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THE NEW SECURITY DRAMA IN EAST ASIA

The Responses of U.S. Allies and Security Partners to China's Rise

Evan S. Medeiros

In the theater of East Asia, a geopolitical drama is unfolding. The growing presence of China in regional economic and security affairs—generically referred to

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He holds a PhD in international relations from the London School of Economics and Political Science, an MPhil in international relations from the University of Cambridge (where he was a Fulbright Scholar), and an MA in China studies from the University of London's School of Oriental and African Studies. He travels to Asia frequently and speaks, reads, and writes Mandarin Chinese. The article reflects his personal views and does not represent the official position of the U.S. government, the National Security Council, or the Barack H. Obama administration.

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as the “rise of China”—is changing interstate relations. While the major powers in East Asia are the protagonists, there are no bit players in this drama. Think *King Lear*, not *Macbeth*. China's rise is affecting the perceptions, interests, and policies of all nations throughout East Asia. For the United States, the responses of its allies and security partners are uniquely consequential. These countries are the foundation of American presence in the region as well as the edifice of a regional security architecture that has produced decades of relative stability and prosperity.¹

Much of the prevailing research about regional responses to the rise of China makes this drama sound like a slowly unfolding tragedy for the United States. Many argue that China is rapidly gaining regional influence at the expense of the United States. The use of superlatives abounds in the description of China's rise in East Asia, with the unproven implication that this uniformly redounds to Beijing's benefit and to American disadvantage. Joshua Kurlantzick notably argued that China's “charm offensive” is allowing it to displace the United States as the dominant power in East Asia.²

To understand and evaluate these evolving dynamics, the RAND Corporation conducted a year-long study of the responses of U.S. allies and security partners in East Asia.³ The study sought to answer four questions: How have these nations responded to China? What forces are driving these reactions? How will the drivers change? What are the implications for American regional security interests? The study examined the responses to China of the five U.S. allies in the Asia-Pacific and of Singapore, a major security partner.⁴ The RAND study analyzed the responses of these six nations in four areas: domestic politics and public opinion, economic policy, foreign policy, and defense policy. This structure allowed the study to explore a range of national responses as well as responses across each functional area (e.g., defense policy), generating conclusions about both country-specific and regionwide responses to China. This article highlights the most salient findings from this research.

OVERALL REGIONAL RESPONSES TO CHINA'S RISE

In contrast to much of the current research, China's growing presence and interactions with U.S. allies and security partners are not fundamentally transforming the security order in the Asia-Pacific. China is having an influence on these relationships, but these changes are not as rapid or comprehensive as many presume.

First, the foundation of the U.S. alliances in Asia continues to endure. No allies or major security partners see China as a viable strategic alternative to the United States. The United States remains the security partner of choice, largely because it is the one nation seen as possessing the capability and resolve to balance China. Its allies and partners prefer that Washington do the "heavy lifting" of deterring China and, ultimately, preventing Chinese domination of regional affairs. U.S. allies are all intensely pursuing engagement strategies with China, driven principally by an economic logic. They want to benefit from China's large and growing economy, especially during the current global recession. But these goals exist alongside concerns about China's long-term intentions, particularly its military modernization plans. A recent project by the Center for Strategic and International Studies that uniquely polled elites throughout Asia confirmed this duality. The study found that China was ranked first as the "greatest threat to peace and stability in the next 10 years" and second as the "greatest force for peace and stability" in the next ten years.⁵

Second, China is affecting American relationships with its allies and security partners. On the one hand, China's rise makes some U.S. security commitments more relevant. These countries can interact with China more confidently because they know (and Chinese leaders see) that the U.S. commitments to them and to involvement in Asia continue. On the other hand, allies and partners are

also positioning themselves to benefit from both the United States and China. This is a recalibration more than a transformation. None of these nations want to choose between the United States and China, and all reject having to make such a choice. Also, some of these nations use their interactions with China to generate leverage in dealings with the United States. Some of the smaller, middle powers in East Asia, like the Philippines and Thailand, have attempted such strategies. On balance, U.S. allies and security partners want continued American involvement in the region but sometimes only in certain ways, at certain times, and on particular issues.

