

## Preserving Peace as China Rises I

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EXECUTIVE SUMMARY

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With the centre of global economic gravity shifting east towards Asia, the Indo-Pacific will be this century's motor of prosperity and innovation. However, this region also faces the risk of hostile international relations, a souring of fruitful economic ties, and even catastrophic war.

China's bullish claims to vast tracts of disputed land and sea have created an arc of deepening territorial instability stretching from the Korean Peninsula to the South China Sea and the Indian subcontinent. Meanwhile, policymakers across Asia now fear that Beijing plans to use its growing military might to challenge the US-led international order that has underwritten the region's peace and prosperity since World War II.

Notwithstanding the promise of a 'new type of major power relationship' based on mutual benefit and respect, Sino-US ties are also being undermined by strategic distrust. China's acrimonious territorial disputes with US allies and partners, the US 'pivot' to Asia, intellectual property theft, and other irritants are fuelling suspicions that Beijing and Washington are each seeking to achieve their long-term goals at great cost to the core interests of the other.

Inventive foreign policy that can simultaneously reassure the Indo-Pacific's established powers and accommodate Chinese ambitions is urgently needed. This report proposes three complementary foreign policy strategies to help engineer China's peaceful rise and safeguard stability in the Indo-Pacific.

### **1. Prolong US leadership in the Indo-Pacific:**

- A US military and diplomatic drawdown would fuel fears of Chinese domination, which could lead to militarisation among China's worried neighbours.
- Beijing's support for the current US-led international order of free markets, free trade, and freedom of navigation lends itself to continued US leadership.

### **2. Protect the territorial status quo in the Indo-Pacific:**

- Abandoning the commitment to the territorial status quo would allow China to ride roughshod over the territorial claims of its neighbours.
- Beijing's prioritisation of 'peaceful development' over realising its territorial ambitions strengthens the case for the territorial status quo.

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**3. Pursue a policy of 'strategic ambiguity' vis-à-vis territorial disputes:**

- Defending the territorial status quo without compromise could push the United States and its Indo-Pacific allies and partners towards war with China.
- Flexible policy responses to China's territorial assertiveness avoid the risks of premature appeasement and dangerous escalation.

## The Middle Kingdom on top

Let China sleep, for when she wakes, she will shake the world.

— Attributed to Emperor Napoléon Bonaparte

With the demise of the Soviet Empire and the consolidation of the US-led international order of free markets, free trade, and freedom of navigation, the closing decades of the twentieth century marked the apogee of the global Pax Americana.<sup>1</sup> As the world's sole superpower, the United States enjoyed the rare luxury of a truly 'unipolar moment': It was the only nation commanding the 'military, diplomatic, political and economic assets to be a decisive player in any conflict in whatever part of the world it [chose] to involve itself.'<sup>2</sup>

This century, however, will not be an American Century redux. Napoléon's prophecy of a reawakened China shaking the world is taking form. Although still lagging militarily and economically, China is set to rival the United States on a scale that Soviet Russia could never muster.

The headline story of China's resurgence is its frenetic economic expansion and ballooning defence budget. At the time of Mao Zedong's death (1976), the Chinese economy was contracting by 1.6% annually and GDP per capita was a paltry US\$163.<sup>3</sup> Since Deng Xiaoping's tentative free-market reforms in the 1970s and 1980s, the Chinese economy has experienced uninterrupted expansion; annual economic growth has averaged 10%; and GDP per capita has risen to more than US\$5,500.<sup>4</sup> Propelled by cautious but consistent liberalisation, this economic renaissance is expected to continue: By 2050, China will be home to nearly 20% of the world's middle-class consumption and boast the world's largest economy.<sup>5</sup>

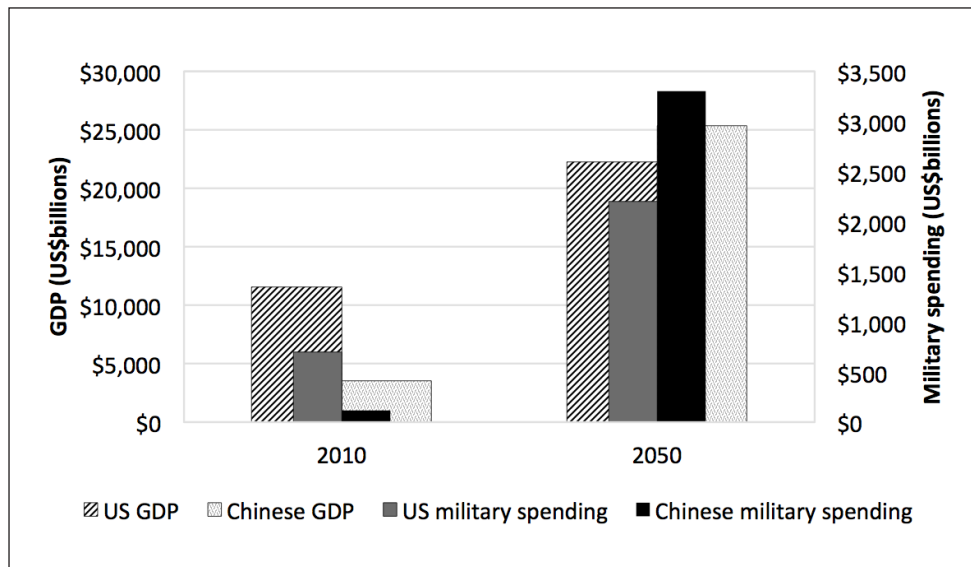
With a booming economy comes the means to acquire raw military power. Between 2003 and 2012, China's defence budget increased by almost 175% in real terms, and is set to surpass the combined military spending of Great Britain, Germany and France by 2014.<sup>6</sup> On current projections, Chinese defence outlays will likely exceed Western Europe's by 2024, and the United States' by the 2030s.<sup>7</sup>

The People's Liberation Army (PLA) is busy using this fiscal clout to acquire advanced military hardware. Senior Japanese security experts predict that in just 15 years, China will match the combined naval power of Japan and the United States in the Western Pacific.<sup>8</sup> China already has one aircraft carrier, and will operate two by 2018.<sup>9</sup> If realised, Beijing's blue-water navy ambitions of a fleet of aircraft carriers will allow China to project extensive sea and air power beyond its coastal waters, protect distant sea lanes, and counter regional rivals.<sup>10</sup>

China is also developing 'anti-access/area denial' (A2/AD) capabilities to block US forces operating along the Chinese littoral, deflect a sustained US aerial attack, and put US military bases in the Pacific Ocean under 'heavy threat.'<sup>11</sup> In January 2014, Admiral Samuel J. Locklear, head of US Pacific Command (USPACOM), said that the era of uncontested US military control over the Asia-Pacific's airspace and open seas is ending.<sup>12</sup>

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**Figure 1: Chinese and US economic and military power, 2010–50**



**Source:** Various.<sup>13</sup>

All of the twentieth century’s challengers to US pre-eminence had fatal flaws. Imperial and Nazi Germany and imperial Japan were driven by belligerent, expansionist and ultimately self-destructive impulses that propelled these powers to military overreach, while Soviet Russia was undone by a dysfunctional economic system.

