached a ratio of 69 percent of China's nominal gross domestic product (GDP). (The equivalent ratios for Japan and the United States are about 25 percent.) In some coastal provinces, this ratio exceeds 100 percent. In 2007, China's foreign exchange reserves exceeded \$1.5 trillion, and its current account surplus surpassed \$262 billion.⁴

Although the world sees China as a giant export machine, imports have also soared. Until 2004, when the Chinese government began to take steps to restrain domestic investment growth, rising imports kept pace with rising exports, and China avoided large trade deficits or surpluses. The Chinese economy is now more open than the Japanese and Korean economies were at comparable stages of development. Between 2000 and 2005, imports into China nearly tripled, from \$225 billion to \$660 billion. Imports as a ratio of GDP skyrocketed from 4 percent in 1978 to 30 percent in 2005—two and three times larger than the ratio in the United States and Japan, respectively.⁵ Imported parts and components account for over 50 percent of China's exports and in some manufacturing sectors perhaps as much as 75 percent.

Foreign direct investment (FDI) in China has grown even more rapidly than trade, playing a crucial role in transferring the capital, technology, contacts, and management skills that have supported China's economic takeoff. Initial foreign investments came primarily from ethnic Chinese living outside of China. Sources of investment diversified in the mid-1990s, and by 2007 annual FDI had grown to \$67 billion, compared to \$15 billion in India and about \$29 billion in Japan.⁶ China has attracted more than \$750 billion in investment, more than all other developing countries combined. An estimated 55 to 70 percent of "Chinese" exports are manufactured by foreign firms operating in China or by partnerships between foreign firms and Chinese entities.

A related structural change stems from globalization, namely the rise of region-wide production networks. Parts and components make

up the fastest growing product category of traded goods, accounting for roughly a quarter of both Asian exports and imports as opposed to 16 to 18 percent 10 years earlier.⁷

In the 1970s and early 1980s, when China's economy was relatively autarkic, Japanese companies pioneered production networks in Asia by investing heavily in South Korea and Southeast Asia. China has now moved from the periphery to the center of these arrangements. Many Asian exports formerly destined for the United States or Japan now go to China for further processing before being reexported to global markets, especially North America and Europe. Just as individual Asian countries have become more dependent on China, China likewise has become dependent on global markets.

High-technology products illustrate the new pattern. In 2005, China was not only the third largest exporter of electronics products and components (up from tenth in 2000) but also the second largest importer (up from seventh in 2000). Technology-

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intensive exports assembled in China typically consist of high-tech components imported into China from Japan, South Korea, Taiwan, and the Philippines combined with lower-tech components and raw materials imported from the rest of Asia. Meanwhile, Chinese manufacturers are moving up the value-added chain: China's top exports to the rest of East Asia include parts for office equipment and telecommunications equipment, along with toys and footwear.⁸

Production networks are forcing companies in other parts of Asia to specialize in niche products. Companies located in countries with reasonably competitive economies and attractive investment climates, such as Singapore, Malaysia, the Philippines, and (increasingly) Vietnam, have been able to increase their manufacturing exports to China, while others, including Indonesia, are lagging behind.⁹

Balance of Dependence

China's size and growth have forged new patterns of dependence. On the one hand,

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individual Asian countries have become more dependent on China than China is on them. The volume of Chinese trade with East Asia has increased dramatically over the last decade, but the share of Chinese exports going to East Asia (excluding Hong Kong) has declined from 34 percent in 1996 to 24 percent in 2006.¹⁰ On the other hand, China has become heavily dependent on imports from Asian suppliers and on Western markets.

Asian economies are globalized, but since the turn of the millennium, China has become the first or second largest trading partner of most countries in the region (see tables 1 and 2). Despite periodic political tensions, Japan's trade with China (not counting Hong Kong) now exceeds Japan's trade with all 10 members of ASEAN and surpassed U.S.-Japan trade levels in 2007. China has become South Korea's number one customer, far surpassing the United States. Taiwan's economic ties with the mainland have also blossomed. Despite cross-strait political tensions, Taiwanese investors send an estimated 70 percent of their foreign investment to China.¹¹ Such investment is concentrated in electronics. As many as 1 million Taiwanese, almost 5 percent of the population, now live and work on the mainland.