Third, China is undoubtedly gaining influence with U.S. allies and partners in East Asia—in the defined sense of looming larger in their economic, diplomatic, and defense policies decisions. This is a natural and inevitable trend. The key question is how it is manifesting itself in these states' regional behaviors. Our research found that U.S. allies and partners in Asia have become more sensitive to some of China's preferences and interests, especially on China's self-identified "core interests" (*hexin liyi*), which now include both Taiwan and Tibet.⁶ There have been several instances in which specific nations have canceled visits and changed policies on these issues due to Chinese intervention. But this too is not terribly surprising. Sovereignty issues resonate with many postcolonial states in Asia and, more important, changes in Taiwan or Tibet policy are seldom costly for these states in the sense of undermining their material interests. Thus, these behaviors are not leading indicators of wholesale accommodation to China.

A related indicator of Chinese influence on these states is that Beijing has been effective at precluding the emergence of "anti-China" containment efforts, to the extent that there was ever a push for such an approach. China has been effective at accumulating "defensive influence," persuading nations to avoid taking actions China deems to be threatening. There is very little evidence that China has accumulated "offensive influence," in the sense of policies that could effectively degrade or dismantle U.S. alliances or security partnerships in the region. In the late 1990s, China tried and failed to offer an alternative regional security architecture, with the promotion of its "New Security Concept." Few nations were interested, or now are, in jumping onto this strategic bandwagon, even in the wake of the Asian financial crisis in 1997–98 and the disillusionment with American responses to it. More recent Chinese attempts to push U.S. allies have backfired, alienating regional states and enhancing their coordination with the United States. Prominent examples include Singapore in 2004 and South Korea in 2006.⁷

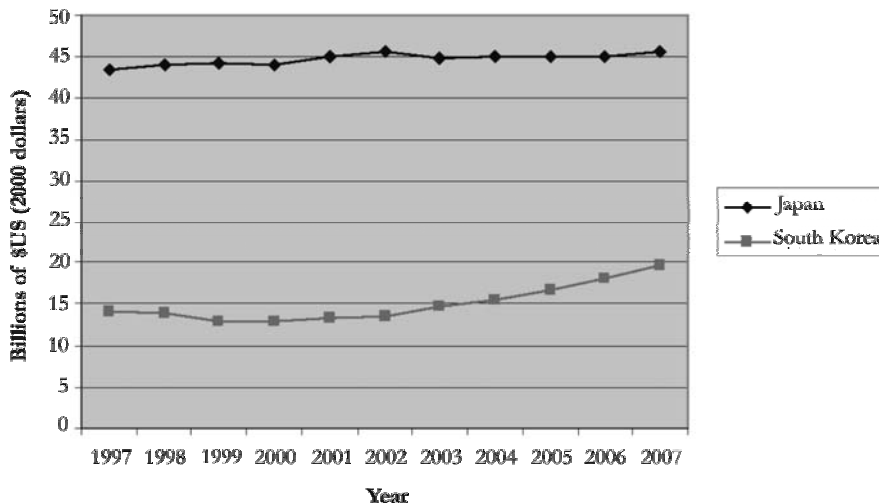
In assessing China's rise in East Asia, two additional considerations are noteworthy. First, China's growing presence and interactions in the region do not

directly translate into influence—that is, using incentives and sanctions to alter other states' behavior. Many analysts too often mistake presence for influence. The fact that countries are trading more with China and negotiating with it in regional organizations does not, ipso facto, imply that China can change these states' policies, especially when policy changes require a state to compromise its material interests.

Second, the regional consensus favoring engagement with China has a tentative quality. There is creeping uncertainty about China's future: some nations fear a weak China, and some fear a strong China. Few are willing to bet their futures on Beijing's assurances about a "peaceful rise." China's large and growing economy (even during the current global recession) is not a geopolitical "tractor beam." While China's economy looms large for all nations, fears of China as a competitive threat have motivated much diversification in trade relations. There are nagging concerns among regional leaders about Chinese military modernization. As People's Liberation Army (PLA) capabilities improve, such as with the likely future deployment of China's first aircraft carrier, and as the PLA conducts more out-of-area operations, these nagging concerns could evolve into closer security coordination with the United States and its allies. The recent statement of concern about China's growing defense budget by South Korea's president during new security consultations with Australia is instructive in this regard.