By contrast, the Chinese Communist Party’s (CCP) shrewd foreign policy consistently prioritises China’s ‘peaceful development’ over even totemic geostrategic goals, such as Taiwanese reunification with the mainland.<sup>14</sup> At the same time, to sustain China’s unprecedented explosion of prosperity, the CCP’s adaptive version of state capitalism continues to push through essential reforms—clamping down on corruption, mitigating pollution, and transferring to a more sustainable consumption-driven model of economic growth.<sup>15</sup> China may never have the strength to fashion a new Pax Sinica, but it will soon possess the power to challenge the US position at the pinnacle of the international system.<sup>16</sup>

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### Strategic distrust

May you live in interesting times.

— Apocryphal Chinese curse

As China rises, an arc of simmering geostrategic flashpoints risks igniting. From the Korean Peninsula to the South China Sea and the Indian Subcontinent, Beijing’s territorial ambitions are butting against the claims of China’s continental and maritime neighbours.<sup>17</sup> Meanwhile, capitals across Asia now fear that Beijing plans to challenge US leadership in the Indo-Pacific—which has secured relative peace and stability since World War II.\*

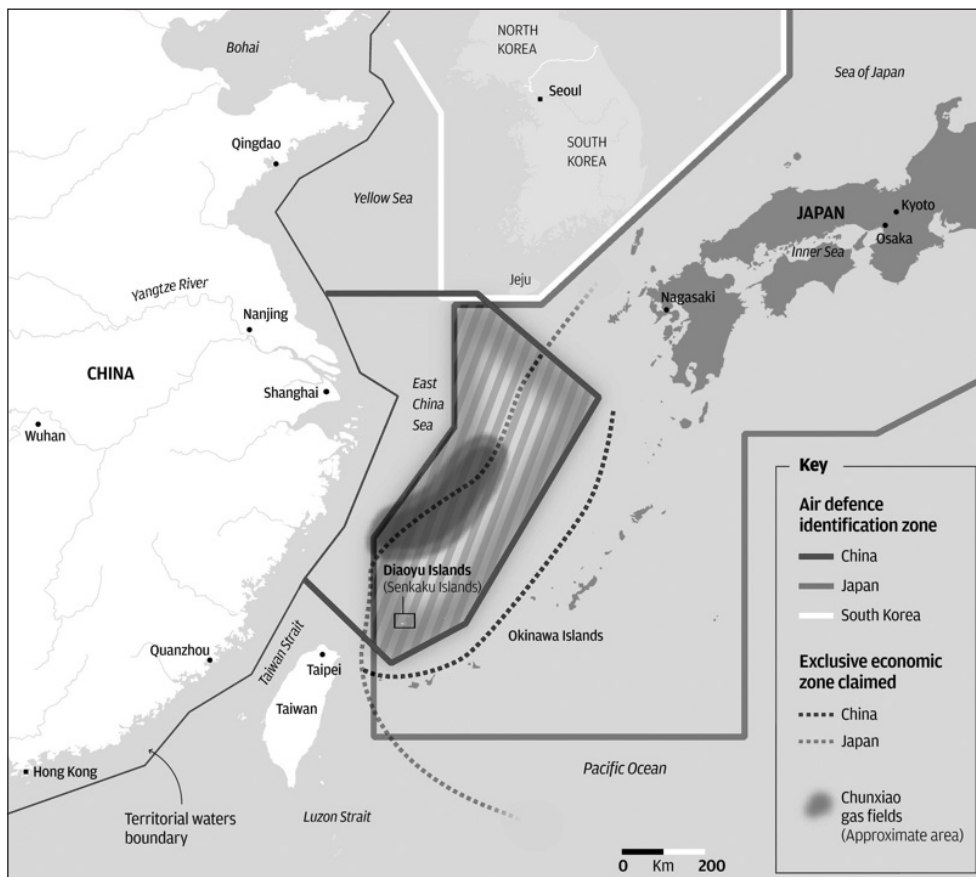
\* The Indo-Pacific region is the key geopolitical reference point throughout this report. It refers to an emerging Asian strategic system encompassing the Pacific and Indian oceans, as well as this century’s most influential world powers: China, the United States and India. See Rory Medcalf, ‘Pivoting the Map: Australia’s Indo-Pacific System,’ *Centre of Gravity* 1 (November 2012), 2, 4.

Despite warming relations and expanding trade, Sino-Indian ties are strained by disputes over Arunachal Pradesh (claimed by China and controlled by India) and Aksai Chin (claimed by India and controlled by China), as well as the pall cast by the 1962 Sino-Indian War.<sup>18</sup> Beijing is also deepening its ‘sweeter than honey’ ties with Islamabad—New Delhi’s long-time adversary.<sup>19</sup> Added to this, Beijing’s financial and infrastructure assistance for New Delhi’s neighbours, including Sri Lanka, Bangladesh and Myanmar, is sparking fears of a ‘string of pearls’ of Chinese client states encircling India.<sup>20</sup>

Taiwanese President Ma Ying-jeou’s policy of engaging rather than confronting China has eased geostrategic tensions in East Asia.<sup>21</sup> However, this calm has been offset by the increasing bitterness of territorial disputes in North and Southeast Asia. In the South China Sea, Beijing has traded in gunboat diplomacy with Manila and Hanoi over a vast tract of territory variously claimed by China, Brunei, Malaysia, the Philippines, Taiwan and Vietnam.<sup>22</sup> Tensions between China and Japan have also flared in the East China Sea, with Tokyo nationalising the disputed (but previously privately owned and Japanese-controlled) Senkaku/Diaoyu Islands in 2012, and Beijing unilaterally establishing an Air Defense Identification Zone (ADIZ) over the islands in 2013.<sup>23</sup>