According to a World Bank Study, from 1985 to 2001 China accounted for the largest or second largest increase in export market share for 11 out of 13 East Asian countries. From 1995 to 2001, those exports grew at the average annual rate of 11.5 percent, compared to 3.8 percent for world trade as a whole.¹²

Economic ties with China are important for Southeast Asian nations for three reasons. First, production networks have forged new and promising commercial links between Northeast and Southeast Asia. In sharp contrast to intra-European trade, intra-ASEAN trade has rarely accounted for much more than one-fifth of the trade of member states, in part because ASEAN economies (except for Singapore) tend to be competitive rather than complementary. Asian companies want to find a profitable niche in China-centric production networks and increase their share of China's imports. Their governments know that such opportunities create jobs, stimulate productivity, and improve the balance of payments.

Second, trade with China is a stimulus to quality improvement and export diversification away from raw materials. Between 1990 and 2004, ASEAN's share of China's imports of

Table 1. Percent of Imports from China (China's Rank as Import Source)

	Japan	South Korea	Taiwan	ASEAN 6	India
1986	4.7 (4 th)	0	0.28 (33 ^d)	4 (6 th)	0.55 (27 th)
1996	11.6 (2 ^d)	5.7 (3 ^d)	3 (7 th)	3 (5 th)	1.9 (18 th)
2006	20.4 (1 st)	15.7 (2 ^d)	12.2 (2 ^d)	11 (3 ^d)	9.4 (1 st)

Table 2. Percent of Exports to China (China's Rank as Export Market)

	Japan	South Korea	Taiwan	ASEAN 6	India
1986	4.7 (4 th)	0	0	2.3 (12 th)	0.74 (28 th)
1996	5.3 (5 th)	8.8 (3 ^d)	0.54 (23 ^d)	2.9 (12 th)	1.8 (14 th)
2006	14.3 (2 ^d)	21.3 (1 st)	22.7 (1 st)	8.8 (3 ^d)	6.6 (3 ^d)

Sources: United Nations Commodity Trade Statistics Database (UN Comtrade), available at <<http://comtrade.un.org/>>; Taiwan trade statistics from Taiwan's Bureau of Foreign Trade, available at <<http://cus93.trade.gov.tw/english/FSCE/FSC0011E.ASP>>. The ASEAN 6 countries are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Notes: For India, 1986 data from International Monetary Fund Direction of Trade Statistical Yearbook 1990; for Taiwan, 1989 data (the earliest available) used for 1986 figure; ASEAN 6 data for Brunei use 1985 data and 1998 data to substitute for unavailable 1986 and 1996 data. ASEAN 6 rankings consider intra-ASEAN 6 trade with other ASEAN 6 members (for example, ASEAN 6 exports to Singapore) as trade with other countries for ranking purposes.

manufactures jumped from 31 percent to almost 56 percent. This growing interdependence is marked by increasing specialization and reliance on a small number of product categories.

Third, access to the Chinese market attracts foreign investors. In 2007, foreign direct investment in ASEAN countries reached a record \$51.4 billion, surpassing that prevailing during the boom years of the 1990s. (China, with more than twice the population, attracted about \$67.3 billion.)¹³ An unknown but presumably large percentage of this investment is geared toward China-centered production networks.

China's huge market, rapid growth, and likelihood of continued economic expansion endow it with implicit leverage that smaller countries lack. Only in rare cases is it necessary for Chinese diplomats to resort to explicit pressure. With the exception of Taiwan, China usually employs an indirect approach, expressing its displeasure by lecturing other governments, cancelling official visits, or postponing commercial deals. These instances usually involve an issue that Chinese leaders regard as vital, such as the status of Taiwan or proposed Japanese membership on the United Nations (UN) Security Council (for example, China suspended trade negotiations with Singapore after Deputy Prime Minister Lee Hsien Loong visited Taiwan in July 2004).

Economic dependence, however, is mutual. Chinese authorities rely on trade and investment to create wealth, raise China's standard of living, facilitate technology transfer, and accelerate the growth of national power and regional influence.

The stimulus provided by trade and investment is also important to Chinese leaders because rising prosperity is the single most important guarantor of the government's perceived legitimacy. Ideology is dead and democratic elections are absent, leaving satisfaction of rising economic expectations as the primary basis for Communist Party claims for popular support. The level of social unrest is already high, and an economic shock followed by prolonged recession could rupture domestic stability. Nationalism and xenophobia could also reach dangerous levels. Chinese authorities thus have a huge political stake in both the prosperity of the Asia-Pacific region and the continued openness of North American and European markets.

China has also become more dependent on energy imports. Skyrocketing demand in the transportation sector puts a premium on oil. It is estimated that by 2020, China will likely import 70 percent of its oil needs, up from 40 percent today. Seeking to diversify supplies, China has signed energy partnership agreements with several Asian (and African) countries. Although Beijing has resolved almost all of its land border disputes, it still claims disputed areas in the East China and South China Seas where energy deposits have been reported. There is even speculation that China intends to build an oil pipeline from the Bay of Bengal through Burma (Myanmar) to southern China. Such a route would reduce China's dependence on the long sea lanes stretching from the Middle East through the Strait of Malacca, which are currently safeguarded by the U.S. Navy.

