

# POLICY BRIEF

## Growth of China's Power and Implications for Asia in the 21<sup>st</sup> Century



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## Executive Summary

The growth of China has brought about new dynamics in the Asian security and geopolitics, particularly in the past two decades. One often reads that China's increasing assertiveness and confidence stems from its growing economic and political strength, as well as a strong perception of U.S. weakened by its domestic issues. This brings about two critical questions: In what ways does China's growing power play a key role in generating new dynamics in Asian regional security and geo-political environment? What is its impact on the regional security order?

This policy brief attempts to address the two questions by looking at:

- How the trends arising from the growth of Chinese power have affected U.S. policy towards the Asia Pacific;
- How China's newfound economic power has provided Beijing with ideational and agenda-setting means in winning friends and influencing ideas and policies in the region;
- How regional states and the United States should perceive and react to the growth of China's military power and its regional security policy

## Introduction

China's growing power – economic, military, and political – is a significant factor in contemporary international relations. Its phenomenal rise has a strong influence on the structure of the international system, major-power strategic relations, international security, patterns of trans-border economic activities and more importantly, the political and security dynamics in Asia. Observers believe that China's growing power and confidence is the cause for its assertiveness in handling key security issues in Asia, particularly in the maritime territorial disputes in the East and South China Seas. As a result, the tone of

recent media reports, scholarly writings, and government documents on China's role in regional security has been predominantly pessimistic.

The impetus for Washington's strategic re-balance strategy towards Asia is perhaps partially in response to China's growing economic and political, if not security influence in the region. Moreover, the possibility of regional states facing a situation where they have to take sides on certain issues between Beijing and Washington is growing. It remains to be seen how China will leverage on its growing power in its response to the strategic pressure from the U.S. and how regional states will react to the rivalry between the two major powers.

In order to examine China's growing power as a key factor generating new dynamics in Asian regional security and geo-political environment and evaluate its impact on the regional security order, this policy brief will attempt to address some crucial questions: How have the trends arising from the growth of Chinese power affected U.S. policy towards the Asia Pacific? How has China's newfound economic power provided Beijing with ideational and agenda-setting means in winning friends and influencing ideas and policies in the region? If so, how should regional states and the United States perceive and react to the growth of China's military power and its regional security policy?

This policy brief attempts to provide an update on the trends and perspectives of China's growing power. It will contemplate the following: (i) the trends of China's rise in East Asia; (ii) continuity and change in U.S.-Asia Pacific policy; (iii) domestic assessment of Chinese power; and (iv) the impact of China's military rise on regional security order. It will conclude with various policy implications based on the analysis in the earlier sections.

## Trends of China's Rise in East Asia

### **China's economic rise**

The success of China's economic reform and open-door policy brought about the spectacular growth of the Chinese economy and brought about a close integration with East Asian economies. China is undoubtedly the driver for regional economic recovery and growth. Being the most resilient among East Asian countries during the previous and recent financial crises, China boosted the region's recovery through strong trade ties. For instance, following the decline of U.S. and other advanced economies in 2008-2009 global financial crisis, China has become largest trading partner of the Association of Southeast Asian Nation (ASEAN), accounting for 11.6 per cent of its total trade volume.<sup>1</sup>

China's economic and political position in the Southeast Asia was enhanced by strengthening trade ties with ASEAN through the China-ASEAN Free Trade Area (CAFTA), which came into effect on 1 January 2010. A study by the Asian Development Bank revealed that China is more integrated with ASEAN than with other countries in the world after the establishment of the CAFTA.<sup>2</sup> The establishment of a dynamic and self-sustaining common market has allowed ASEAN economies to reduce their reliance on exports to the U.S. and European Union. China's vast developing economy also provides additional sources of growth needed by ASEAN, as shown by the strong rebounding of its exports to China in contrast with that to the U.S. in post-crisis years.<sup>3</sup>

In particular, ASEAN countries seem accommodating of China's economic leadership. During the 1997 Asian financial crisis, the U.S. lost a good measure of political goodwill as it was perceived to be unforthcoming in

offering economic assistance and to have exploited the IMF to further its political agenda in the region.<sup>4</sup> This, combined with Japan's inertia in offering resources to stimulate recovery, its reluctance to take the driver's seat at the time of crisis and its meekness in face of the U.S. and IMF's stricture of its Asian Monetary Fund proposal, drove ASEAN to turn to China for leadership and assistance. Refraining from the temptation to undercut its neighbours and opting for a non-devaluation policy, China proved itself as a responsible player and assumed a major role in stabilising and supporting the eventual recovery of the Asian economies.<sup>5</sup>

While East Asian countries, particularly ASEAN, have succeeded in enmeshing China with economic regionalism, this approach has its limitations, as economic considerations often take a back seat in the face of politics. ASEAN countries continue to struggle with intra-regional rivalry and great power relations even on the economic front. Economic channels such as the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Northeast Asian trilateral free trade agreement, are being used by countries to advance their political agendas and to exclude a particular great power.