**As China rises, an arc of simmering geostrategic flashpoints risks igniting.**

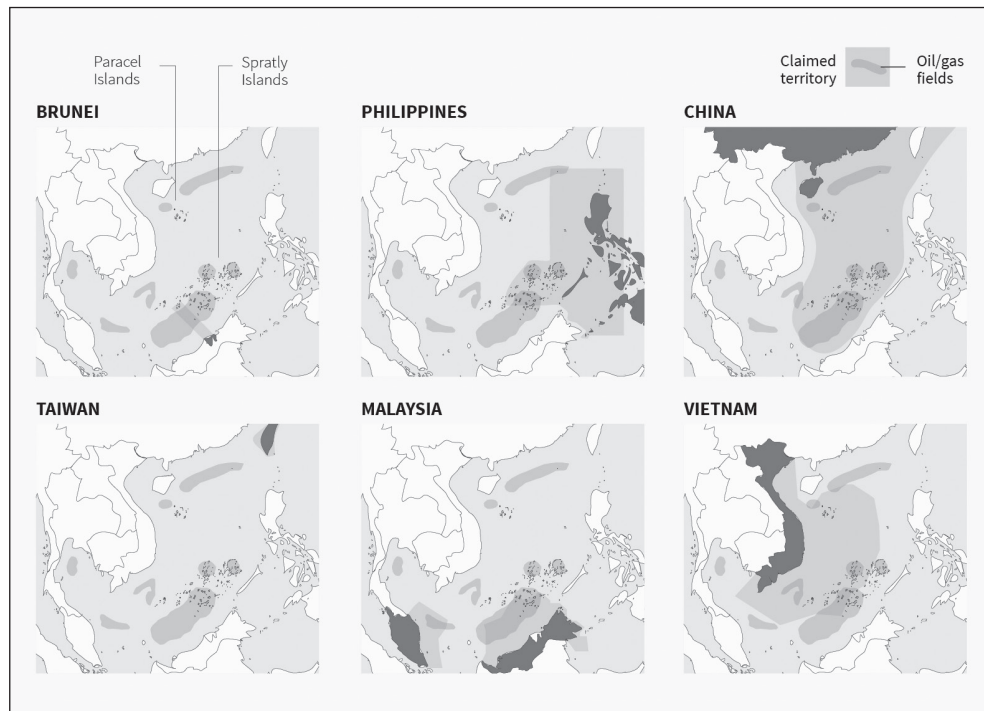
**Figure 2: China’s Air Defense Identification Zone (ADIZ) and the Senkaku/Diaoyu Islands dispute**



**Source:** Chris Luo, ‘ADIZ, China tells Japan it would “consider cancelling air zone in 44 years”,’ *South China Morning Post* (28 November 2013).

Although these disputes are unlikely to provoke large-scale armed conflict, they are a drag on regional relations. A Chinese consumer boycott of Japanese goods provoked by the Senkaku/Diaoyu Islands dispute led to an 8.6% fall in imports from Japan in 2012, and Japanese investment in China fell sharply at the end of that year.<sup>24</sup> Beijing's initial offer of only US\$100,000 in response to the devastation of Typhoon Haiyan in the Philippines in November 2013 was reportedly aimed at punishing Manila for not acquiescing to Chinese territorial demands.<sup>25</sup>

**Figure 3: Territorial claims in the South China Sea**



**Source:** David Lague, 'The Chinese navy "dismembers" Japan,' *Reuters* (27 November 2013).

Asia is not yet in the grip of an arms race in which nations feverishly match the military acquisitions of their strategic rivals. Nevertheless, key Asian powers are responding to China's expanding defence budget and forceful territorial claims with a combination of more military spending, forward-leaning defence postures, and deepening security ties with the United States.<sup>26</sup>

Under conservative Prime Minister Shinzo Abe, Japan is pursuing a policy of 'active pacifism.'<sup>27</sup> Tokyo is expanding the constitutional mandate of its 'self-defence' force, enabling it to respond militarily when an ally is attacked.<sup>28</sup> Japan also increased its defence budget by 0.8% in 2013 and 2.2% in 2014, ending almost two decades of stagnant defence spending.<sup>29</sup> Similarly, Seoul has boosted its defence budget by more than 50% over the last decade, making its 2012 military expenditure of US\$29 billion the fourth largest in Asia.<sup>30</sup>

Manila increased its defence budget by more than 65% between 2010 and 2011; secured US\$50 million worth of military assistance from Washington in 2014; and is seeking more navy ships from the United States.<sup>31</sup> On the back of a decade of slow but steady rises in military outlays, Singapore—Southeast Asia's biggest defence spender—is also deepening its security engagement with the United States.<sup>32</sup> As part of its support for the US military and diplomatic 'pivot' to Asia, Singapore will welcome

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two more US combat ships by the end of 2016—bringing the total rotating US naval deployments to the city-state to three ships between 2014 and 2016.<sup>†33</sup>

The strategic jitters provoked by Chinese assertiveness have pushed even a bitter US enemy to deepen security ties with Washington. Vietnam has not yet conducted military exercises with the United States, but Hanoi and Washington have launched a Comprehensive Partnership and have agreed to increase naval cooperation and improve maritime security in Southeast Asia.<sup>34</sup> In a thinly veiled move to counter Chinese activity in what Hanoi considers Vietnamese waters, Washington offered Vietnam US\$18 million worth of naval aid in 2013, including new coast guard vessels.<sup>35</sup> US Secretary of State John Kerry has pledged security assistance worth more than US\$156 million in Southeast Asia more broadly for 2014–15, much of it aimed at assisting China's neighbours protect their territorial waters from Chinese incursions.<sup>36</sup>

Partly to offset China's growing power and warming ties with India's neighbours, New Delhi is modernising its military and developing its international defence links. India increased its defence budget by more than 12% to US\$37.7 billion in 2013, and with a predicted defence budget of US\$65.4 billion in 2020, is expected to be the world's fourth-largest defence spender behind the United States, China and Russia.<sup>37</sup>

Labelled a 'lynchpin' of the US pivot to Asia by former US Defense Secretary Leon Panetta in 2012, New Delhi is deepening relations with Beijing's former adversaries.<sup>38</sup> The Indian-Japanese strategic partnership, which includes joint naval exercises and ministerial security and strategic dialogues, was consolidated in January 2014 after Tokyo and New Delhi agreed to strengthen onshore, maritime and aerial defence cooperation.<sup>39</sup> In response to China's newly assertive foreign policy, Japan and India have also stated their opposition to any attempts to change Asia's geostrategic status quo by force.<sup>40</sup> This comes after India upgraded its relationship with Vietnam to a strategic partnership in 2007 as part of its 'Look East Policy.'<sup>41</sup> New Delhi is offering Hanoi credit for defence purchases, training for its submarine crews, and assistance to explore and exploit hydrocarbon reserves in the disputed South China Sea.<sup>42</sup>

Despite rising tensions between China and US allies and partners, Beijing and Washington are at pains to stress their commitment to cross-Pacific peace. President Xi Jinping's administration is seeking what Chinese Foreign Minister Wang Yi calls 'a new model of major country relations' based on 'win-win cooperation,' 'no conflict or confrontation,' and 'mutual respect.'<sup>43</sup> Equally, Washington insists that it shares this goal and is committed to 'managing inevitable competition while forging deeper cooperation on issues where ... interests converge.'<sup>44</sup>