China's New Diplomacy

Whereas former president Jiang Zemin emphasized great-power diplomacy and relations with the United States, the Hu Jintao—Wen Jiabao regime has focused more attention on cultivating countries on China's periphery. Chinese officials assign their best diplomats to Asia. Backed by active commercial engagement and benefitting from the more restrained posture of the People's Liberation Army (PLA), Chinese diplomats have been able to adopt a nuanced, flexible, and responsive stance on most issues and employ a range of tools to expand influence.

China's commercial diplomacy has benefited from the region's widespread interest in free trade agreements (FTAs), which began to mushroom in Asia in the late 1990s. Most Asian FTAs are bilateral, but a few involve ASEAN as a whole. FTAs involving Singapore, Australia, New Zealand, and the United States are genuinely trade-liberalizing, but many if not most of the others protect politically sensitive industries, set up long phase-in periods, and contain no enforcement provisions. Japan's offerings, known as economic partnership agreements, cover investment, services, and intellectual property, but exclude agriculture and are not enforceable.

Given their limited scope but high visibility, it is clear that FTAs and economic partnerships stem as much from political and security priorities as from economic considerations. For China, FTAs offer a means of using access to the China market to cultivate influence and compete with Japan and the United States. For other Asians, FTAs with China are geopolitical expressions of peace and security as well as doors to economic opportunity.

Along with Beijing's policy reappraisal, the Asian financial crisis served as a catalyst that prompted China to launch a far-reaching set of commercial diplomacy initiatives. The collapse of the Thai *baht* in July 1997 triggered financial devastation that spread throughout much of the region. To the dismay of East Asian governments, the United States did nothing. East Asian leaders contrasted this passive response with U.S. assistance to Mexico during a similar crisis a mere 3 ½ years earlier. American failure to respond opened the door for China's diplomacy. Shielded from the worst of the crisis by rigid capital controls, China took credit for not devaluing its currency and announced a series

of trade-related relief measures, such as a free trade agreement with crisis-strapped Thailand, trade offers to other ASEAN countries, and measures to stimulate visits of cash-rich Chinese tourists to ASEAN countries. After a Japanese proposal to establish an "Asian Monetary Fund" collapsed under U.S. and other Western pressure, Beijing joined a Japanese-led effort to establish a network of currency swap agreements.

The most visible symbol of Beijing's foray into commercial diplomacy was Beijing's proposal of a China-ASEAN FTA in 2000, which would encompass almost 2 billion people and a combined GDP of over \$3 trillion. It is an open secret that Chinese leaders directed their chief trade negotiator to propose the plan for essentially political reasons. Two years later, Chinese and ASEAN leaders formally announced a decision to start negotiations aimed at establishing such an FTA within 10 years. The initial phase of this agreement is now in effect, but many details—governing exceptions for "sensitive" sectors, phase-in periods, dispute resolution mechanisms, and other significant provisions—are still being worked out.

Another instrument of China's commercial diplomacy is large-scale financial and technical assistance for infrastructure projects, particularly in poorer countries and/or countries with energy resources. Such projects include ports, highways, bridges, and popular sites such as sports stadiums, built almost entirely by Chinese companies using imported Chinese workers. These projects are popular with recipient governments because they typically come without the strings characteristic of loans from the World Bank and other aid agencies. But they create few local jobs, and some have been marred by serious safety problems.

China's military power has increased significantly over the last decade, creating both respect and heightened concerns in other Asian countries. The PLA has enjoyed double-digit real budget increases every year since 1997. The official 2007 budget was approximately \$45 billion, but estimates including military-related and off-budget spending suggest that total 2007 spending may range from \$97 billion to \$139 billion.¹⁴ This money has underwritten higher salaries, expanded training and facilities, and the acquisition of advanced Chinese and Russian arms. Many of these weapons appear to be focused primarily on deterring possible U.S. intervention in a Taiwan crisis, but some significantly

expand PLA ability to project power within Asia. These include development of more accurate short-range and medium-range conventional ballistic missiles, acquisition of *Kilo*-class submarines and *Sovremenny* destroyers, deployment of tankers and air-refueling technology to extend the range of Chinese fighters, and efforts to improve airlift and sealift capability. Chinese military officials are now openly discussing building an aircraft carrier.¹⁵

China's accelerated military modernization program has been accompanied by efforts to reassure its neighbors that a more powerful PLA will not threaten their security. China has not repeated the military activities that alarmed its neighbors in the mid-1990s and has behaved with relative restraint to various provocations from Taiwanese president Chen Shui-bian. China has sought to demonstrate that its military and paramilitary forces can make useful contributions to regional and global security, including via increased par-

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ticipation in UN peacekeeping missions. China has also offered to increase regional cooperation on nontraditional security issues such as disaster relief, counterterrorism, and counterpiracy. Although the resources committed to these missions have been modest, they are intended to showcase a constructive role for Chinese military power. In addition, China has made modest efforts to increase its transparency on military issues as a confidence-building measure. China began publishing biannual white papers on national defense in 1998 and has recently begun to participate in military exercises with neighboring countries.