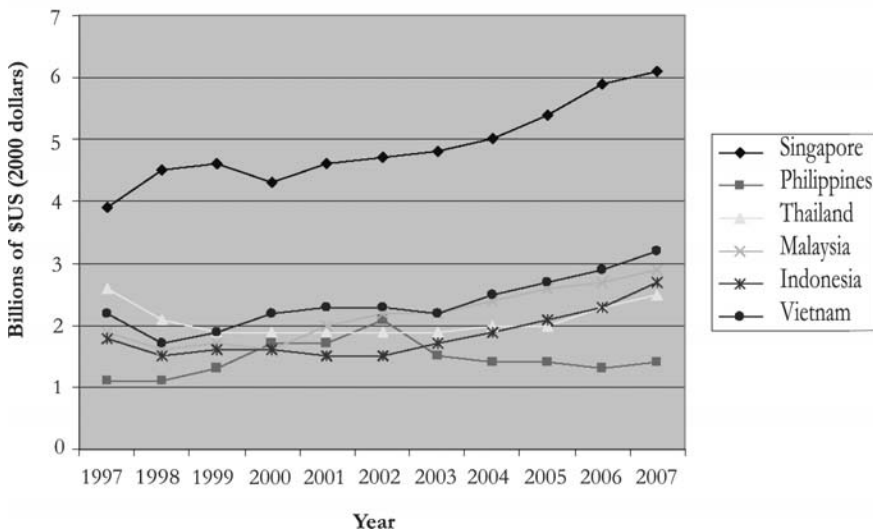
A final regional response to China's rise is a nonevent—the lack of a regional rush, over the last decade, to increase military budgets and modernize conventional forces in response to concerns about China's military. The military budgets of Japan and South Korea have remained relatively flat in *real* terms, with gradual increases in South Korean defense spending. Southeast Asian militaries' budgets did not substantially increase either in the last decade; many just returned to the spending levels of the period prior to the Asian financial crisis (see figures 1 and 2). There are even some notable examples of a deep atrophy in external defense capabilities, such as in the Philippines. That said, Asia could be on the cusp of a limited change in this past trend. Australia's recently released defense white paper calls for a substantial increase in naval capabilities, especially submarines, in reaction to China's sustained naval expansion and the Chinese navy's growing presence in the South and East China seas. But most East Asian states are not likely to initiate major procurement programs in the next five years; many are suffering from the global economic crisis, allocating scarce government resources to much-needed economic stimulus programs.

FIGURE 1
TOTAL DEFENSE BUDGETS IN JAPAN AND SOUTH KOREA, 1997–2007



Source: The data for figures 1 and 2 are from Australia Defence Intelligence Organization, *Defence Economic Trends in the Asia-Pacific* (Canberra: Department of Defence, 2007), available at www.defence.gov.au/dio/documents/2007_DET.pdf.

FIGURE 2
DEFENSE BUDGETS IN SOUTHEAST ASIA, 1997–2007



COUNTRY-SPECIFIC REACTIONS TO CHINA

The particular responses of individual countries provide greater texture for understanding these trends.⁸ Those of Japan, South Korea, the Philippines, Thailand, Singapore, and Australia are summarized below.

Japan

The rise of China in East Asia has clearly stirred Japan’s competitive impulses, but its posture toward China remains characterized by considerable ambivalence and

marked by growing anxiety. Many Japanese leaders are more willing than in the past to cite China explicitly as a potential military threat, and the two countries have engaged in heated disputes over territorial boundaries, historical issues, and regional leadership. These three sets of issues will drive competition between China and Japan in the coming years. Japan has edged closer to the United States and strengthened ties with other regional states, from India to Australia to Taiwan—moves that are increasingly justified by reference to China. Tokyo has also demonstrated a new willingness to use its military forces to, for example, patrol ocean areas disputed with Beijing.

At the same time, Japan's businessmen and economic planners remain convinced that their nation's economic well-being is tied to continued trade and investment with China. This remains the case during the current global recession; many in Japan viewed China as having pulled it out of the last recession, which began in the 1990s, and as being able to pull it out of the current one as well. A broad alliance of business, political, and media actors have supported the outreach to China since the prime ministership (2001–2006) of Junichiro Koizumi, and Beijing has reciprocated by taking a more conciliatory posture. Many strategists and politicians also foresee damage to Japan's position in Asia should a cold war develop between Tokyo and Beijing.

The long-term prognosis for Sino-Japanese relations is highly uncertain, and there are certainly grounds for concern about future instability. For the first time, both China and Japan are unified internally, possess substantial and growing economic and military capabilities, and are capable of influencing events beyond their borders. At the same time, the United States is pushing for Japan to assume a larger global role, especially in military terms. Domestically, the demise of the Socialist Party during the mid-1990s nudged the political center of domestic politics to the right. Japan's emergence from fifteen years of sluggish economic growth helped usher in the rise of nationalist sentiments that remain today. At the same time, a new breed of popular politicians has challenged the long-dominant bureaucracy for control of national policy, including foreign policy.