Notwithstanding good intentions, Beijing and Washington are gripped by 'strategic distrust.'<sup>45</sup> Both capitals suspect the other of seeking to achieve long-term strategic goals at great cost to their core interests.<sup>46</sup> These general misgivings are exacerbated by particular points of tension in the relationship: China's acrimonious territorial disputes with US allies and partners, the US pivot to Asia, intellectual property theft, and other irritants.<sup>47</sup>

**Beijing and Washington are gripped by 'strategic distrust.'**

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† After more than a decade of costly and bloody wars in the Middle East and Central Asia, a massive drop in its military budget, and relative decline vis-à-vis China, the United States' military and diplomatic pivot to Asia is a bid to reassure allies and partners that it will continue to extend its security umbrella to the Indo-Pacific. See Hillary Clinton, 'America's Pacific Century,' *Foreign Policy* (11 October 2011); The White House, 'Remarks By President Obama to the Australian Parliament,' [www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament](http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament). As well as a stationing more military assets in the Indo-Pacific—60% of US naval forces will be based in the Pacific Ocean by 2020, including six aircraft carriers and a majority of US Littoral Combat Ships, cruisers, destroyers and submarines—the pivot is aimed at delivering deeper diplomatic engagement with Asian nations and more cross-Pacific trade. See DOD (Department of Defense), 'Secretary of Defense Speech: Shangri-La Security Dialogue,' [www.defense.gov/speeches/speech.aspx?speechid=1681](http://www.defense.gov/speeches/speech.aspx?speechid=1681).

Overall, deepening Sino-US strategic distrust manifests itself in three broad areas:

1. **Vastly different political systems:** Is China's nominally communist one-party state a threat to America's global democratisation efforts? Are US attempts to spread liberal democracy aimed at undermining CCP rule?<sup>48</sup>
2. **Uncertainty regarding strategic intent:** Does Beijing want to expel the United States from Asia and dominate the continent? Is Washington's Asia pivot designed to contain China?<sup>49</sup>
3. **The dramatic shift in the regional balance of power:** Will Beijing's rise overturn the US-led liberal international order? Does the United States want to stall its own relative decline?<sup>50</sup>

## A Concert of Asia?

One mountain cannot abide two tigers.

— Traditional Chinese idiom

China is seeking more international influence as its economy and military might grow. Yet as a 'lonely rising power' with few friends in Asia, it feels it is the victim of concerted US-led efforts to contain its rise and stonewall its legitimate territorial claims.<sup>51</sup> If this clash between China's burgeoning international ambitions and the Indo-Pacific's strategic and territorial status quo is the cause of strategic distrust, then perhaps the United States and its Indo-Pacific allies and partners should give a rising China more influence over the international system and more latitude to establish its territorial claims.

Australian academic Hugh White is the most influential champion of this strategy.<sup>52</sup> Despite the sabre-rattling associated with territorial disputes in East, Southeast and South Asia, White says the source of strategic distrust is Sino-US competition over 'who leads Asia.'<sup>53</sup> In particular, trying to preserve US leadership in the Indo-Pacific as China rises will precipitate dangerous Sino-US strategic rivalry and perhaps even war.<sup>54</sup>

Instead of preserving its own strategic primacy or leaving China to establish hegemony in Asia, White suggests the United States make room for more Chinese influence while maintaining a substantial military presence of its own.<sup>55</sup> According to White, only a power-sharing arrangement between the United States and China can secure a peaceful and free Asia:

If there is any way to avoid both the dangers of Chinese domination and the risks of rivalry, it will be through a new order in which China's authority and influence grows enough to satisfy the Chinese, and America's role remains large enough to ensure that China's power is not misused.<sup>56</sup>

White envisions this power-sharing arrangement taking the form of a 'Concert of Asia' in which China, the United States, Japan and India agree to a peaceful division of power.<sup>57</sup> Although White concedes that such a concert may not eliminate great power rivalry, he maintains that it would discourage large-scale conflict by requiring members to share power 'with one another as equals' and resolve disputes by negotiation.<sup>58</sup>

**Should the United States and its Indo-Pacific allies and partners give a rising China more influence over the international system and more latitude to establish its territorial claims?**

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§ White defines strategic primacy as: 'A relationship between a country and an international system in which that country has a qualitatively different and greater role than any other country in the system in setting norms of behaviour, determining when those norms have been breached, and taking action to enforce them.' See Hugh White, 'What is primacy, exactly?' *The Interpreter* (10 August 2012).

§§ For a critical analysis of White's Concert of Asia, see Appendix.



## Capitalising on China's strategic patience

It is with infinite caution that any man ought to venture upon pulling down an edifice which has answered in any tolerable degree for ages the common purposes of society, or on building it up again without having models and patterns of approval utility before his eyes.

— Edmund Burke, *Reflections on the Revolution in France*<sup>59</sup>

The strongest case against a Concert of Asia power-sharing arrangement is that it will compound the risks it is designed to mitigate.<sup>60</sup> Asia's key powers are locked in bitter territorial disputes with China and are wary of Beijing's newfound military muscle. In this context, the US military and diplomatic drawdown and growing Chinese authority and influence entailed by a Concert of Asia would provoke regional capitals to further beef up their military budgets and adopt more forward leaning defence postures.<sup>61</sup>

Given Japan's violent and acrimonious history with China and the massive power asymmetry between the two countries, Tokyo would dramatically increase its military budget and capabilities, and perhaps even nuclearise its defence. This would alarm many Asian capitals—from Seoul to Jakarta—that have suffered at the hands of past Japanese aggression.<sup>62</sup> South Korea would be in a perilous position, sandwiched as it is between two massive and mutually hostile powers, and bordering a likely emboldened and nuclear-armed North Korea. Taiwan, one of Asia's most successful liberal democracies, may suffer a forced repatriation to the authoritarian 'motherland.'<sup>63</sup>

Vietnam, the Philippines and other territorial claimants in the South China Sea may suffer revitalised Chinese strongarm tactics and have their maritime claims seized by Beijing.<sup>64</sup> Having already fought border battles with China, India is nervous about Chinese expansionism. New Delhi may therefore increase its nuclear arsenal and bolster its conventional military, and view Pakistan with even greater suspicion. In short, perceptions of US unwillingness to act as a credible strategic counterweight to Chinese power would unleash a toxic wave of instability and militarisation that could engulf the entire region.<sup>‡</sup>

Preserving the strategic status quo has the further advantage of securing good relations with China by capitalising on the CCP's strategic patience. Chinese officials and state-owned media consistently emphasise Beijing's unhappiness with the 'Cold War mentality of the zero-sum game.'<sup>65</sup> Beijing's 'no conflict or confrontation' approach to international relations focuses on common ground and defers contentious disputes.<sup>66</sup> In keeping with previous Chinese foreign policy doctrines of 'peaceful development,' a 'harmonious world,' and 'setting aside dispute[s] and pursuing joint development,' the CCP claims it wants to base China's international relations on 'mutual respect' and a 'win-win mentality.'<sup>67</sup>

China's rise represents a massive power shift from Washington to Beijing, but not necessarily a challenge to the US-led liberal international order of free markets, free trade, and freedom of navigation.<sup>68</sup> As Cui Tiankai, China's ambassador to the United States, recently observed, the CCP is working towards integrating China into the 'existing global order':

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‡ The destabilising effects of a major US drawdown in the Indo-Pacific are likely to be compounded by the widely held view—both in the United States and around the world—that US global power is waning. After the recent US financial and fiscal crises, and more than a decade spent losing blood and treasure in Afghanistan and Iraq, Washington is less willing and able to project power around the globe.

