



ASSERTIVE ENGAGEMENT:
**AN UPDATED
U.S.-JAPAN
STRATEGY
FOR CHINA**

Dennis C. Blair



SASAKAWA USA

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OVERVIEW

This paper recommends an improved strategy for the United States and Japan towards China for the period through 2030. It describes China's current economic and political trajectory, presents four possible futures for Chinese development, and projects the likeliest path. It then analyzes the current, "mixed" U.S. and Japanese strategy towards China, including its shortcomings; proposes two alternatives—buildup or accommodation; and concludes by recommending an enhanced form of the current strategy, based on five areas of improvement.

CHINA'S TRAJECTORY

It is impossible to predict a single outcome for the China of 2030, given the variety and complexity of factors involved. To predict which factors will dominate and how they will interact is beyond the capabilities of the social sciences. That said, the most influential factors will likely be internal—demographic trends; the pace, form, and success of economic development; the attitudes and actions of various socioeconomic groups; and the successes, failures, and unintended effects of government policies.

However, external factors will certainly influence China's future course, as well—policies of the United States and Beijing's neighbors; international economic developments; events in other countries and regions, such as North Korea, Russia, and the Middle East; and possible crises or conflicts involving the Korean Peninsula, Senkaku Islands, Taiwan, or South China Sea. So-called “mega-trends” will also come into play—climate change, the continued information revolution, pandemics, and other natural disasters. Any of these events, depending on their duration, intensity, and results, could dramatically change the course of Chinese history.

CHINA'S GOALS

Today, China accounts for roughly half of all economic activity in East Asia and has become the world's largest merchandise trader. China's growth in 2016, despite the drop-off in its double-digit pace, is expected to account for the largest share of global and regional growth by any single country. More than \$1 trillion of Chinese foreign direct investment will flow abroad by 2020—much of it to China's periphery—according to consensus forecasts among leading economists and trade specialists.

China is playing a rapidly increasing role in shaping both regional and global outcomes. As a result, it appears to be well on the path toward achieving President Xi Jinping's concept of a “Chinese dream,” which culminates in the “great rejuvenation of the Chinese nation.” By “great rejuvenation,” Xi means that, by the time of the People's Republic of China's centennial anniversary in 2049, the country will have restored its historical position of economic, political, and cultural centrality in Asia. It is important to note that President Xi's concept of a Chinese dream also aims at strengthening his claim to be the ideological steward of the Chinese Communist Party (CCP), and simultaneously deterring powerful interests from deviating from his policies.

Stable relations with the United States, under the umbrella of a “new style of great power relations,” also undergird the achievement of President Xi's Chinese dream. Beijing's calculus for achieving this stability, however, remains unclear. In a best-case scenario, the Chinese seek to ensure that competitive elements in the U.S.-China relationship remain firmly under control—roughly analogous to the period of U.S.-Soviet détente during the Cold War. In a less benign assessment, China is using the framework of great power relations to seek U.S. acquiescence to China's definition of “core interests,” which include maintaining China's political system, territorial claims, and way of shaping and applying international rules and regimes.

Although President Xi is serious about upholding U.S.-China relations, he is keener than his predecessors on promoting a multidirectional Chinese foreign policy befitting China's newfound great power status. He has put particular emphasis on ties with Russia, Europe, and the developing world. He has launched the "One Belt, One Road" initiative, promising large investments in transportation infrastructure development. "One Road" is a maritime trade route across the Indian Ocean to the Middle East and on to Europe; "One Belt" is a land trade route through Central Asia to Europe. President Xi is looking to Washington for signs that it is willing to acknowledge China's growing global role and to adjust U.S.-China ties to reflect this new reality.

In the domestic economic arena, the Xi administration released a comprehensive vision statement at the Third Plenum of the 18th Central Committee in November 2013 that contained the most sweeping reform proposals in decades. The Plenum's most controversial outcome, by far, was the ruling party's pledge to moderate the state's hand in the market by upgrading the market's role from "basic" to "decisive" in allocating resources. Granting the market this decisive role will have profound consequences for many of the regime's most powerful vested interests. For a long time, excessive regulation and local protectionism have made the market inefficient, and the country's strained fiscal system has incentivized local governments to pursue predatory land grabs, speculative property development, and excessive infrastructure. The Plenum documents identify all of these governance issues as reform priorities. In each of the areas that the documents identify as key pillars of reform—particularly state-owned enterprises, fiscal realignment, and financial sector opening—the emphasis on expanding the market's role will encounter stiff resistance from threatened state monopolies, their allies in the state planning and regulatory machinery, and provincial and sub-provincial officials.