The economic aspect of Obama's strategic rebalancing in East Asia took on the form of the TPP, which grew out of a 2006 agreement between four APEC members — Chile, New Zealand, Brunei and Singapore. Together with other new TPP signatories (Australia, Peru, Vietnam, Malaysia, Mexico and Canada), the U.S. began negotiations in early 2010 and has dominated the TPP's negotiation agenda since. The U.S.-led TPP does not presently involve China and does not exclude it in principle but its membership

<sup>1</sup>"ASEAN, China to work on deepening strategic cooperation" *People's Daily Online*, 3 March 2011. Accessed on 22 April 2012. (<http://english.peopledaily.com.cn/90001/90776/90883/7306353.html>)

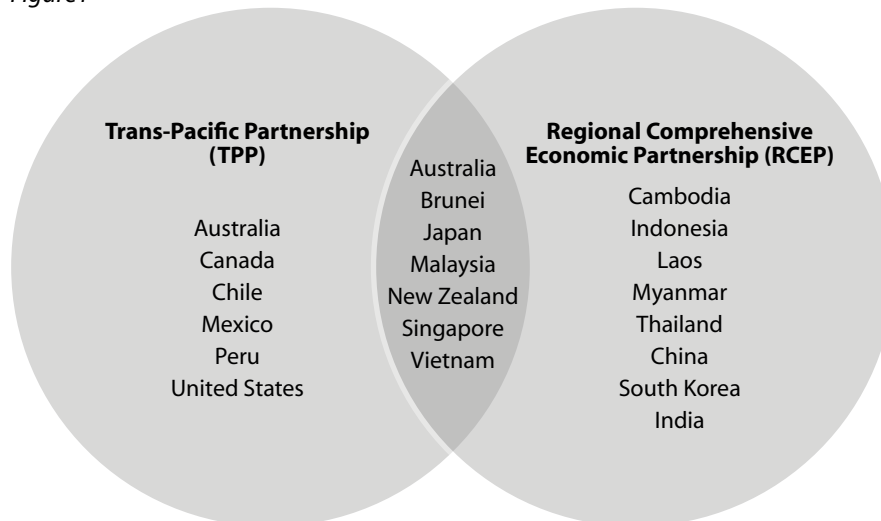
<sup>2</sup>Goh Chok Tong, "ASEAN-US Relations: Challenges – Keynote speech at the ASEAN-United States Partnership Conference, New York" Last modified on 07 September 2000. Accessed on 11 April 2012. (<http://www.aseansec.org/2806.htm>)

<sup>3</sup>Gemma Estrada, Donghyun Park, Innwon Park and Soonchan Park, "The PRC's Free Trade Agreements with ASEAN, Japan, and the Republic of Korea: A Comparative Analysis" in *ADB Working Paper Series on Regional Economic Integration*, No. 92, January 2012, p.2 and p.18

<sup>4</sup>Goh Chok Tong, "ASEAN-US Relations: Challenges – Keynote speech at the ASEAN-United States Partnership Conference, New York" Last modified on 07 September 2000. Accessed on 11 April 2012. (<http://www.aseansec.org/2806.htm>)

<sup>5</sup>Ministry of Foreign Affairs of the People's Republic of China, "Speech by President Jiang Zemin at the Sixth APEC Informal Leadership Meeting, 18 November 1998" Last modified on 15 November 2000. (<http://www.fmprc.gov.cn/eng/wjzb/zzjg/gjs/gjzzyhy/2604/2606/t15276.htm>); "Pro-Active Policies by China in Response to Asian Financial Crisis" Last modified on 17 November 2000. Accessed on 10 April 2012. (<http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18037.htm>)

Figure 1



may prove to be extremely difficult due to the regulatory emphasis of the arrangement. There are concerns that the TPP ‘would drive a wedge down the middle of the Pacific, not only or mainly economically but also politically — between the United States, its partners and China.’<sup>6</sup>

Economic opportunism, and fears of being side-lined by the U.S. and other key East Asian players such as Japan made ASEAN more receptive of China’s support for ASEAN-led trade agreements such as the RCEP and China-ASEAN Free Trade Agreement. A trade dilemma has emerged in East Asia, with almost half of ASEAN members, Australia, Japan, and New Zealand signing up for both the TPP and RCEP (see Figure 1). While observers have mentioned that the U.S.-led TPP and the China-supported RCEP may turn out to be complementary trade arrangements, there are concerns that the TPP and RCEP may come into direct conflict as China and the U.S. seek to shape regional economic cooperation and cement their economic interests.<sup>7</sup>

### **China’s political rise**

China is using its growing political and economic influence to reshape the rules and institutions of the international system to better serve its interests. In particular, Beijing has succeeded in using selected ASEAN members to prevent the emergence of a united agenda or strategy on the South China Sea issue.<sup>8</sup> China revealed its hand at the 2012 ASEAN Foreign Ministers’ Meeting in Phnom Penh, resulting in the failure to produce a joint communiqué for the first time in ASEAN’s 45-year history. Some observers believe that China does not have ASEAN’s best interests at heart and its support for ASEAN centrality in regional institutions is not as altruistic as it seems.<sup>9</sup> Beijing’s strategy, they claim, is to use ASEAN’s inherent weaknesses and disunity to divide and rule the association to serve its own national interests.<sup>10</sup>

East Asian countries see the benefits of China’s economic rise but they are also wary of China’s growing economic leverage. Beijing’s rhetoric about strong-arming weaker

<sup>6</sup> Peter Drysdale, “Are there real dangers in the Trans Pacific Partnership idea?”, *East Asia Forum*, 18 April 2011 (<http://www.eastasiaforum.org/2011/04/18/are-there-real-dangers-in-the-trans-pacific-partnership-idea/>, accessed 16 April 2013)