South Korea

The most basic—but not the most complete—answer to the question of what is driving South Korea's response to China is a generally benign view of China and the perceived economic benefits of stable relations with it. Given these conditions, there is considerable sensitivity toward China in South Korea today and reluctance either to challenge major Chinese interests or needlessly stimulate Chinese sensitivities. At the same time, growing concerns and anxieties about Chinese economic policy making and diplomacy show that the honeymoon in

China–South Korean relations is decidedly over. The forces holding the relationship back, if not driving it in the opposite direction, include uncertainties about China’s medium- to long-term intentions (especially regarding China’s military modernization and its growing influence in North Korea), awareness of potential South Korean vulnerability to Chinese economic or other pressure, a widely shared awareness of the importance of the United States, and a continuing gap between South Korean aspirations and capabilities.

These cross-pressures suggest that, first, South Korea will continue to expand ties with China, with trade and investment leading the charge to the extent possible during a global recession. South Korea is likely to emphasize solving actual problems between the two countries, such as implementing confidence and security-building measures that could improve prospects for peace on the Korean Peninsula. By geography alone, sensitivity toward some Chinese interests will remain a characteristic of South Korean policies. Furthermore, the irritants in and constraints on the relationship will also continue, and an occasional spike in tensions is to be expected. As China continues to ensconce itself in North Korea, issues pertaining to the North could come to have as many negatives as positives for bilateral relations. Even short of this, a new strategic alignment between South Korea and China is not likely, in the absence of some major external event. South Korea will likely seek to maintain good relations with China on the basis of—rather than instead of—a continued close alliance with the United States. Another North Korean nuclear test, or clear Chinese unwillingness or inability to bring the North to resolve the nuclear issue peacefully, would reinforce this inclination.

This mixed picture suggests that barring unexpected developments, South Korea will stick with the United States, even at critical decision points that test the U.S.–South Korean alliance, as was the case with American Iraq policy. For Washington the real policy challenge is that China’s rise may complicate its efforts to expand U.S.–South Korean security cooperation. Domestic politics in Seoul will strongly influence this. South Korean agreement to participate in American military operations based out of its homeland will be particularly difficult to obtain, although this will depend heavily on the context in Korean domestic politics, bilateral relations, and international relations. The key to the future of the relationship will be reconfiguring the alliance correctly.

The Philippines

The Philippines’ response to China is strongly defined by the country’s fundamental and myriad weaknesses. Chronic political instability, debilitating domestic insurgencies, and deteriorating external defense capabilities have left the Philippines unable to ensure stability within the main islands, let alone to

protect its offshore territorial claims vis-à-vis China. These weaknesses have spurred Philippine efforts to reestablish close defense ties with the United States, mainly to cope with its own severe internal security challenges. Philippine leaders no longer view China as a major security threat, as they did in the mid-1990s. This ambivalence about China has been reflected in a severe atrophy of Philippine air and naval capabilities in the last five to ten years. However, distrust of China's ultimate intentions remains and is growing in some quarters, driven in part by domestic politics. Since 2007, China policy has emerged as a politically sensitive issue, constraining Manila's engagement with Beijing and lubricating interaction with Washington. Rebuilding of the Philippines' external defense capabilities remains a long-term goal, however.

The Philippine economy is less dependent on trade with China (and on international trade, more generally) than are the economies of some of its Southeast Asia neighbors (e.g., Singapore and Thailand). Like other Asian economies, however, China has become a major destination for Philippine exports, which motivates a perception that trade with China is important to the Philippines' future economic growth. This calculation could be changing as the China-centered processing trade rapidly declines due to the current global recession. A broad consensus in the Philippines over China's importance as an economic partner has, for the past five years, helped to strengthen bilateral ties. Yet the view that China is an important future economic partner is mixed with an incipient sense that China is also a competitive economic threat.

While there are forces driving the Philippines' response to China, it is important to stress that these forces are not "driving" Philippine policy anywhere in particular. The leadership is heavily focused on internal challenges, and the public is relatively inattentive to China and, for that matter, most other foreign-policy issues. To the extent that China has gained popular and elite attention, it has been linked to politically charged corruption scandals that fuel popular concerns about becoming too close to China.