China has improved the quality of its participation in multilateral security dialogues at both the official and unofficial levels and has established bilateral security dialogues with most major countries in Asia. China now formally subscribes to the Declaration on the Conduct of Parties in the South China Sea, a pledge of good behavior drafted and ratified by ASEAN to preclude war over the Spratly Islands and other disputed maritime boundaries. Beijing was also the

first non-ASEAN government to sign ASEAN's signature treaty, the Treaty of Amity and Cooperation, a nonenforceable set of principles enshrining the principles of national sovereignty, noninterference, equality, territorial integrity, renunciation of the threat or use of force, and peaceful settlement of disputes. Russia, India, Australia, and all other regional powers have signed the treaty, but the United States has not.

East Asian Reactions

Although concerns persist about how a stronger China may behave in the future, the view of China as a near-term threat is now a distant memory. Asian governments are determined to preserve security ties with the United States, but they see the rise of China as an opportunity that should not be missed. (Even Taiwan leaders welcome China's economic growth and supported China's membership in the World Trade Organization.) Most East Asian security experts do not see China's military buildup as a direct threat to the rest of the region. They are well aware of improving Chinese military capabilities and concerned about China's lack of transparency, but they tend to believe that Beijing's buildup is aimed primarily at Taiwan.

Today, most Asian governments are still struggling to consolidate nation-building efforts, manage ethnic and religious tensions, and cope with crime, pollution, disease, and other cross-border threats. In many countries, democratic governance has replaced dictatorship, but corruption, weak institutions, and absence of the rule of law undermine public confidence and erode stability. The financial crisis of 1997–1998 demonstrated vividly that Asian destinies are linked and stimulated a move toward closer regional integration to foster economic growth and minimize shared vulnerabilities. However, residual mistrust and domestic political constraints frequently limit cooperation.

China's economic and diplomatic transformation has encouraged other Asian governments to seek closer cooperation with China for at least three strategic reasons. First, Asian governments still harbor a certain degree of wariness about China's political evolution and long-term intentions. They calculate that embedding China in a web of agreements encourages peaceful and cooperative behavior. Similarly,

they believe that contributing to China's economic growth through regional engagement promotes openness and raises the likelihood that one-party rule will gradually soften into a less repressive form of governance.

Second, many East Asian governments calculate that closer ties with China enhance their leverage with the United States, as well as with Japan, Australia, and India. They expect that these powers will pay more attention to their region and that competition will induce offers of assistance on favorable terms.

Finally, cooperation with China has relatively low costs. Beijing insists that Asian countries accept its position that Taiwan is part of China, but this condition appears reasonable to many Asian governments facing separatist issues of their own. Aside from a brief episode in 1998, Beijing has not asked Asian countries to give up their security relationships with the United States. Beijing has not complained much about import restrictions on products or presented its Asian partners with a list of harsh trade demands.¹⁶

At the same time, East Asian governments differ considerably in their perceptions of China. Japanese leaders are among the most wary. They know that they are engaged in a subtle competition for influence with China and do not want Beijing to monopolize regional leadership. Unlike most other countries in the region, they view China as a potential long-term security threat. While watching China's military modernization, Tokyo is engaging China as much as possible even as it strengthens its bedrock alliance with the United States. Both former Prime Minister Shinzo Abe and his successor, Yasuo Fukuda, have made improving relations with China a policy priority.

In the Republic of Korea (ROK), attitudes toward China are mixed. China is now the largest ROK trading partner, but South Koreans have grown concerned with the competitive challenge that China poses to Korean firms in key industries. South Koreans share Chinese concerns about the destabilizing impact of a North Korean collapse or a military conflict on the peninsula and appreciate the key role that China is playing in the Six-Party process and denuclearization of North Korea. At the same time, South Koreans are concerned about the long-term implications of China's growing economic presence in North Korea for unification of the peninsula. Beijing's recently reasserted claims to the historic kingdom of Koguryo

have also unsettled a broad cross section of the Korean public. Strategic planners in Seoul are aware that a more assertive China could pose a threat to South Korean security and sovereignty.