<sup>7</sup> “TPP vs. RCEP: Southeast Asia’s Trade Dilemma”, Carnegie Endowment for International Peace, 18 June 2013 (<http://carnegieendowment.org/2013/06/18/tpp-vs-rcep-southeast-asia-s-trade-dilemma/g9rt>, accessed on 20 September 2013); Sanchita Basu Das, “RCEP and TPP: Comparisons and Concerns”, *ISEAS Perspectives*, 7 January 2013

<sup>8</sup> “Hu wants Cambodia help on China Sea dispute, pledges aid”, *Reuters*, 1 April 2012

<sup>9</sup> Kong Sothanarith, “Cambodian Minister Urges Closer Asean Ties With China”, *Voice of America | Khmer*, 22 August 2013 (<http://www.voacambodia.com/content/cambodian-minister-urges-closer-asean-ties-with-china/1734770.html>, accessed on 30 August 2013)

<sup>10</sup> Ernest Z. Bower, “China reveals its hand on ASEAN in Phnom Penh”, *East Asia Forum*, 28 July 2012 (<http://www.eastasiaforum.org/2012/07/28/china-reveals-its-hand-on-asean-in-phnom-penh/>, accessed on 30 August 2013)

countries in disputes has raised a few eyebrows and it is not surprising that East Asian countries, particularly those involved in the East and South China Sea disputes, would look to the U.S. to counter Chinese pressure even as they reap the benefits of increasing economic cooperation with China.<sup>11</sup> For instance, China has become an important factor in U.S.-Vietnam relations. The increasing coalescence between Vietnam and the U.S. since 2009 stems from the rise of China and its aggressive stance in the South China Sea. Vietnam plays an important role in ensuring the success of the new U.S. military strategy to shift 60 per cent of its warships to the Asia Pacific by 2020 as it possesses one of Asia's finest deep water ports 450 miles south of China – former U.S. air and naval base, Cam Ranh Bay.<sup>12</sup> Therefore, both countries have established a new framework to form a comprehensive partnership in July 2013, despite to U.S. insistence on human rights reforms in Vietnam.<sup>13</sup> The fact that U.S. Secretary of State, John Kerry, pledged a significant proportion of its US\$32.5 million assistance plan to boost Southeast Asian maritime security to Vietnam underscores the importance with which the U.S. has attached to deepening relations with Vietnam.<sup>14</sup>

Japan's political rivalry with China has also intensified with China's rise. Although the two nations have become strong trading partners with China's blistering rise as an economic powerhouse, this fragile economic relationship is increasingly threatened by Chinese nationalistic retaliation in times of difficulty. The one economic leverage which China uses is tourism. Besides facing the threat of a travelling ban of Chinese citizens to Japan, the Japanese tourism industry and tourism-related businesses were also affected by massive private travel cancellations and boycotts by furious Chinese tourists and tour operators during a diplomatic spat between the two countries over the arrest of a Chinese fishing trawler captain involved in a collision with a Japanese Coast Guard ship in September 2010.

To make matters worse, China also its toughened customs clearance procedures to delay Japanese imports and exports during the same period. It was reported that customs authorities of coastal cities such as Shanghai, Fujian and Guangdong increased the inspection quota of Japan-related imports and exports to 100 per cent, up from the original 30 per cent. The most significant economic leverage used by China was the export of rare earth. It seemed too coincidental that China implemented its 2009 reduction policies on rare earth exports to Japan during this sensitive period of time. This sparked international concerns of economic overdependence on China and its increasing use of economic leverage to pressure countries to yield to its demands.

In *China: A Country Study*, Elizabeth Green observed that “the importance of sovereignty and independence of action in Chinese foreign policy since 1949 is closely related to Chinese nationalism.” The resurgence of nationalism in China should come as no surprise, given the country's blistering rise to prominence in the recent decade. Nationalism in China is driven by two key factors – Chinese pride in its long history and cultural traditions, and the perceived victimization of China felt by its citizens, which aggravates their sense of pride. Much of this bitterness is directed at Japan, mainly for the many atrocities it was accused of committing during its occupation of parts of China in the 1930s. It has been observed that Beijing has become apt in using such bitterness against Japan as a temporary diversion for its domestic problems in the recent decade.

To say that East Asia is not an effective and cohesive political grouping is an understatement. It will remain ‘hot’ in economics but ‘cold’ in politics for long haul. Apart from outstanding bilateral issues and geo-political conflict which include China's territorial disputes with Japan, the

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<sup>11</sup> Chung Chien-peng, “Southeast Asia-China relations: Dialectics of “Hedging” and “Counter-Hedging””, *Southeast Asian Affairs* (2004), (Singapore: Institute of Southeast Asian Studies, 2004), pp.35-53; Robyn Klingler-Vidra, “The pragmatic ‘little red dot’: Singapore's US hedge against China” in *IDEAS reports - Special Reports SR015*, Nicholas Kitchen (ed.) LSE IDEAS, London School of Economics and Political Science, London, UK (2012)

<sup>12</sup> Reuters, “Access to Pacific harbors key to U.S. strategy: Panetta”, 3 June 2012

<sup>13</sup> *Xinhua*, “New framework for Vietnam-U.S. relations”, 29 July 2013

<sup>14</sup> *Reuters*, “U.S. offers help to South East Asia, most to Vietnam, to patrol seas”, 16 December 2013

Philippines and Vietnam, one of the primary explanations for the East Asian states' reluctance to accept China's political leadership over the region is the difference in their political systems. Other states in East Asia are watching anxiously how China will project its power and influence over the South China Sea. For a long time to come, China will have limited geo-political leverage in the region, as opposed to its growing geo-economic influence.