Thailand

Thailand has a long tradition of "bending with the wind." In today's East Asia, that means accommodating—and seeking advantage from—both China and the United States. Among the six nations examined in the RAND study, Thailand was the most likely and willing to accommodate China. Thaksin Shinawatra, the former prime minister, modified this approach by trying to "blow the wind" as well as bend with it. He strengthened political and military, as well as economic, ties with China at the same time as he was taking bold new steps to buttress Bangkok's alliance with the United States. His successors, however, have returned to a more muted style of foreign policy—to the extent they

have the time or resources to focus on foreign policy amid sustained political instability. The post-Thaksin governments have de-emphasized bold initiatives, particularly on the strategic and military fronts, and have refocused Bangkok's diplomacy on the Association of Southeast Asian Nations (ASEAN). Absent the reemergence of a political leader with a strong foreign policy vision and the political space to pursue it, Bangkok will continue to deepen gradually its economic, political, and, to a lesser extent, military relationships with Beijing, as well as with Washington.

While Thai foreign policy has seldom been all in one direction, several long-term trends suggest that relations with China have become more important to Thailand in the last decade. China's value as a trade and investment partner has grown substantially, but recent declines in trade with China could alter this calculation. Thailand has acquired some military hardware from China, and the two nations have conducted two joint military exercises. But these trends pale in comparison to the scope of Thailand's economic and security cooperation with the United States.

There are also limits to the Thai-Chinese relationship. Despite Thailand's past efforts to engage Burma (thereby removing a source of tension with Beijing), Burma's recent instability has once again made it an issue between Beijing and Bangkok. Thai leaders are intensely focused on establishing stability at home, a seemingly endless task since the 2006 coup. When they do focus on foreign policy, they state that they are committed to a balanced posture between China and the United States. Thai policy makers recognize the long-standing material and symbolic benefits of the U.S. alliance. Bangkok is also working to develop options with other countries. Economically, it has strengthened ties with India, Australia, New Zealand, and Japan. Politically and militarily, it cooperates with India, Singapore, Malaysia, and Indonesia, as well as with the United States and China.

China's regional behavior will be the largest variable in the evolution of Thai attitudes toward the rise of China; China has been heavy-handed with Thailand regarding its interaction with Taiwan and Tibet authorities. Events in Burma, the success or failure of ongoing negotiations with the United States and Japan for free trade agreements, and the future of political reform in Thailand are also important variables, albeit less widely appreciated ones.

Singapore

Singapore shows less ambivalence about the rise of China than do most Southeast Asian countries. The country's small size, geostrategic vulnerability, and continuing concerns about long-term Chinese intentions propel it toward a close, strategic relationship with the United States, despite its close ethnic links

to China. Singaporean leaders see the United States as both the principal stabilizer in East Asia and the only realistic counterweight to potential Chinese assertiveness. Keeping the United States actively engaged and forward deployed in the region is a central Singaporean objective. China's rise, the spread of Islamic extremism, and heightened concerns about stability in neighboring countries have prompted Singapore to strengthen security cooperation further with the United States. At the same time, Singapore has expanded security links with the United Kingdom, Japan, Australia, and other nations with stakes in Asia's stability.

The benefits Singapore receives from increasing trade and investment with China, as well as from China's broader economic integration in the region, also drive bilateral relations. These policies are balanced, however, by Singapore's corresponding efforts to diversify its economic relationships to avoid excessive dependence on China. Singapore is doing so by negotiating a range of free trade agreements, in particular with Japan and the United States, as a means of countering China's intensive economic diplomacy; this also helps Singapore entrench the former countries economically in Southeast Asia.

Because of the relative clarity of Singapore's long-term vision, the future of Singapore's relationship with China has a greater level of certainty than that of any other Southeast Asian nation. As China becomes more powerful, Singaporean leaders will do everything they can to ensure a continued balance of power in the region, one in which China does not dominate economic or security affairs. This strategy will almost surely guarantee continued close diplomatic and security relations with the United States and other U.S. allies. However, in the absence of unprovoked Chinese aggression, Singapore will neither encourage nor support "containment" or an explicitly "anti-China" balancing coalition.

Australia

There are distinct cross-pressures in Australian-Chinese relations. First, rapidly growing merchandise trade (mainly in natural resources) and the perception among Australian policy makers that China is key to future prosperity have been the major drivers of bilateral relations. Second, few in Australia see conflict with China as likely or inevitable. Australia wants to avoid being drawn into a regional rivalry with China. Third, Australian policy makers possess a deep uncertainty, mixed with a growing concern, about China's role in Asian economic and security affairs. Recent Chinese investments in Australia's resource sector have prompted a debate about overreliance on China. Beijing's diplomatic activism, especially in the South Pacific, and its military modernization are generating worries among Australian policy makers and strategists.