In Southeast Asia, governments have reacted to the rise of China in different ways. Roughly speaking, China's influence is inversely proportional to distance. Mainland Southeast Asian countries share cultural ties with China, but express varying degrees of concern about being drawn increasingly into China's orbit. Some express a sense of fatalism about China's emergence as a dominant regional power. Laos, Cambodia, and Burma are not equipped to

for Asian countries, regional integration enhances security by embedding China in a web of multilateral structures

deal with China except as recipients of technical and educational assistance. China's plans to build more dams on the Mekong River threaten the livelihoods of people downstream, but none of the affected governments is in a position to challenge these decisions.

By contrast, Indonesians have a greater sense of freedom of maneuver. They are proud of their fragile democracy and view China's activities in Burma as unhelpful. They also harbor bad memories of China's efforts to destabilize their government in the 1960s. Nevertheless, the Indonesian government maintains cordial and cooperative relations with China, as does Malaysia, the Philippines, and Singapore. Of that group, Malaysia tends to side with China on regional issues more than the others and is only now overcoming its Mahathir-era resentment and suspicion of the United States.

Despite their differences, all Southeast Asians are opposed to domination by a single outside power. They are concerned that a shift in the balance of influence would take the form of subtle but grinding political and diplomatic pressure rather than military occupation. Domination by an outside power could stifle their foreign policy independence and subordinate local economic goals to the priorities of the hegemon. ASEAN spokesmen are careful not to single out China as the object of their concerns, but China obviously comes to mind.

The ASEAN-driven pan-Asian integration movement should be seen in this context. The effort to create an Asia-wide “community” has acquired a certain momentum even though it has produced more “visions” and declarations than tangible results. For China, participation in the integration movement opens up new opportunities for influencing political and security developments in its most important neighborhood. For other Asian countries, creating a framework for regional integration enhances their security by embedding a rising China in a web of dialogues and agreements even if these efforts exclude the United States. Japan and South Korea are trying to exploit this new diplomatic space to advance their diplomatic goals without Americans looking over their shoulders.

Of all of the Asia-wide regional organizations, the group known as ASEAN + 3—ASEAN, China, South Korea, and Japan—is the most important from a strategic perspective (see table 3). ASEAN + 3 has become quasi-institutionalized, spawning some four dozen committees and working groups. On financial issues, Japan has the lead; on most other issues, China tends to overshadow Japan (but takes care to avoid the appearance of overt leadership).

In the wake of the financial crisis, ASEAN + 3 finance officials established a web of currency swap arrangements and continue to meet regularly. They share best practices and discuss such topics as improving the efficiency of cross-border financial transactions, enhancing financial transparency, defining a reference currency unit derived from a basket of Asian currencies, and establishing a regional bond market. This is one area in which Chinese and Japanese officials get along well and in which discussions have produced tangible results.

China’s implicit power to sway decisions in the other “+ 3” functional groups has prompted Tokyo to strengthen ties with Canberra and New Delhi and to favor the East Asian Summit grouping (the ASEAN + 3 countries plus India, Australia, and New Zealand, also known as ASEAN + 6), in which China’s influence is diluted. Singapore and Indonesia also welcome the inclusion of these others. Where Americans see overlap and duplication of effort, Asians see safety valves.

The U.S. Role

The erosion of American influence in the diplomacy of the Asia-Pacific region stems in

Table 3. Membership in Asia-Pacific Organizations

ASEAN	ASEAN + 3	East Asian Summit	APEC
Brunei Darussalam Cambodia Indonesia Lao PDR Malaysia Myanmar Philippines Singapore Thailand Vietnam	ASEAN members China Japan Republic of Korea	ASEAN + 3 members Australia India New Zealand	<i>Southeast Asia:</i> Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam <i>East Asia:</i> China, Japan, Republic of Korea, Hong Kong, Chinese Taipei <i>Oceania/South Asia:</i> Australia, New Zealand, Papua New Guinea <i>Pacific Rim:</i> Canada, Chile, Mexico, Peru, Russia, United States

large part from the widespread perception that Washington is distracted and preoccupied by events outside the region, particularly in the Middle East. As long as the United States maintains large numbers of combat troops in Iraq and is narrowly focused on antiterrorism as the top foreign policy priority, this perception will linger in Asia. At the same time, Washington’s refusal to talk directly with North Korea until quite recently and the tendency of senior U.S. leaders to skip regional meetings has reinforced a perception of U.S. disengagement.