**Beijing has little to gain from wresting international leadership from Washington.**

We are ready to integrate ourselves into the global system, and we are ready to follow the international rules ... We stand for necessary reform of the international system, but we have no intention of overthrowing it or setting up an entirely new one.<sup>69</sup>

Contra White, Beijing is equally not seeking to aggressively challenge the United States' status as the Indo-Pacific's pre-eminent power.<sup>70</sup> The CCP is engineering China's global resurgence, with the aim of surpassing the United States economically and militarily in a matter of decades. However, Beijing does not plan to use its growing military might and economic influence to force the United States out of the Indo-Pacific. Indeed, Beijing seems to have resigned itself to lasting US regional leadership. As Chinese Foreign Minister Wang said in September 2013:

We have all along emphasized that China's development is peaceful in nature. We have never had the strategic intention to challenge or even replace the United States for its position in the world.<sup>71</sup>

Conciliatory remarks regarding China's grand strategy are, of course, a potentially unreliable guide to China's future behaviour. Given China's quest to regain international power and prestige and the CCP's obscurantism, it is unclear whether statements from senior CCP officials reflect Beijing's genuine intentions.<sup>‡‡</sup> In fact, reassurances from Beijing may seem duplicitous in the context of the development of China's A2/AD capabilities, its gunboat diplomacy in the South China Sea, and its bullish foreign policy initiatives like the ADIZ in the East China Sea. As China expert John Lee observes:

To uncritically accept China's 'smile diplomacy' at face value betrays both prudent political practices and principles developed over centuries of international relations and discounts existing Chinese posturing and behaviour.<sup>72</sup>

However, even if China is a revisionist power intent on challenging the existing international order, it is unlikely to attempt to usurp US global leadership. Upending the strategic status quo would only serve to prematurely induce the (almost) inevitable: Assuming that the Chinese economy and military budget continue their dizzying rise, China will be the world's most powerful nation in 20 to 30 years. As Australian journalist Graeme Dobell observes, China can easily achieve global pre-eminence as a 'status quo-tidal power': The strategic status quo amounts to 'stability accompanied by a continued shift of the [economic and military] tide in Beijing's favour.'<sup>73</sup> Beyond a slightly accelerated timetable, Beijing therefore has little to gain from wresting international leadership from Washington.

### **An impatient dragon?**

When a wolf cries wolf, you still see that wolf's teeth.

— Lil' Wayne, *Steady Mobbin'*

Notwithstanding the rationale for the strategic status quo, the territorial status quo may soon be untenable. As its military might grows, Beijing will presumably not tolerate, for example, ongoing de facto Taiwanese independence or Japanese control of what it considers its territory.<sup>74</sup> Indeed, many analysts point to a growing body

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‡‡ Rehabilitating China's standing in the world is a preoccupation for the CCP. Having experienced nearly two centuries of foreign meddling, civil war, and disastrous communist economic mismanagement, Beijing is intent on resurrecting China's grandeur. See, for example, Patrick Bohler, 'Scholars say China has regained 65.3pc of its former glory,' *South China Morning Post* (22 November 2013).

of evidence that seems to suggest Beijing is already impatient to seize control of its territorial claims: China's naval standoff with the Philippines in April 2012; the declaration of the ADIZ in the East China Sea in November 2013; and restrictions on non-Chinese fishing vessels in the South China Sea in January 2014.<sup>75</sup>

Despite increasing Chinese assertiveness, attempting to preserve the territorial status quo remains prudent policy. Most obviously, a strong commitment to the territorial status quo will calm jittery nerves in many Asian capitals. With nations across the region deeply worried about an emboldened China riding roughshod over their territorial claims, abandoning the commitment to the territorial status quo could ignite deeply destabilising fears of Chinese dominance.

Abandoning the commitment to the territorial status quo could equally make Chinese aggression a self-fulfilling prophecy: Territorial gains achieved through brinkmanship and strongarm tactics might make Beijing even more aggressive.<sup>76</sup> For example, if the United States and Japan allowed China to take control of the Senkaku/Diaoyu Islands, Beijing may not hesitate to seize disputed territory from Vietnam, the Philippines, India and other Asian nations. By contrast, an ongoing commitment to the territorial status quo is a powerful bulwark against potentially runaway Chinese territorial demands.

Perhaps surprisingly, preserving the territorial status quo is also an effective strategy for securing smooth relations with China. The territorial status quo is consistent with Beijing's prioritisation of 'peaceful development' and 'win-win cooperation' over realising strategic and territorial ambitions. Deng summarised this foreign policy doctrine in 1982:

Even if the border question cannot be resolved for the time being, we can leave it as it is for a while. We still have many things to do in the fields of trade, the economy and culture and can still increase our exchanges so as to promote understanding and friendship between us.<sup>77</sup>

In other words, Beijing's approach to territorial disputes is 'dispute management rather than dispute resolution'; there is no imperative to realise territorial goals, provided Chinese interests can be advanced in other arenas.<sup>78</sup>

Taiwan offers a striking case study of China's receptiveness to efforts to preserve the territorial status quo. Since the nationalist Kuomintang withdrew to Taiwan at the end of the Chinese Civil War, the reunification of what Beijing considers a 'renegade province' with the 'motherland' has been a non-negotiable core plank of CCP policy.<sup>79</sup> Nevertheless, Beijing has shown that it will accept, albeit reluctantly, indefinite de facto Taiwanese independence, provided Taipei adopts conciliatory foreign policy towards the mainland and does not formally declare independence.