How will these cross-pressures play out? Canberra will continue to expand its bilateral relations with Beijing, with economic ties at the fore, albeit more tentatively than in the past ten years. Concerns about Chinese investment in Australia and limited access of Australian businesses to key sectors of China's economy are now emerging. As China looms larger in Australia's foreign policy, Canberra will continue to be sensitive to, and will accommodate, some of Beijing's interests, such as its policies on Taiwan. Australia's concerns about China's diplomatic and military behaviors in Asia will persist. This in turn will limit the expansion of Chinese-Australian relations and enable greater alliance cooperation with both the United States and other regional powers. Australia's recent security-policy coordination with Japan and South Korea is notable in this regard.

Under the John Howard administration (1996–2007), Australia's concerns about China motivated a series of foreign and defense policies that expanded alliance cooperation and sought to ensure that the United States would remain highly influential in the Asia-Pacific region. The new Labor Party government, led by Kevin Rudd, has pursued a similar approach. Rudd chose to distinguish his foreign policy from that of his predecessor on global issues—such as Iraq policy, nuclear nonproliferation, and climate change—rather than on China policy. Kevin Rudd has made it clear that while China may be an increasingly important “partner” for Australia, the United States is a “strategic ally.” He believes that a strong alliance bolsters Australia's position in Asia and that the alliance contributes to broader regional stability.

A new and more complex stage in Australia's relations with China (and the United States) began this year with the publication in May 2009 of a new defense white paper, which is Rudd's first and the nation's first since 2000.⁹ This important document cited China's improving power-projection capabilities and uncertainty about both American defense capabilities and the U.S. role in Asia to justify a significant increase in defense procurement. The white paper called for acquiring up to twelve conventional submarines, additional amphibious lift, and land-attack cruise missiles (among other items).¹⁰ Unsurprisingly, Beijing reacted negatively to this assessment, assuming that this procurement was directed at countering Chinese military capabilities. Washington continues to digest the explicit and implicit messages from one of its most stalwart allies in the Asia-Pacific. American strategists should be concerned that some in Australia view U.S. defense strategy and Secretary of Defense Robert Gates's proposed cuts as indicating an eventual inability to maintain robust power projection into the western Pacific.¹¹

ASSESSING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS

The global financial crisis and resulting recession raise numerous questions about economic and security relationships in the Asia-Pacific, including about China's relative influence over U.S. allies and partners. Many commentators have speculated that the current crisis is a strategic tipping point akin to the era just after World War II in which the United States eclipsed Britain as the global economic hegemon. I would recommend much caution in accepting such dire assessments.

First, it is far too early to make such grandiose conclusions about the effects of the crisis on the global balance of power. It remains uncertain how severe and lasting the crisis will be, especially among East Asian economies. Key questions remain unanswered: Who will be hurt the most? Who will recover the fastest, and how? Which states or institutions will help East Asian states recover? It is likely that both the United States and China will play roles—individually, jointly, and in concert with international organizations.

Second, it is uncertain that this crisis increases China's economic clout while diminishing that of the United States. China's economy was challenged by the crisis in ways that highlight existing questions about the sustainability of its current growth model, which emphasizes exports and investment over consumption. The steep declines in aggregate external demand from the United States and European Union (EU) triggered rapid and dramatic declines in China's exports and imports beginning in fall 2008. This in turn led to a reduction in exports as a driver of growth, leaving consumption and investment to carry much of the load. This is the first time in the last thirty years that China has experienced a sustained and deep decline in total trade. The economic effects—both direct and indirect—of this on employment and trade-related investment are highly uncertain. This could prove to be a constraint on Beijing's ability to sustain a moderate level of growth while stimulating greater domestic demand.

Beijing is addressing its predicament through a four-trillion-RMB stimulus package, which seeks to increase internal demand (e.g., consumption and investment) to replace the loss of external demand (e.g., exports). The stimulus package is facilitated by a wave of spending financed by central and local government on infrastructure and real estate projects. (Total bank lending in the first quarter of 2009 was more than in all of 2008!) To boost internal demand, Beijing is making added efforts to stimulate domestic *consumption*, especially in the rural areas, as part of its economic restructuring and, ultimately, the rebalancing of the Chinese economy. Analyses by major international investment banks indicate that China's initial stimulus is working, which has led many of them to revise upward their estimates of Chinese growth in gross domestic product from around 6.5 percent to 7.0–7.5 percent for 2009. In other words, China will

almost certainly recover from the crisis faster than the United States and other major Western economies.