## Continuity and Change in U.S. Policy Towards Asia Pacific

Given that Asia is becoming increasingly vital for the American economy, U.S. security interests are reinforced by greater trade flows through the Asia Pacific and major expansions of military forces (particularly China's) in the region. Underlying the Obama rebalancing towards Asia is the belief that U.S. strategies and priorities need to be adjusted with the shifting of American economic, national and foreign policy interests towards Asia from its longstanding Middle Eastern and European foci.

Many aspects of the Obama Administration's rebalancing strategy are built on previous actions undertaken by U.S. governments since the end of World War II to establish stability and security in the Asia Pacific. The three main pillars of U.S. foreign policy – strategic and economic interests, human rights and the promotion of U.S. values – remain unchanged. Rather, the United States' increased emphasis on the region signalled a change in means of pursuing its interests – level of resources, and leadership attention and commitment. The enduring challenge of managing tensions in Sino-U.S. relations while seeking to deepen China's integration into the international community is reflected in the Obama administration's Asia Pacific policy. It should be highlighted that the policy consists of three new features – new military priorities

and deployments, the inclusion of the Indian Ocean in the geographic scope of the rebalancing strategy, and a more integrated policy approach to the Asia Pacific.<sup>15</sup>

Undoubtedly, many of the high-profile new initiatives undertaken by the Obama administration lie in the security sphere. Since 2009, the U.S. has made efforts to strengthen bilateral security alliances within the region. The U.S. has also sought to forge a broad-based military presence in the region and pledged US\$32.5 million to boost maritime patrols and disaster response in Southeast Asia.<sup>16</sup>

The US Department of Defense (DOD) signalled a reorientation of its priorities with its pledge that defence spending reductions would not come at the expense of U.S. commitments in the Asia Pacific and the Middle East. In a strategic review, the DOD also endorsed the continued deployment of 11 aircraft carriers and reemphasised efforts to improve capabilities to defeat the PLA's Area Denial/Anti-Access (A2/AD) strategies.<sup>17</sup>

While newly expanded U.S. presence in the Asia Pacific is represented by new military deployments and arrangements with Australia and Southeast Asian countries such as Singapore and the Philippines, it should be noted that the Clinton and Bush administrations have earlier deployed significant naval and air defence systems to Guam and Japan, as well as strengthened U.S. bilateral military cooperation with Singapore, Japan and the Philippines.<sup>18</sup> In fact, the Pentagon announced the deployment of 60 per cent of U.S. submarines to Asia in 2005. During wars in Afghanistan and Iraq, military funding for the U.S. Pacific Command (PACOM) were maintained at high levels.<sup>19</sup>

<sup>15</sup> Hillary Rodham Clinton, "America's Pacific Century", U.S. Department of State through *Foreign Policy*, 11 October 2011 (<http://www.state.gov/secretary/rm/2011/10/175215.htm>, accessed on 2 December 2013)

<sup>16</sup> *Bloomberg*, "Kerry Rejects China Zone, Urges South China Sea Stability", 17 December 2013

<sup>17</sup> See Mark E. Manyin, Stephen Daggett, Ben Dolven, Susan V. Lawrence, Michael F. Martin, Ronald O'Rourke, and Bruce Vaughn, "Pivot to the Pacific? The Obama Administration's 'Rebalancing' Toward Asia," Congressional Research Service, March 28, 2012.

<sup>18</sup> See Evan S. Medeiros, Keith Crane, Eric Heginbotham, Norman D. Levin, Julia F. Lowell, Angel Rabasa and Somi Seong, *The Responses of U.S. Allies and Security Partners in East Asia to China's Rise* (Santa Monica: Rand Corporation, 2008)

<sup>19</sup> Ross, Robert, "The Problem with the Pivot: Obama's New Asia Policy Is Unnecessary and Counterproductive", *Foreign Affairs* Vol. 91, Issue 6, November/December 2012

The inclusion of the Indian Ocean in the geographic scope of the post-2009 rebalancing strategy has been seen as a new initiative that the Obama Administration has undertaken. Some analysts have called for the seas of the western Pacific and the Indian Ocean to be seen as a single integrated “Indo-Pacific” geopolitical theatre.<sup>20</sup> U.S. ability to sustain its traditional role as the primary security provider in the Indian and Pacific Oceans have been called into question following the 2008/2009 global financial crisis, the subsequent U.S. budgetary constraints, its shrinking naval assets and the general fatigue from the Afghanistan and Iraqi wars.<sup>21</sup> The rapid rise of China’s military power has drawn the U.S. and India into a challenging situation. Both countries see the structuring of a sustainable balance in the Indo-Pacific. However, owing largely to U.S.-Pakistani relationship and India’s complicated domestic politics; the U.S. and India have not developed a strategic partnership at the operational level in the Indo-Pacific, despite increasing bilateral military cooperation since the 2000s.

In terms of having a more integrated approach to the Asia Pacific, the Obama Administration is seeking to utilise various tools of economic power and diplomatic influence in a more deliberate and coherent manner than the previous administrations. Its engagement with regional multilateral institutions was warmly welcomed by Southeast Asian leaders, who felt the impact of U.S. diplomatic absenteeism during the Bush Administration.<sup>22</sup> Beginning with the U.S. accession to the ASEAN’s Treaty of Amity and Cooperation in 2009, the Obama Administration increased American diplomatic visibility and presence in East Asia, particularly in multilateral institutions such as the East Asia Summit (EAS) and the ASEAN Regional Forum (ARF).