Nevertheless, the United States retains enormous advantages in Asia. Only the United States can provide region-wide security. In recent years, the United States has undertaken ambitious efforts to transform its alliances with Japan and South Korea and to improve its power projection capabilities in Asia. The U.S.-Japan alliance has broadened its focus to include global and regional security challenges beyond the defense of Japan, joint development of ballistic missile defenses, and efforts to improve military cooperation for future contingencies. Disagreements about how to deal with North Korea have created tensions in the U.S.-ROK alliance, but efforts to create a more equal military relationship and to relocate U.S. troops out of downtown Seoul have created a more sustainable political foundation for the alliance. The United States has also upgraded its alliances with Australia, Thailand, and the Philippines and expanded security cooperation with key Asian countries such as Indonesia, Singapore, and India.

The ongoing processes of military transformation and the realignment of U.S. force deployments in Asia have strengthened American power projection capabilities in the region. Recent and planned efforts include shifting an additional aircraft carrier to the Pacific fleet, moving attack submarines to bases in Guam, and upgrading Anderson Air Force Base in Guam to support B-1 and B-2 bomber operations. More broadly, transformation is intended to improve the U.S. ability to flow forces from one theater to another in response to unexpected contingencies. The United States has also used exercises, such as Valiant Shield in June 2006, to demonstrate its ability to rapidly deploy combat assets.

The United States has the ability to make important contributions to regional security. U.S. Pacific Command, and in particular the Seventh Fleet, offers training and joint exercises to Asian militaries eager to upgrade their skills. Pacific Command also proposes and participates in joint efforts to address nontraditional security threats, such as piracy, illegal trafficking, and terrorism. (Pacific Command officials emphasize that they are sensitive to Asian fears of U.S. domination and prefer letting others take the initiative, at least publicly.) Relief operations after the tsunami in December 2004 and Pakistan earthquake in October 2005 also demonstrated unparalleled U.S. capabilities to employ military logistics capabilities to conduct humanitarian relief operations halfway around the world. U.S. Government agencies have expertise, technology, and experience that can help

address critical nontraditional security challenges such as infectious disease, piracy, environmental degradation, and terrorism. U.S. non-governmental organizations and private sector actors can complement U.S. Government efforts.

Along with Europe, the United States is the final market for a high proportion of Asian exports to China. America's higher education system, job opportunities, management skills, entrepreneurship, services, technology, and popular culture are prize assets that could convey greater influence if wielded more adroitly. Current skeptical views of the U.S. global role are balanced by a more positive appreciation of American capabilities to solve problems in Asia. A 2006 poll indicates that the United States is still viewed as the most influential country in Asia and that majorities in China, India, and South Korea all see the United States as playing a "very positive" or "somewhat positive" role in resolving key problems in Asia.¹⁷

Recommendations

Based on this analysis of China's rising influence and the U.S. position in the region, we recommend a concerted effort to refocus and enhance American engagement with Asia. The balance of power in East Asia is stable, but the balance of influence is shifting in China's direction. The latter balance is not zero-sum. U.S. influence is declining *relative* to China, but not in absolute terms. The United States will remain the strongest power in Asia for the indefinite future. China's rising influence in Asia does not threaten near- and medium-term U.S. interests. On the contrary: China's economic openness, diplomatic flexibility, military restraint, and willingness to help deal with terrorism and other nontraditional threats contribute to peace and prosperity in the region.

Uncertainty about China's future political evolution—and about whether the current pattern of Chinese restraint will persist as it grows stronger—complicates U.S. policy choices. Given the uncertainties, a U.S. policy that encourages China's reform and constructive engagement in regional and world affairs while hedging against uncertainty is prudent and preferable to actions that stoke Chinese fears. Active U.S. engagement in the region—including continuation of U.S. alliances and the U.S. security presence—can help encourage continued Chinese restraint and cooperative behavior while discouraging aggression and hostility. Conversely, U.S. efforts to "contain"

China, impose sanctions, or otherwise hinder China's growth would meet stiff resistance in Asia.

The United States should welcome China's growing ability and willingness to make contributions to security and stability in Asia. But it should also work more actively to ensure that China's growing regional influence does not begin to erode the foundations of the U.S. security presence. Such a tipping point would occur if U.S. political relationships in the region deteriorated to the point where the United States could no longer rely on bases and other military assets to counter aggression.

Toward this end, the United States needs to engage more actively in regional diplomacy. Current risks are limited, but over time the drift toward China, if unchecked, could reduce American influence, call the rationale for U.S. alliances into question, weaken Japan's position, further isolate Taiwan, and constrain the independence of Southeast Asian countries.