But China's approach may not be as beneficial to its economy as initial indicators suggest; time will tell. China's direct and indirect stimulus spending is probably not sustainable for more than two or three years, given the scope of deficit spending and related bank loans. Government-directed bank lending has been so intensive in 2009 alone that many now worry that China is fueling a new wave of bad debts, which would gut the last round of successful bank reform, initiated in the late 1990s. A key determinant of China's success will be its ability to stimulate domestic consumption as a driver of growth and not simply rely on government-funded investment in order to transition from a short-term policy response to global recession to a long-term strategy for sustainable growth.¹²

Lastly, it remains decidedly unclear that China's projected quick recovery will aid struggling East Asian economies. China's stimulus package may not position it to emerge as a new engine of regional prosperity. In other words, China will not necessarily be East Asia's economic savior. Due to the declines in Chinese imports and exports (as a result of recessions in the United States and EU), the regional network of processing trade in East Asia seems to be unraveling. Asian economies that are both trade dependent and heavily involved in processing trade with China—namely, Singapore, Taiwan, Thailand, the Philippines, and some South Korean sectors—will not enjoy the benefits of stimulus-driven growth in China. These economies are suffering the most right now, and unlike after the Asian financial crisis, they cannot simply export their way to renewed growth. By contrast, regional economies whose trade with China is in capital goods and commodities, such as Japan, Australia, Indonesia, and other sectors in South Korea, will benefit from China's stimulus package. This situation could, over time, result in an adjustment in some regional perceptions of the perils of overreliance on trade with China, leading to diversification in trading partners and bilateral relations.

China does possess an important economic tool that it could use to be viewed once again as the fulcrum of regional growth: outward direct investment. China has the world's largest foreign-exchange reserves, and as a result of reforms initiated in the late 1990s, its major banks and some corporations are de-leveraged and quite profitable—at least for now. Thus, the government has substantial financial resources it could use to invest in East Asia and globally. As the United States and Japan found in past decades, investment in countries can, over time, produce political influence by employing local people and creating a political constituency in favor of the investing nation. There are incipient indicators that China is ramping up its overseas investments—taking advantage of cheap prices

and needy companies. For example, China has accelerated its acquisition of ownership stakes in resource-producing companies in Australia, Russia, Kazakhstan, and Brazil. Chinese outward direct investment will be an important variable to watch in assessing its mechanisms and channels for translating economic capabilities into political influence.

WHICH WAY WILL THEY GO?

The preceding analysis suggests several preliminary conclusions about this evolving geopolitical drama in East Asia. These conclusions represent neither a climax nor a denouement but a developing plotline.

First, the United States remains well positioned to achieve its long-standing regional objectives, however the Barack Obama administration chooses to characterize them. The United States does not face a crisis of confidence, and the foundations of its influence endure. It is still early days in Asia's response to China; most countries are still coming to terms with what it means for China to be a more influential actor. This has prompted an abundance of reactions, including many contradictory ones. Accordingly, there is still abundant geopolitical space for Washington to expand and improve its security partnerships in the region. If the United States is to do so, its Asia policy needs persistent attention. Although the George W. Bush administration's Asia policy left the region in fine condition, renovation of regional relationships is needed. In the face of China's rise (as well as the growing prominence of India and Japan), the United States needs to improve the legitimacy of its role and the credibility of its commitments in the Asia-Pacific. That effort will require an adaptation to the changing constellation of the equities of U.S. allies and security partners. None want to provoke China or be drawn into a containment effort; none want China to dominate the region; none want the United States to leave or even substantially draw down its presence; and all want China to play a major role in managing regional challenges. American policy needs to reflect these changing regional realities.

A second major finding of RAND's work on regional reactions to China was that there was no strong correlation between high levels of economic integration with China and accommodation of it. Japan, Singapore, and Australia all have large, growing, and highly complementary trade and investment relations with China. Their trade with China represents a larger share of their total world trade than that of other East Asian nations, and the business communities in these countries have been, on balance, bullish about China.

However, this is not reflected in their foreign and security policy making in any direct manner. Policy makers in all three nations harbor deep uncertainty about China's future and have growing concerns about its emergence as a

regional security threat. The governments in all three countries have responded in part by enhancing their alliance links with the United States, each other, and others in Asia. Australia has begun to improve its regional power-projection capabilities in particular ways. A distinct diplomatic priority in all three nations is ensuring that the United States remains active and influential in East Asia, so that China does not dominate. For Tokyo and Canberra, Chinese defense modernization is increasingly a factor in their military procurement and planning, a set of assumptions that is poised to become more prominent as the PLA deploys additional power-projection capabilities and increasingly operates outside China's littoral.