By establishing a strong and credible presence in the region, Obama’s rebalancing strategy seeks to encourage constructive Chinese behaviour and provide support for regional leaders faced with potential Chinese hegemony. Although the deepening U.S. diplomacy in the region has helped to improve its image and locking in its long-term regional engagement, it has inevitably complicated Sino-U.S. relations and given rise to Chinese perceptions of a containment policy.

The Obama Administration also sought to expand economic and trade relations in the Asia Pacific with its 2010 National Export Initiative, which saw a 59 per cent increase in U.S. exports to China from 2009 to a total of US\$110.6 billion in 2012.<sup>23</sup> However, as mentioned earlier, Obama’s Asia Pacific trade policy is also a continuation of policies from the Clinton and Bush Administrations. Most notably, the centre-piece of Obama’s economic rebalancing towards the Asia Pacific, the TPP, was a Bush Administration initiative, that was announced in September 2008.

### Chinese Perceptions of Its Growing Power

Having re-emerged as a major player in the international arena after three decades of unprecedented economic growth, China’s newfound sense of confidence is unmistakable. China’s confidence is reflected in its new proactive regional posture and increasing global activism.<sup>24</sup> Its influence in economic, cultural, political and military affairs is widely seen as a return to a normalcy, rather than an unnatural challenge to the existing world order.<sup>25</sup>

<sup>20</sup> See C. Raja Mohan, “Ordering the Indo-Pacific” in *Samudra Manthan: Sino-Indian Rivalry in the Indo-Pacific* (Washington, DC: Carnegie Endowment for International Peace, 2012), pp.111-134; Dennis Rumley, Timothy Doyle and Sanjay Chaturvedi, “Indo-Pacific as a Strategic Space: Implications of Australia India Institute – Task Force Report on Indian Ocean Security, Stability and Sustainability in the 21<sup>st</sup> Century”, Indo-Pacific Governance Research Centre Policy Brief, Issue 2, May 2013.

<sup>21</sup> David Brewster, “US strategic thinking about the Indian Ocean”, *Lowy Interpreter*, 26 June 2012 (<http://www.lowyinterpreter.org/post/2012/06/26/us-strategic-thinking-about-the-indian-ocean.aspx>, accessed on 15 December 2013)

<sup>22</sup> State Department, “Beginning a New Era of Diplomacy in Asia”, press release, 18 February 2009

<sup>23</sup> United States Department of Commerce, “Fact Sheet: National Export Initiative”, updated on 24 May 2013 (<http://www.commerce.gov/news/fact-sheets/2013/02/19/fact-sheet-national-export-initiative>, accessed on 5 December 2013)

<sup>24</sup> See Evan Medeiros and R. Taylor Fravel, “China’s New Diplomacy”, *Foreign Affairs*, Vol. 82, No. 6 (November/December 2003), pp. 22–35; David Shambaugh, “China Engages Asia: Reshaping the Regional Order”, *International Security*, Vol. 29, No. 3 (Winter 2004/05), pp. 64–99

<sup>25</sup> Henry Kissinger, *On China*, New York: Penguin Press, 2011



Bearing in mind that China's primary objectives are domestic and political stability, sovereign security, territorial integrity and national unification, it is little wonder that Beijing remains focused on economic performance and the rate of military modernisation as crucial indicators of China's power and also as benchmarks of the Chinese Communist Party's successful leadership.<sup>26</sup> This is underscored by the strong economic flavour in its report card, the lengthy work report presented at the 18<sup>th</sup> Party Congress. It was also noted that Beijing asserted its need for a "strong national defence and powerful armed forces that are commensurate with China's international standing and meet the needs of its security and development interests" for the first time in recent history.<sup>27</sup>

Although China looks set to overtake the U.S. as the world's biggest economy by 2025 in terms of GDP, it remains a conservative and ambivalent power. China is in a quandary when it comes to assessing its own power. An over-assessment may result in possible over-reaching of Chinese capabilities by having to take on greater international responsibilities for the world economy and security despite having certain positive political outcome of gaining greater international status. However, it goes against Deng Xiaoping's long-held foreign policy mantra of "hiding one's abilities and biding one's time" [*taoguang yanghui*].

On the other hand, an under-assessment keeps in line with the *taoguang yanghui* policy, dispels the 'China Threat' perception and buys China more time for its domestic development without having to shoulder more international burden as a major global power.<sup>28</sup> However, Beijing faces increasing nationalist pressure to abandon

its adherence to a conservative policy in foreign affairs. The growing, increasingly decentralised Chinese economy must account for multiple foreign policy actors, whose often divergent interests do not serve a unified Chinese national interest.

China has come to an uneasy realisation that every international action it takes elicits an opposite, and often unequal, reaction. As China's global influence has been increasing, Beijing faces growing limitations to greater assertions of Chinese power, particularly in the Asia Pacific region. In spite of Beijing's assurances of China's peaceful rise, its growing economic leverage and recent assertiveness over territorial disputes have created anxiety for nearby countries and the U.S. While Chinese economic relations with Asia have grown stronger, it has also driven Asian countries' security relations with the U.S. to become closer. Though Chinese influence may grow in East Asia, it will not be able to dominate the region due to a multitude of rivals such as Japan and India, competing for influence.