Over the last 2 years, American attention to Southeast Asia has revived and some constructive initiatives have been proposed. But available funds do not match ambition, and most of these proposals are unknown outside of narrow bureaucratic circles. A combination of a few simple initiatives and better public diplomacy "packaging" would help, but there is no substitute for high-level engagement and commitment. The United States must do a better job of translating its underlying power into influence.

Although antiterrorism is a priority of Asian governments, Asian leaders face many other pressing problems. It is unrealistic to expect the United States to turn away from the Middle East and the threat posed by international terrorism. Nevertheless, Washington should broaden its regional agenda, increase its nonmilitary presence, make better use of its soft power resources, and become a more responsive and understanding listener.

As a first step, the United States should signal its renewed interest in and commitment to Southeast Asia by signing the Treaty of Amity

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and Cooperation. Although the Asian integration movement has produced few tangible results to date, the fact that the region remains at peace and is stable cannot be discounted. To reinforce

this positive direction, the United States should commit appropriately high-level officials, including the President, to the region every year to attend key regional meetings. The Department of State's appointment of an Ambassador to ASEAN is a step in the right direction, and the nominee should be expeditiously confirmed by the Senate. But the appointment of an Ambassador is not enough. The next President should express willingness to go to Asia to attend a U.S.–ASEAN summit, which the Bush administration cancelled in 2007.

In strategic terms, the Asia Pacific Economic Cooperation Forum (APEC) is a trans-Pacific counterweight to ASEAN + 3. The United States should energize its participation in APEC and ensure that budgetary resources correspond to a renewed political commitment. Washington should coordinate closely with Japan (which now views APEC more favorably than it did 5 years ago), South Korea, and Australia. Washington should also support APEC observer status for India.

Building on the Pacific Command's record as a provider of security, the United States should propose enhanced multilateral regional cooperation on nontraditional security issues. Washington should pick issues that pose problems for both the United States and Asian governments where U.S. expertise and resources can make real contributions, such as countering piracy, infectious disease, pollution, and even financial instability. These initiatives should be open to any Asian government that shares a sense that the particular issue is a problem and is willing to work toward solutions. China should be invited to join. These initiatives should be pursued quietly and with consideration for Asian sovereignty concerns to avoid putting China (and others) on the spot. But over time, greater emphasis on nontraditional security cooperation could make tangible contributions to Asian (and American) security and add positive content to U.S. public diplomacy in the region.

The United States needs to take more advantage of soft power resources as well as its economic and technological strengths. Less burdensome visa requirements and expanded opportunities to study in the United States would go a long way in reviving and projecting U.S. influence. More technical and grassroots assistance in health and education would be popular in Asia. Lower tariffs

on selected commodities and products from developing Asia would help counter images of growing U.S. protectionism. The aim should be to translate the full range of U.S. capabilities into enduring influence that promotes peace and prosperity in Asia and thereby advances U.S. long-term interests.

In order to provide an ongoing policy framework for these (and other) initiatives, reassure U.S. friends and allies in Asia, and keep the support of Congress and the public, Washington needs to draw up a comprehensive, government-wide strategy toward Asia that integrates military and nonmilitary components of U.S. policy. The last American East Asian regional security strategy was issued in 1998. Asia has changed greatly since then. The time is ripe for a new regional strategy that assesses Asia's new strategic landscape and derives appropriate U.S. goals.

Such a strategy should identify the full spectrum of U.S. objectives in Asia—political, economic, security, environmental, energy, health, and humanitarian. It should attempt to weigh the tradeoffs between them, reconcile them with other regional policies and priorities, seek a better balance between U.S. military and nonmilitary tools, and calculate adequate human and budgetary resources.

China's long-term future is unknown, and so is its likely attitude toward the U.S. presence in Asia several decades from now. It is certainly possible that Chinese leaders may seek to marginalize U.S. influence, undercut American alliances and security relationships, and put long-term U.S. interests at risk. Beijing could define its legitimate security interests in Asia in ways that Washington finds unacceptable. This possibility highlights the need for a continuing American role in Asia and for the United States to consider what Chinese interests in Asia it accepts as legitimate.¹⁸

Nevertheless, the near- and medium-term risks to U.S. interests in Asia are manageable, and the opportunities to deal with nontraditional threats cooperatively are promising. The main challenge for the United States is to pursue its regional security needs in a manner that takes account of China's growing power and legitimate interests and does not stoke Chinese fears of containment. The comparable challenge for China is to exercise its influence in a manner that contributes to common goals and does not threaten either the United States or other Asian governments. Initiatives

launched by the two sides will not always be compatible, and other Asian governments will have their own ideas. But narrowing differences, identifying common interests, and living with disagreement are what foreign policy is all about. Provided that Washington maintains a hedging strategy, remains prepared to counter military aggression, uses both its nonmilitary and military assets, and actively engages in regional diplomacy, the United States has everything to gain from a cooperative, comprehensive, and forward-looking strategic response to China's new role in Asia.