A third important finding is that domestic politics matters a lot in determining nations' responses to China's rise. For most East Asian states, China's rise generates a variety of contradictory reactions, some drawing them toward China and others making them wary. What determines which way they go? A key independent variable is domestic politics. The political conditions in East Asian nations and, especially, the views of political leaders mediate the extent to which diplomatic and economic interactions with China result in accommodation of China, alienation from the United States, or both. The changes in South Korean responses to China following the 2008 election of Lee Myung-bak offer a prominent example. Although relations with China had not fundamentally changed by early 2008, President Lee reoriented South Korea more toward the United States and created a permissive environment for questioning Korea's growing reliance on China. Lee has now positioned South Korea as yet another medium-sized regional power raising concerns about Chinese military modernization. Ultimately, the perspectives and preferences of these nations' top leaders will have a defining influence on how they respond to the myriad of challenges posed by China as well as by U.S. policy in East Asia.

NOTES

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1. To be sure, a growing number of voices have called into question the permanence of the U.S.-based security architecture in East Asia. These perspectives call American presence in East Asia a historical aberration following World War II, and they view its current presence as outdated, given the alleged acceleration in regionalism. See Kishore Mahbubani, "America's Place in the Asian Century," *Current History* (May 2008), pp. 195–99.

2. Joshua Kurlantzick, *Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven, Conn.: Yale Univ. Press, 2007). Interestingly, Kurlantzick seems to have stepped back from some of his book's main conclusions; see his "So Far, It Just Isn't Looking Like Asia's Century," *Washington Post*, 7 September 2008.
3. See Evan S. Medeiros, Keith Crane, Eric Heginbotham, Norman D. Levin, Julia F. Lowell, Angel Rabasa, and Somi Seong, *Pacific Currents: The Responses of U.S. Allies and Security Partners in East Asia to China's Rise* (Santa Monica, Calif.: RAND, 2008).
4. The United States has concluded mutual defense treaties with five countries in the Asia-Pacific: Australia, Japan, the Republic of Korea (South Korea), the Philippines, and Thailand.
5. Bates Gill, Michael Green, Kiyoto Tsuji, and William Watts, *Strategic Views on Asian Regionalism: Survey Results and Analysis* (Washington, D.C.: Center for Strategic and International Studies, February 2009), pp. 4–7.
6. In his first major speech in the United States, State Councillor Dai Bingguo characterized the issue of Tibet as a core national interest. He stated, "Taiwan and Tibet-related issues concern China's core interests. The Chinese people have an unshakable determination to defend our core interests." See Dai Bingguo, "Address at the Dinner Marking the 30th Anniversary of the Establishment of China-US Diplomatic Relations Hosted by the Brookings Institution" (Brookings Institution, Washington, D.C., 11 December 2008), available at www.fmprc.gov.cn/eng/.
7. In 2004, China publicly and strongly criticized Prime Minister-elect Lee Hsien Long for a visit to Taiwan following his election but before his inauguration. China's loud and harsh rhetoric raised alarm bells in Singapore about China's growing assertiveness. In response, Singapore subsequently took several steps to broaden its defense and diplomatic ties to the United States. It also took measures to constrain China's diplomatic influence in East Asia, including leading the charge in 2004–2005 to eliminate China's control over the location and agenda of, and participants in, the East Asia Summit. Singapore did not radically alter its Taiwan policy in response to Chinese pressure; Singapore continues to train its military forces at facilities in Taiwan.
8. A similar course of events transpired in South Korea in 2006, when then-Chinese ambassador to South Korea Ning Fukui publicly warned South Korean policy makers to restrict the geographic scope of operations for U.S. forces based in Korea to the defense of the peninsula and not other regional contingencies, such as a Taiwan conflict. This statement piqued latent but growing sensitivities in Seoul about China's meddling in South Korean foreign policy and China's growing assertiveness. This event contributed to a change in the national conversation in South Korea about the challenges and threats posed by a rising China. The 2007 change in government created a more permissive political environment for the reflection of these concerns in national policy making.
9. This section draws from the summary of Medeiros et al., *Pacific Currents*, pp. xviii–xxiii.
10. Australia's Department of Defence then published biennial "updates" to the 2000 white paper—in 2003, 2005, and 2007. For copies see merln.ndu.edu/whitepapers.html.
11. Australian Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030* (Canberra: Department of Defence, May 2009).
12. For an example of this view see Andrew Shearer, "Australia Bulks Up," *Wall Street Journal Asia*, 6 May 2009.
13. Patrick Chovanec, "Undoing Chinese Bank Reform," *Wall Street Journal Asia*, 7 May 2009.