As China's global trade surplus mounts, it faces continuous pressure to revalue its currency. Beijing has acquiesced, albeit slowly, to the pressure and had re-valued the yuan by as much as 30 per cent since 2005.<sup>29</sup> China also has come to the understanding that its credibility will be affected should Beijing fail to observe its commitment to invest in or provide official development aid to Southeast Asian, Latin American and African countries.<sup>30</sup> Beijing is also increasingly aware that Chinese interests face resentment if it is seen to be exacerbating problems of uneven development and environmental injustice, or if it partners with local elites who alienate and exploit their own people, in its quest to extract resources from third world nations.<sup>31</sup>

<sup>26</sup> Linda Jakobson, "China's Foreign Policy Dilemma", Lowy Institute Publications, 5 February 2013 (<http://www.lowyinstitute.org/publications/chinas-foreign-policy-dilemma>, accessed on 30 April 2013); Tim Summers, "China's New Leadership: Approaches to International Affairs", Chatham House Briefing Paper, April 2013

<sup>27</sup> Full text of Hu Jintao's report at 18th Party Congress, Xinhua, delivered on 8 November 2012, text issued on 17 November, [http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c\\_131981259.htm](http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259.htm)

<sup>28</sup> Yan Xuetong, "The Rise of China and its Power Status", *Chinese Journal of International Politics*, Vol. 1, 2006

<sup>29</sup> <http://www.bloomberg.com/news/2011-01-04/yuan-revaluation-is-a-win-win-for-china-u-s-lee-hsien-loong.html>

<sup>30</sup> See various articles on Chinese investment in Latin America from *China and Latin America: South-South Investment and Sustainable Development* ([http://www.ase.tufts.edu/gdae/policy\\_research/ChinaLatinAmerica.html](http://www.ase.tufts.edu/gdae/policy_research/ChinaLatinAmerica.html)), Tufts University, 2013; Austin Strange, Bradley Park, et al., "China's Development Finance to Africa: A Media-Based Approach to Data Collection", *Center for Global Development Working Paper* 323, April 2013; Beibei Yin, "Reality check casts doubts on Chinese health aid to Africa", *Guardian Professional*, 10 June 2013; Shanthi Kalathil, "Influence for Sale? China's Trade, Investment and Assistance Policies in Southeast Asia", *East and South China Seas Bulletin*, No. 4, Center for New American Security, September 2012

<sup>31</sup> Pichamon Yeophantong, "China, Corporate Responsibility and the Contentious Politics of Hydropower Development: Transnational Activism in the Mekong Region?", *Global Economic Governance Programme Working Paper*, University of Oxford, July 2013; David Lampton, "The Faces of Chinese Power", *Foreign Affairs*, Vol. 86, No. 1, Jan/February 2007

China's military modernisation drive has led Tokyo to intensify the strengthening of its Self-Defence Forces, ostensibly to counter Chinese aggression over the Senkaku/Diaoyu Islands.<sup>32</sup> China's increasing presence in the Indian Ocean also resulted in growing Indian concerns and fuelled India's naval modernisation drive.<sup>33</sup> Beijing is aware that the rise of China's power has been generating global responses that it cannot fully control and that may prove to be disadvantageous to its interests.<sup>34</sup> As such, China is likely to factor external effects of its policies in the assessment of its power in the near future.

It is debatable whether China has a grand strategy for its rise and how it will act when it eventually achieves a super power status.<sup>35</sup> China's foreign policy is reactive and it is likely to remain so under Xi Jinping's leadership.<sup>36</sup> Beijing is likely to continue being selective in its external engagements while focusing on stabilising China's internal socio-economic circumstances.

## Regional Security Order: The Impact of China's Military Rise

The Asian security order in the post-Cold War era has until recently been both stable and predictable. The United States and its hub-and-spoke alliance system in East Asia formed the core of regional security architecture. Though the continuation of this state of affairs could at one time be taken for granted, the increased security capabilities of China have challenged previous assumptions and require new thinking.

Before discussing the changes in the regional security order, it is necessary to define which countries belong to the region. In addition to Northeast and Southeast Asia, South Asia, Australia and New Zealand have appropriately become part of what Barry Buzan and Ole Wæver termed

"an Asian supercomplex."<sup>37</sup> In the last several years, there has been increased use of the term, "Indo-Pacific," when referring to regional security affairs. The reasons are clear – it is no longer sufficient to exclude sub-regions that are actors in Asian security affairs. The expanded reach of modern military platforms renders meaningless an exclusive framing of regional membership.

The U.S. and its alliance system in Asia have more or less remained unchanged in the last twenty years. What has changed is the military rise of China. More robust Chinese military power has elicited a broad spectrum of responses across Asia. While Chinese military capabilities have strengthened in tandem with the economic rise of China, particularly since the 1990s, other countries in the region have similarly built up their militaries, a trend which looks set to continue into the future. The on-going U.S. rebalancing efforts are an additional element that impacts the security calculus of regional actors.

Asian countries are concerned about certain aspects of Chinese military development depending on their particular relationship with China. China's defence budget has grown rapidly in the last two decades and it now ranks as the second largest globally after only the U.S. The U.S. has worked in concert with Japan to maintain collective balancing in Northeast Asia, but improved Chinese capabilities could undermine U.S. supremacy and challenge unconditional U.S. extended deterrence.