With President Ma's election in 2008, Taipei initiated a policy of engagement with Beijing on the basis of the 'three no's'—no unification, no independence, and no use of force.<sup>80</sup> By focusing on mutually beneficial economic ties with China and deferring the push for de jure Taiwanese independence, Ma has presided over a boom in cross-Taiwan Strait business, and in February 2014, secured the first official meeting between Taiwan and the mainland since 1949.<sup>81</sup> Not surprisingly, Beijing's discontent with de facto Taiwanese independence has waned dramatically in this period.\*\* As Admiral Dennis C. Blair, former US director of National Intelligence, observes:

Before 2008 the first half hour of any meeting of a foreign leader with a Chinese official would be devoted to a [sic] Taiwan; now there are meetings in which the subject never comes up.<sup>82</sup>

**A strong commitment to the territorial status quo will calm jittery nerves in many Asian capitals.**

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\*\* Of course, China remains strongly opposed to de jure Taiwanese independence. A formal declaration of independence from Taipei could provoke armed conflict and even a Chinese invasion.

## Strategic ambiguity in territorial disputes

We must know when to fight, when to cooperate,  
and when to avoid direct confrontation.

— Le Yucheng, Chinese Assistant Foreign Minister<sup>83</sup>

Deng's cautious approach to territorial disputes had a crucial caveat: Beijing is willing to defer contentious territorial disputes and concentrate on areas of mutual benefit only for 'a while.'<sup>84</sup> This suggests that an intransigent commitment to the territorial status quo in the East and South China seas and on the Indian subcontinent could become extremely dangerous. If eventually reasserting control over 'lost' Chinese territory is non-negotiable for Beijing, then unwaveringly defending the territorial status quo could push the United States and its Indo-Pacific allies and partners towards war with China. As such, although Washington and regional capitals should undermine Beijing's attempts to unilaterally upset the territorial status quo, they should not pre-emptively commit to particular policy responses.

Strategic ambiguity leaves open the option of even the most forceful military and diplomatic responses to Beijing's territorial assertiveness.<sup>85</sup> Yet it also mitigates the chances of disastrous escalation: Responses can be calibrated according to a host of variable factors (e.g. the intensity of Beijing's commitment to realising its territorial goals; the risk thresholds of China's maritime and continental neighbours; and the extent of outside interests affected by the dispute).<sup>86</sup>

US policy vis-à-vis Taiwan offers a useful model of strategic ambiguity. Since Washington formally switched diplomatic recognition from Taipei to Beijing in 1979, US-Taiwanese relations have been governed by the *Taiwan Relations Act* (TRA).<sup>87</sup> The TRA's carefully worded security clauses do not constitute a defence treaty, but they establish a strong US political commitment to safeguarding Taiwan's security and resisting any non-peaceful Chinese attempts to reintegrate Taiwan.<sup>88</sup> By authorising arms sales to Taiwan and requiring that the United States maintain the capacity to resist threats to the island nation's security, the TRA signals Washington's willingness to defend Taipei by force without committing to going to war on Taiwan's behalf.<sup>89</sup>

With the arguable exception of the US application of its security treaty with Japan to the disputed Senkaku/Diaoyu Islands, the United States and other regional powers have appropriately ambiguous policies in place vis-à-vis territorial disputes.<sup>90</sup> Washington and its Indo-Pacific allies and partners will condemn, caution against, and/or undercut Chinese attempts to alter the territorial status quo without locking in escalatory policy responses.<sup>††</sup> This strategic ambiguity will be essential for ensuring that China's increasingly assertive territorial claims produce neither appeasement nor war.

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†† The details of suitable strategically ambiguous policy responses to particular territorial disputes involving China will be further explored in a forthcoming CIS Foreign Policy Analysis.

## Foreign policy pragmatism

Anarchy is what states make of it.

— Alexander Wendt<sup>91</sup>

In the ancient Chinese classic, *The Art of War*, Sun Tzu observed:

Foreknowledge cannot be gotten from ghosts and spirits, cannot be had by analogy, cannot be found out by calculation. It must be obtained from people, people who know the conditions of the enemy.<sup>92</sup>

In matters of war, peace and diplomacy, decisions should not be guided by historical analogies or speculation and theorising, but by concrete information about the attitudes and aspirations of military and political leaders and the capabilities of armies and civilian institutions. Politicians and policymakers need to revisit Sun Tzu's lesson: China's peaceful rise cannot be engineered with foreign policy that relies on preconceptions about how states act and react.

The naïve hope that war in Asia is impossible because trade brings nations 'into relationships based on mutual consent, community, and peaceful interaction' substitutes Kantian idealism for a nuanced appreciation of the diverse social, cultural and political impulses that animate international affairs.<sup>93</sup> Equally, however, if the maxim that 'international politics is of necessity power politics' guides foreign policy, the spectre of a deadly Sino-US clash risks becoming a self-fulfilling prophecy: If Beijing and Washington each assume that the other side is an adversary motivated by an unyielding 'aspiration for power,' they will make enemies of each other.<sup>94</sup>

Just as conflict between China and the United States is not inevitable, there is no guarantee of cooperation. Rather, the Indo-Pacific's evolving strategic dynamic is whatever the region's great powers make of it.<sup>§§§95</sup>

Although the underdetermined human element in international affairs means there is no one strategy that can guarantee stability and security, foreign policy that offers the best hope of peace will be acutely sensitive to what other nations intend to make of the Indo-Pacific's evolving international order. Given that China's newly assertive foreign policy will be the prime mover of the region's emerging strategic system, Washington and other regional capitals must learn to formulate China policy that responds not to the China of our collective hopes or fears, but to the living, breathing attitudes and aspirations of Beijing's rulers.

**China policy should respond not to the China of our collective hopes or fears, but to the living, breathing attitudes and aspirations of Beijing's rulers.**

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§§§ As Thomas Donilon, former national security advisor in the Obama administration, remarked in March 2013: 'It is not a law of physics, but a series of choices by leaders that lead to great power confrontation.' See Asia Society, 'Complete Transcript: Thomas Donilon at Asia Society New York,' <http://asiasociety.org/new-york/complete-transcript-thomas-donilon-asia-society-new-york>.

## Appendix: Against a Concert of Asia

Hugh White's 'China choice' for the United States is stark: Either Washington maintains its strategic primacy in Asia, allows Beijing to establish strategic primacy in the region, or negotiates a power-sharing arrangement with China.<sup>96</sup> White does not countenance any other options: 'Ultimately a clear choice will have to be made to take one of these three very different paths.'<sup>97</sup>

As well as ignoring other possible scenarios, this is a particularly pessimistic view of Beijing's and Washington's foreign policy nous.<sup>†††98</sup> It assumes that it would be courting disaster for China and the United States to cultivate a balance of power relationship by at times containing each other's ambitions and at other times limiting each other's own ambitions.