Notes

¹ See David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security* 29, no. 3 (Winter 2004–2005), 64–99; and Yong Deng, "Reputation and the Security Dilemma: China Reacts to the China Threat Theory," in *New Directions in the Study of China's Foreign Policy*, ed. Alastair Iain Johnston and Robert S. Ross (Stanford: Stanford University Press, 2006), 186–214.

² For an overview of the Asian integration movement, see Ellen L. Frost, *Asia's New Regionalism* (Boulder, CO: Lynne Rienner, 2008), chapters 6–9.

³ Bronson Percival, *The Dragon Looks South: China and Southeast Asia in the New Century* (Westport, CT: Praeger Security International, 2007), 112.

⁴ Figures available at <www.pbc.gov.cn/detail.asp?col=100&id=2507>; also see "China's Foreign Exchange Reserves Higher," Associated Press, January 11, 2008, accessed at <www.washingtonpost.com/wp-dyn/content/article/2008/01/11/AR2008011100578.html>. National trade ratios are available from the World Bank's Web site.

⁵ Center for Strategic and International Studies and the Institute for International Economics, *China: The Balance Sheet* (New York: PublicAffairs/Perseus Book Group, 2006), 73, 84.

⁶ Figures for 2007 are preliminary estimates from United Nations Conference on Trade and Development (UNCTAD), "Foreign Direct Investment Reached New Record in 2007," press release, January 8, 2008, available at <www.unctad.org/>.

⁷ Guillaume Gaulier, Françoise Lemoine, and Deniz Unlal-Kesenci, *China's Emergence and the Reorganisation of Trade Flows in Asia*, Working Paper No. 2006–05 (Paris: Centre d'Etudes Prospectives et d'Informations Internationales, March 2006), 12, figures 1 and 2.

⁸ John Ravenhill, "Trade Developments in East Asia since the Financial Crisis," paper prepared for *East Asia—A Decade After the Crisis* sponsored by the Australian National

University and the University of California, Berkeley, July 21–22, 2006, table 5.

⁹ For a more complete discussion, see John Ravenhill, "China's 'Peaceful Development' and Southeast Asia: A Positive Sum Game?" in *China's Rise and the Balance of Influence in Asia*, ed. William W. Keller and Thomas G. Rawski (Pittsburgh: University of Pittsburgh Press, 2007).

¹⁰ Percentages are calculated from Chinese export statistics as reported in the UN Comtrade database.

¹¹ Interview with economists at the Taiwan Institute of Economic Research, Taipei, December 2005.

¹² Francis Ng and Alexander Yeats, *Major Trade Trends in East Asia*, Policy Research Working Paper 3084 (Washington, DC: World Bank, 2003), tables 6.1 and 6.2.

¹³ Figures for 2007 are preliminary estimates from UNCTAD press release. Also see Thomas Fuller, "Southeast Asia Group Seeks to Accelerate a Trade Zone," *The New York Times*, August 23, 2006, C5.

¹⁴ Office of the Secretary of Defense, *Military Power of the People's Republic of China 2008* (Washington, DC: DOD, 2008), 32. The figures are a U.S. DOD estimate of total China defense-related spending.

¹⁵ *Ibid.*

¹⁶ Beijing complained in 2007 when several Southeast Asian countries tried to tighten inspections on Chinese goods due to food and product safety concerns, which may presage a less solicitous Chinese approach to the trade concerns of ASEAN countries.

¹⁷ Chicago Council on Global Affairs, *The United States and the Rise of China and India: Results of a 2006 Multination Survey of Public Opinion* (Chicago: Chicago Council on Global Affairs, 2006), 50–53. Percentages of those viewing the United States as playing a "very positive" or "somewhat positive" role in resolving Asian problems were 59 percent in China, 66 percent in India, and 58 percent in South Korea.

¹⁸ Former Deputy Secretary of State Robert B. Zoellick's formulation of the "responsible stakeholder" concept raises this issue but does not define which Chinese regional interests should be regarded as legitimate. See Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to National Committee on U.S.-China Relations, New York City, September 21, 2005, available at <www.state.gov/s/d/former/zoellick/rem/53682.htm>. Also see James J. Przystup and Phillip C. Saunders, *Visions of Order: Japan and China in U.S. Strategy*, Strategic Forum No. 220 (Washington, DC: National Defense University Press, June 2006), available at <www.ndu.edu/inss/Strforum/SF220/SF_220.pdf>.

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