While it is important to acknowledge the impressive growth of the Chinese military, particularly over the last decade, alarmist views about its reach are not yet warranted either. China is now a major factor in Asian security assessments, "but China remains far from being a global military power or strategic actor."<sup>38</sup> Decades of

<sup>32</sup> Japan's recent unveiling of its Izumo flat-top destroyer sent shockwaves in China and raised fears of Japan's remilitarisation in face of severe US military budget cuts. [http://eng.chinamil.com.cn/news-channels/pla-daily-commentary/2013-08/07/content\\_5432985.htm](http://eng.chinamil.com.cn/news-channels/pla-daily-commentary/2013-08/07/content_5432985.htm)

<sup>33</sup> Analysts and Indian naval officials have commented on India's need to modernise its navy in face of Chinese "String of Pearls" threat. <http://www.forbes.com/sites/donaldkirk/2013/08/13/aircraft-carriers-first-chinathen-india-and-japan-all-want-one/>; <http://tribune.com.pk/story/589443/with-an-eye-on-china-indias-indigenous-aircraft-carrier-to-start-sea-trials/>

<sup>34</sup> David Lampton, "The Faces of Chinese Power", *Foreign Affairs*, Vol. 86, No. 1, Jan/February 2007

<sup>35</sup> [http://www.unc.edu/depts/diplomat/item/2005/0709/gold/gold\\_china.html](http://www.unc.edu/depts/diplomat/item/2005/0709/gold/gold_china.html);

<sup>36</sup> Linda Jakobson, "China's Foreign Policy Dilemma", Lowy Institute Publications, 5 February 2013 (<http://www.lowyinstitute.org/publications/chinas-foreign-policy-dilemma>, accessed on 30 April 2013); Tim Summers, "China's New Leadership: Approaches to International Affairs", Chatham House Briefing Paper, April 2013

<sup>37</sup> Barry Buzan and Ole Wæver, *Regions and Powers: The Structure of International Security* (Cambridge: Cambridge University Press, 2003), p. 165.

<sup>38</sup> David Shambaugh, *China Goes Global: The Partial Power* (Oxford: Oxford University Press, 2013), p. 270.

investment by China in improving its defence forces are beginning to yield returns. China fields a range of A2/AD capabilities, which limit the freedom of action of U.S. and allied militaries in Asia. The U.S. military must consider these capabilities when its forces operate in the region.

A multitude of regional security institutions have arisen in the post-Cold War period, including the ASEAN Regional Forum (ARF) and more recently the East Asia Summit. Unfortunately, however, these institutions have been either unable or unwilling to address the most sensitive regional flashpoints that could imperil the stability that has prevailed in Asia for the last several decades. In the absence of meaningful security institutions that can solve these problems, the chances of misunderstandings and miscalculation are higher.

The discourse among the scholarly community echoes the risks of the challenging contemporary security environment in the region. There is a consensus on the need to better understand the shifting regional security dynamics and their follow-on effects on the regional security order. However, uncertainty remains about prescriptions for ensuring future stability.

Concerns about China extend throughout the Indo-Pacific. According to Dr Rajeswari Pillai Rajagopalan, India is aware of improved Chinese military infrastructure in the India-China border region (near the Tibet Autonomous Region), which would enable China to deploy military assets quickly in that area.<sup>39</sup> Apart from improved Chinese border infrastructure, India warily regards the development of modern Chinese fighter jets, submarines, as well as land-attack and anti-ship missiles, including Intermediate Range Ballistic Missiles (IRBMs)/Medium Range Ballistic Missiles (MRBMs) and cruise missiles. In addition, burgeoning Chinese naval relationships with Sri Lanka and Pakistan keep India aware of the potential for future Chinese sea

denial attempts. India has responded with increases in its defence budget, work on Inter Continental Ballistic Missiles (ICBMs), and SSBN submarine development for second-strike capability, actions which are motivated in part by China. The Indian SSBN programme could serve as a powerful deterrent against China or regional challengers.

An inherent tension exists for many countries in the region. Though China is often a leading economic and trade partner, it is also a security competitor. This seeming paradox is exemplified by countries such as Australia, a long-time U.S. military ally. In other words, Australia is most concerned about a clash between the U.S. and China or between China and another country, both of which would present risks to the stability that Australia desires.<sup>40</sup> Since 2009, the Australian strategic community has looked carefully at the potential challenges to the status quo posed by China's military rise.

The military rise of China has variously impacted Southeast Asia as well as U.S. allies, Japan and South Korea, in Northeast Asia. ASEAN, which consists of 10 small and medium Southeast Asian states, has responded primarily with "institutional balancing strategies," designed to shape and socialise China, rather than with "traditional military means," though the organisation's handling of the South China Sea dispute will be an important litmus test.<sup>41</sup> The ASEAN Regional Forum (ARF) and the expanded East Asia Summit (EAS) are inclusive institutions, whereas the ASEAN Plus Three (APT) is an exclusive in terms of membership vis-à-vis the U.S.<sup>42</sup> Japan has advanced new, more active concepts of dynamic defence and dynamic deterrence in light of Chinese activities near the Diaoyu/Senkaku islands that will enhance operational readiness and allow faster responses to contingencies.<sup>43</sup> In addition, Japan has established more robust partnerships with other U.S. allies, ASEAN nations, and India while seeking further security cooperation via multilateral regional security

<sup>39</sup> See Dr. Rajeswari Pillai Rajagopalan, "India's Perceptions and Responses to the Growth of Chinese Power," prepared for RSIS China Program Workshop on "The Growth of China's Power and the Changing Security Dynamics in Asia," 22 February 2013.