Beijing and Washington are certainly locked in a subtle and high-stakes strategic dance. Nevertheless, there are good reasons to expect each party to successfully pull off the necessary steps. Beijing and Washington have each committed to 'a new model of major country relations' in a bid to emphasise mutually beneficial cooperation and manage inevitable tensions.<sup>99</sup> Of course, good intentions alone do not guarantee that Beijing and Washington will be able to overcome strategic distrust and mitigate irritants straining the relationship.<sup>100</sup> However, both capitals stand to benefit if they can muster what Yang Jiechi, Chinese state councillor and former foreign minister, calls the necessary 'wisdom to manage their differences and frictions.'<sup>101</sup>

Two-way trade between China and the United States in goods alone has grown from US\$33 billion in 1992 to more than US\$536 billion in 2012.<sup>102</sup> China exported US\$426 billion worth of goods to the United States in 2012 (22% of total Chinese goods exports), and imported US\$110 billion worth of US goods.<sup>103</sup> In 2013, Chinese investment in the United States totalled US\$64 billion, while Beijing holds approximately US\$1.3 trillion in Treasury securities.<sup>104</sup>

The evolving balance of power in the Indo-Pacific and fraught regional relations will periodically strain Sino-US ties, but extensive and mutually beneficial economic interests will help minimise the fallout from these difficulties. Economic interdependence is certainly not a foolproof safeguard against conflict and war, but it offers a strong incentive for relatively stable and peaceful Sino-US relations.

The notion that China and the United States lack the requisite wisdom to carefully manoeuvre around each other also inadvertently infantilises Beijing. Underlying the logic of a 'China choice' is the assumption that China must get what it wants because otherwise it will bloody-mindedly risk war with the United States and its Indo-Pacific allies and partners.<sup>105</sup> Notwithstanding China's gunboat diplomacy and sabre-rattling, Beijing understands that wise foreign policy often means accepting an imperfect but mutually profitable compromise, and forgoing the perfect realisation of strategic and territorial aims.

With a leadership avowedly opposed to the 'Cold War mentality' of 'zero-sum games,' and committed to peaceful development and co-existence, Beijing can reliably be expected to choose economic growth and trade over achieving all of its strategic goals and gaining control of every tract of territory it claims.<sup>106</sup> In cases of unresolvable disagreement, Beijing does not expect acquiescence to its demands; it instead wants other capitals to sidestep problems and focus on mutually beneficial arenas. As former Premier Li Peng argued:

Disputes defying immediate solutions can be temporarily shelved in the spirit of seeking common ground while putting aside differences. They should never be allowed to stand in the way of the development of normal state-to-state relations.<sup>107</sup>

Instead of presuming that China only understands belligerent 'power politics,' the United States and its Indo-Pacific allies and partners should offer the Middle Kingdom a more nuanced picture of international relations.<sup>108</sup> In particular, they recognise and accept that as China's military might and wealth grows, it will seek to wield greater influence in the region. However, they will not accept this rising Chinese influence if it undermines the US role as their security guarantor or jeopardises the peaceful resolution of territorial disputes.

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††† Other possible scenarios include the United States attempting to maintain its strategic primacy in Asia while also giving China greater influence, and the United States giving up the goal of strategic primacy in Asia without entering into a formal power-sharing arrangement with China.

## Endnotes

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- The US has never left the Asia-Pacific, so there is no 'return' to speak of. China does not want to and cannot push the United States out of the Asia-Pacific. We hope the US can play a constructive role in this region, and that includes respecting China's major concerns and core interests. The Pacific Ocean is vast enough to accommodate the coexistence and cooperation between these two big countries.
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- 77 Deng Xiaoping, 'Promote the Friendship Between China and India and Increase South-South Cooperation,' in *Deng Xiaoping and China: Selected Works of Deng Xiaoping* (Beijing: Intercultural Press, 2012), 304. See also "Set aside dispute and pursue joint development", as above; Information Office of the State Council, 'China's Peaceful Development,' *Xinhua* (6 September 2011).
- 78 Robin Millard, 'China's military rise forces Asian defense splurge,' as above.
- 79 Deng Xiaoping, 'An Idea for the Peaceful Reunification of the Chinese Mainland and Taiwan,' as above, 307; John Lee, *Will China Fail?* as above, 176.
- 80 Richard C. Bush, *Uncharted Strait*, as above, 3–4; Dennis C. Blair, 'What should we do about China?' *Centre of Gravity* 8 (June 2013), 4.
- 81 Richard C. Bush, *Uncharted Strait*, as above, 3–4; Dennis C. Blair, 'What should we do about China?' as above, 4; Sun Xiaobo, 'Cross-Straits talks agree regular meets,' *Global Times* (12 February 2014). See also Richard C. Bush, *Thoughts on the Taiwan Relations Act* (Washington, DC: The Brookings Institution, April 2009).
- 82 Dennis C. Blair, 'What should we do about China?' as above, 4.
- 83 Embassy of the People's Republic of China in Grenada, 'Address by Assistant Foreign Minister Le Yucheng at the Seminar on China's Diplomacy in 2011 and its Prospect,' as above.
- 84 Deng Xiaoping, 'An Idea for the Peaceful Reunification of the Chinese Mainland and Taiwan,' as above, 307.
- 85 For example, see Walter Lohman, 'South China Sea: Make the Chinese Guess,' *The Foundry* (21 April 2011).
- 86 As above.
- 87 Taipei Economic and Cultural Representative Office in the United States, 'Taiwan-US Relations,' [www.taiwanembassy.org/US/ct.asp?xItem=266456&CtNode=2297&mp=12&xp1=12](http://www.taiwanembassy.org/US/ct.asp?xItem=266456&CtNode=2297&mp=12&xp1=12).
- 88 Richard C. Bush, *Thoughts on the Taiwan Relations Act*, as above.
- 89 AIT (American Institute in Taiwan), 'Taiwan Relations Act,' [www.ait.org.tw/en/taiwan-relations-act.html](http://www.ait.org.tw/en/taiwan-relations-act.html).
- 90 With Washington reiterating that the Japanese-US Security Treaty covers the disputed Senkaku/Diaoyu Islands, US policy regarding one of the region's most high-stakes territorial disputes is unambiguous in at least one important respect. See DOD (Department of Defense), 'Hagel Issues Statement on East China Sea Air Defense Identification Zone,' [www.defense.gov/news/newsarticle.aspx?id=121223](http://www.defense.gov/news/newsarticle.aspx?id=121223); 'Senate Approves Webb Amendment to Reaffirm U.S. Commitment to Japan on the Senkaku Islands,' *Guam News* (30 November 2012). Indeed, the United States is pre-emptively committed to coming to Japan's defence if Tokyo invokes its security treaty in response to a Chinese attempt to seize the Senkaku/Diaoyu Islands. See Ministry of Foreign Affairs, 'Japan-U.S. Security Treaty,' [www.mofa.go.jp/region/n-america/us/q&a/ref/1.html](http://www.mofa.go.jp/region/n-america/us/q&a/ref/1.html). Although this report advocates strategic ambiguity, it does not call on Washington to no longer apply the Japanese-US Security Treaty to the disputed territory. If Washington signalled that it wanted to reduce the obligations entailed by its alliance with Japan, other US allies and partners in the region would question the reliability of US security commitments. See Bonnie S. Glaser, 'US policy considerations in the Senkaku/Diaoyu Islands crisis,' in *Tensions in the East China Sea* (Sydney: Lowy Institute for International Policy, June 2013), 35; Zbigniew Brzezinski, 'Balancing the East, Upgrading the West,' *Foreign Affairs* (January/February 2012). This might further embolden Beijing to launch risky and destabilising diplomatic and military gambits to secure disputed territory elsewhere in the region. Notwithstanding the benefits of strategic ambiguity, the United States should therefore continue to apply the Japanese-US Security Treaty to the Senkaku/Diaoyu Islands.
- 91 Alexander Wendt, 'Anarchy Is What States Make of It: The Social Construction of Power Politics,' *International Organization* 46:2 (Spring 1992), 395.
- 92 Sun Tzu, *The Art of War*, Thomas Cleary (trans.) (Boston: Shambhala Publications, 1988), 168.
- 93 Immanuel Kant, 'Toward Perpetual Peace: A Philosophical Sketch,' in Pauline Kleingeld (ed.), David L. Colclasure (trans.), *Toward Perpetual Peace and Other Writings on Politics, Peace, and History* (New Haven: Yale University Press, 2006), 88.
- 94 Hans Morgenthau, 'A Realist Theory of International Politics,' in Karen A. Mingst and Jack L. Snyder (eds.), *Essential Readings in World Politics* (New York: W.W. Norton & Company, 2004), 52. Alexander Downer, former Australian foreign minister, succinctly observes: 'If you call China your enemy, then not surprisingly China will become your enemy.' See Lucy Battersby, 'Australia risks making China an enemy: Downer,' *The Sydney Morning Herald* (17 April 2012); Malcolm Fraser, '2012 Gough Whitlam Oration,' as above; Wang Jisi and Kenneth G. Lieberthal, *Addressing U.S.-China Strategic Distrust*, as above, 5, 39. See also Indonesian Foreign Minister Marty Natalegawa quoted in Rowan Callick, 'Goal is global as resurgent ASEAN embraces Australia,' *The Australian* (11 June 2011).

- 95 See, for example, Alexander Wendt, 'Anarchy Is What States Make of It,' as above, 394–395, 407. Wendt argues:
- Self-help and power politics do not follow either logically or causally from anarchy ... If today we find ourselves in a self-help world, this is due to process, not structure. There is no 'logic' of anarchy apart from the practices that create and instantiate one structure of identities and interests rather than another; structure has no existence or causal powers apart from process. Self-help and power politics are institutions, not essential features of anarchy. Anarchy is what states make of it ... If states find themselves in a self-help system, this is because their practices made it that way.
- 96 Hugh White, *The China Choice*, as above, 101.
- 97 As above.
- 98 As well as offering a truncated account of the possible responses to the China choice, White's proposal rests on an unrealistically rigid picture of diplomatic conduct and optimistically assumes that a Concert of Asia is a viable option for policymakers and political leaders in China and the United States. Diplomatic decisions are not typically as simple as choosing to restrict another country's actions, give it unfettered freedom, or reach a formal power-sharing agreement. Diplomacy is usually a much subtler art in which a country will at times seek to restrict another country, at times leave it at liberty, and at times arrive at a formal agreement. Policymakers would also struggle to gain political support for a Concert of Asia. Beijing would likely see a Concert of Asia as undermining its sovereignty and hemming in its ambitions: As an emerging world power with a traumatic history of foreign occupation and longstanding territorial disputes with many of its neighbours, Beijing is acutely sensitive to perceived attempts to undermine its international standing or block its rise. The United States would probably see a Concert of Asia as a premature concession to Chinese attempts to shape the Indo-Pacific's international system: As a superpower in relative decline, Washington is concerned that a major US military and diplomatic drawdown in the region would quickly become a self-fulfilling prophecy that paves the way for Chinese hegemony.
- 99 Wang Yi, 'Toward a New Model of Major-Country Relations Between China and the United States,' as above; Yang Jiechi, 'Signed article,' as above; Yang Jiechi, 'U.S., China can forge a more cooperative relationship,' as above; 'US seeks a new model of relations with China: Rice,' as above; Embassy of the People's Republic of China in Grenada, 'Address by Assistant Foreign Minister Le Yucheng at the Seminar on China's Diplomacy in 2011 and its Prospect,' as above.
- 100 Wang Jisi and Kenneth G. Lieberthal, *Addressing U.S.-China Strategic Distrust*, as above, vi, 5, 35–37.
- 101 Yang Jiechi, 'U.S., China can forge a more cooperative relationship,' as above.
- 102 The Department of State, 'U.S. Relations With China,' [www.state.gov/r/pa/ei/bgn/18902.htm](http://www.state.gov/r/pa/ei/bgn/18902.htm).
- 103 United States Census Bureau, 'Trade in Goods with China,' [www.census.gov/foreign-trade/balance/c5700.html](http://www.census.gov/foreign-trade/balance/c5700.html); The CIA World Factbook, 'Country Comparison: Exports,' [www.cia.gov/library/publications/the-world-factbook/rankorder/2078rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2078rank.html).
- 104 The Heritage Foundation, 'China Global Investment Tracker,' [www.heritage.org/research/projects/china-global-investment-tracker-interactive-map](http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map); Department of the Treasury, 'Major Foreign Holders of Treasury Securities,' [www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt](http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt).
- 105 Hugh White, *The China Choice*, as above, 101.
- 106 Rod McGuirk, 'China seeks closer defense ties with Australia,' as above; 'US should discard its Cold War mentality,' as above; Embassy of the People's Republic of China in Australia, 'Foreign Ministry Spokesperson Liu Weimin's Regular Press Conference on November 17, 2011,' as above; Embassy of the People's Republic of China in Grenada, 'Address by Assistant Foreign Minister Le Yucheng at the Seminar on China's Diplomacy in 2011 and its Prospect,' as above.
- 107 Li Peng, 'Main Characteristics of China's Foreign Policy,' [www.china-embassy.org/eng/zmgx/zgwjzc/t35077.htm](http://www.china-embassy.org/eng/zmgx/zgwjzc/t35077.htm); Information Office of the State Council, 'China's Peaceful Development,' as above. Li elaborates:
- China has unswervingly pursued an independent foreign policy of peace. The basic objectives of the policy center on safeguarding national independence and state sovereignty, and creating an international environment favorable to its reform, opening and modernization efforts, as well as maintaining world peace and promoting common development.
- See Li Peng, 'Main Characteristics of China's Foreign Policy,' as above.
- 108 Hans Morgenthau, 'A Realist Theory of International Politics,' as above, 52.



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