<sup>40</sup> See Rory Medcalf, "Canberra's Beijing balance: Australian perceptions of and responses to Chinese power," prepared for RSIS China Program Workshop on "The Growth of China's Power and the Changing Security Dynamics in Asia," 22 February 2013.

<sup>41</sup> See Kai He, "Facing the Challenges: ASEAN's Institutional Responses to China's Rise," prepared for RSIS China Program Workshop on "The Growth of China's Power and the Changing Security Dynamics in Asia," 22 February 2013.

<sup>42</sup> Ibid.

fora.<sup>44</sup> South Korea remains wary of continued Chinese support for North Korea, but economic inter-dependence and a general desire to improve relations with China remain the primary drivers of the relationship.<sup>45</sup>

The impact of rising Chinese capabilities on the security role of the U.S. in Asia must be considered. As mentioned earlier, the U.S. rebalancing strategy encompasses diplomatic, economic, and military dimensions.<sup>46</sup> The military aspect involves additional deployments of U.S. forces to the region as well as “enhanced efforts to develop new capabilities to maintain access to the region.”<sup>47</sup> The Air-Sea Battle (ASB) operational concept, which primarily involves collaboration between the U.S. Air Force and the U.S. Navy, can be considered part of these efforts.

However, U.S. allies in East Asia are not enthusiastic about ASB due to lack of clarity on its details and its implications for their security. The operational concept seems to envision a limited role for U.S. allies. This is problematic since the Pentagon “has not clarified the link between the ASB concept and its ‘rebalancing strategy’ in the Asia Pacific region, not what particular aspects of ASB will be relevant for future allied inter-operability requirements and involvement.”<sup>48</sup>

If U.S. allies are uncertain about their role in the rebalance, or if China misinterprets U.S. military efforts, there is a risk of instability in the current regional security order. The present period is an inflection point. There could either be further consolidation of the old order or challenges to the existing order. The U.S. has attempted to operationalise the rebalancing with more frequent trips to Asia by senior U.S. officials, increased visibility of U.S. military assets to the region, and economic advocacy for the TPP. However, regional governments have paid much more attention

to the military aspects of American strategy in Asia. The countries of the Indo-Pacific would benefit from a clearer American articulation of all elements of the rebalancing as well as their envisioned roles within each of them.

## Conclusion

China is currently having an identity crisis of sorts — it is confident yet insecure, assertive to the point of truculence yet hesitant and pragmatic, cautious and risk-averse yet increasingly engaged. China yearns to be left alone to develop itself but finds itself increasingly dependent on the world. China’s actions on the ground have often contradicted its oft-stated principles, and undermined trust within the international community. As a result, China’s rise and its implications for East Asia or the world at large are shrouded in uncertainty. Even as the country prospered and helped others in the East Asian region to prosper in the process, security and international respect have not come naturally.

China has reaped immense benefits from its participation in most of the international institutional infrastructure. Institutional integration has had a strong binding and socialising effect on China and it is fair to say that Beijing has indeed observed and upheld the rules of the existing international system, albeit selectively and minimally. For the past three decades, Western and Asian governments have consciously sought to shape China’s rise. Observers have argued that the integration strategy, rather than containment, is the best hope for conditioning China’s peaceful rise. China’s rise is inevitable and it would be dangerous to continue viewing the country as a rising menace instead of a potential responsible stakeholder. East Asian countries should continue to seek confidence building and capacity-building measures with China in order to integrate China with the region.

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<sup>43</sup> See Ken Jimbo, “The Rise of China and Japan’s Foreign Policy Reorientation,” prepared for RSIS China Program Workshop on “The Growth of China’s Power and the Changing Security Dynamics in Asia,” 22 February 2013.

<sup>44</sup> Ibid.

<sup>45</sup> See Hiroyasu Akutsu, “The Changing Security Dynamics in Northeast Asia and US Alliances with Japan and South Korea: Toward Synchronisation,” prepared for RSIS China Program Workshop on “The Growth of China’s Power and the Changing Security Dynamics in Asia,” 22 February 2013.

<sup>46</sup> See Dr. Philip C. Saunders, “China’s Rising Power, the U.S. Rebalance to Asia, and Implications for U.S.-China Relations,” prepared for RSIS China Program Workshop on “The Growth of China’s Power and the Changing Security Dynamics in Asia,” 22 February 2013.

<sup>47</sup> Ibid., p. 9.

<sup>48</sup> Richard A. Bitzinger, “China’s Military Buildup: Regional Repercussions,” prepared for RSIS China Program workshop on “The Growth of China’s Power and the Changing Security Dynamics in Asia,” 22 February 2013.

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Since June 2012, this project by the Institute of Defence and Strategic Studies (IDSS is a constituent unit of RSIS) has been engaged in identifying and analysing the key sources of strategic stability and instability in contemporary Asia. We sought to augment the prevailing understanding of how forces that stabilise Asia can be strengthened, and how forces that destabilise Asia (or have the potential for doing so) can be managed, and their adverse effects mitigated or contained.

The project addresses three key research concerns: First, examine major power relations in Asia. Second, analyse interstate dynamics within the maritime domain. And finally evaluate the impact of new and emerging military technologies in Asia. To that end, we organised three workshops during January-February 2013. We also commissioned a number of policy briefs, research papers, monographs, and edited volumes on critical security issues that have the potential to affect the security order in Asia over this decade.

The project is funded through a grant from the Chicago-based John D. and Catherine T. MacArthur Foundation.

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