XI'S STRENGTHS

China's amazing economic accomplishments and increased global stature and influence have bolstered the legitimacy of the Chinese Communist Party (CCP) by showing that it—and, the CCP argues, only it—can deliver the goods economically. Moreover, the fallout from the global financial crisis further strengthened the view among many CCP elite that China has somehow discovered a "third way"—the marriage of relative economic openness to a closed political system.

President Xi's rapid consolidation of power and his confident, unflappable style of managing China's many challenges represent key strengths of the regime. The smooth and complete handover of power from his predecessors has granted him unusual stature within the Politburo Standing Committee and among the key officials supporting it. His innate confidence and born-to-rule leadership style strengthen that sense of stability. He has made personnel appointments that emphasize the central role of the party and strengthen his hand as the CCP's General Secretary by ensuring that all key decisions flow through and from him.

CAVEATS

There is a growing risk that China's trajectory of growing economic strength and assertiveness in the regional security environment and self-serving vision of "mutual development" could produce a backlash that undermines its stated interest in a stable periphery. There are signs that Chinese leaders are aware of this risk. Releases from an October 2013 work conference on peripheral diplomacy emphasized the importance of greater coherence in China's foreign policy toward its neighbors; the need to treat them "as friends and partners, to make them feel safe and help them develop," and the need to foster a sense of "common destiny" with China. President Xi provided specifics on these policies in a 2014 speech at a Central Foreign Affairs Work Conference. That speech placed China's relations with its neighbors ahead of relations with "major countries" (the United States) in the pecking order of Chinese foreign policy priorities. Despite these stated goals, however, Beijing continues to push its maritime claims and naval reach. In 2014 it began rapid land reclamation activities on four islands it had claimed but not previously developed in the South China Sea. These huge dredging projects became public knowledge in 2015, causing concern and protest from other claimant countries in Southeast Asia. China's neighbors remain concerned, and now are less likely to accept at face value China's claimed commitment to "win-win" strategies in the region.

President Xi also seems to be quietly asserting that the U.S. rebalance to Asia threatens his "period of strategic opportunity" (through 2020) in which a benign security environment allows China to focus on internal development. This line of reasoning helps to explain why some senior Chinese officials have admonished Washington to do a better job of constraining U.S. allies that have become emboldened by the rebalance policy. It also appears that President Xi has tacitly sanctioned criticism of the rebalance, as evidenced by Defense Minister Chang Wanquan's comment, during an August 2013 visit to the Pentagon, that he hoped the "strategy can bring peace to the Pacific region instead of seeking to weaken China."

REFORM HURDLES

China's leaders have obstacles to overcome if they are to implement the bold reform agenda presented at the Third Plenum. For example, President Xi and his Politburo colleagues have struggled to set priorities, thereby risking systemic paralysis. It is also possible that the reforms will not be bold enough, proving insufficient to transform the Chinese economy and society. Moreover, the quiet but massive buildup of leverage in the Chinese economy following the financial crisis will force the government to accept lower growth for at least a few years.

President Xi currently seems to be consolidating power successfully from the previous, collective leadership. However, there is a chance of backlash from the entrenched interests he is challenging. In addition, in the face of slowing economic growth, his signature anti-corruption campaign—although widely popular—could be met with deepening public dissatisfaction and

cynicism. As a result, it is possible that he may not be able to translate his personal power into dramatic economic results.

FOUR POTENTIAL FUTURES

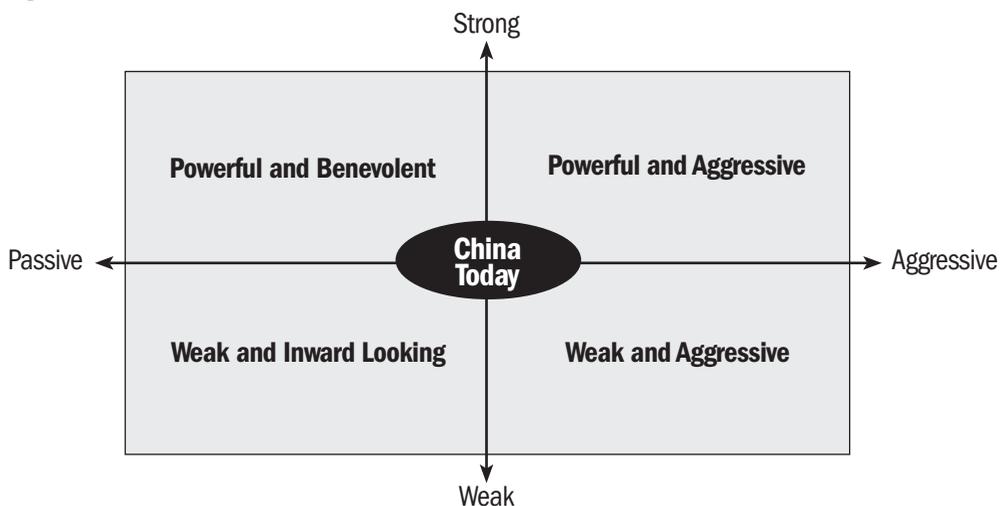
For the United States and Japan, the most important aspects of China's development are its economic and military power and its approach to national security. Figure 1 shows a graphic representation of China's relative economic and military strength on the y-axis and the nature of its external activity on the x-axis. The four quadrants represent alternative futures for China:

1. Powerful and Benevolent
2. Powerful and Aggressive
3. Weak and Inward-Looking
4. Weak and Aggressive

This section discusses the implications for the United States and Japan of these four futures, provides indicators of China's movement toward each future, and offers an appropriate strategy for Japan and the United States in each case. The aim is not to settle on one future—an analytical impossibility and policy mistake—but rather to identify the capabilities and policy approaches that would be necessary for an effective and resilient Alliance strategy.

It is dangerous to base an Alliance strategy on a single future for the China of 2030. If American and Japanese policies were based on a powerful and benevolent China, it would be logical to reduce military expenditures and selectively accommodate Chinese interests. However, such a strategy would leave American and Japanese interests wholly unprepared for a powerful and aggressive China or a weak and aggressive one. That strategy would also be

Figure 1: China's Potential Futures



inappropriate—even counterproductive—in dealing with a weak and inward-looking China. There is also the risk of creating a self-fulfilling prophecy. If the United States and Japan base their policies on the expectation of a powerful and aggressive China, and take preparatory measures that Beijing interprets as a containment strategy, China might decide to adopt aggressive policies to defend itself, leading to a cycle of armament and tension that neither side desired.

It is this chain of reasoning that has led most status quo powers in history to pursue mixed strategies when dealing with countries that are becoming more powerful and potentially challenging. Mixed strategies include elements of accommodation and cooperation, elements of contention and confrontation, and elements of capacity buildup to deter or deal with potentially hostile future actions.

A mixed strategy, for the most part, has been the bilateral and bipartisan consensus for both Tokyo and Washington since the April 1996 Joint Statement on Security by Prime Minister Ryutaro Hashimoto and President Bill Clinton, welcoming China’s positive contributions to international society. However, since agility is critical to a grand strategy, the Statement also pledged to revitalize U.S.-Japan security cooperation and only established the broad parameters of a U.S.-Japan approach to a rising China. Despite temporary policy changes in response to specific events, each subsequent U.S. and Japanese administration has adopted this type of “engage and balance” strategy, given that China’s trajectory remains uncertain and it has shown a range of positive and negative developments.

Scenario 1: A Powerful and Benevolent China

If China successfully transitions to a new economic model based on greater consumer-led economic growth and a larger private sector, it would likely achieve economic growth rates of 5-7 percent over the near- and medium-term. The Chinese government would feel secure enough both domestically and internationally that it would cooperate freely with the United States, Japan, and Europe on important issues. It would employ economic and political influence and negotiated compromise to advance its core interests—continued primacy of the CCP, reunification with Taiwan, secure administration of Tibet and Xinjiang, and favorable resolution of its territorial claims in the East and South China Seas and along its border with India. It would transition from a “free rider” foreign policy to an involved and cooperative one in which it exercised substantial, shared leadership in solving regional and global challenges, confident that its own interests would be advanced along with those of other states.

Over the next 15 years, a China developing along these lines would be expected to take some or all of the following actions:

- Jointly develop shared natural resources, such as fisheries, offshore hydrocarbons, and water rights within its claimed exclusive economic zones that overlap the claims of others.
- Peacefully compromise to settle outstanding territorial issues in the South and East China Seas and with India.

- Cease intrusions into other countries' proprietary information networks, develop a strong and enforced intellectual property rights regime, and ease policies on indigenous innovation and favoritism toward state-owned enterprises.
- Participate in, and even lead, efforts to deal with trouble spots around the world, especially the Middle East, through diplomatic, economic, and military means.
- Take the lead in dealing with transnational issues, such as climate change, violent extremist groups, and nuclear non-proliferation, particularly on the Korean Peninsula.
- Assume a cooperative leadership role in international organizations, such as the United Nations, the World Bank, and the newly formed Asian Infrastructure Investment Bank.

If China were to take this path, the United States and Japan could cooperate with Beijing on a broad range of important issues, reduce their military expenditures, and support increased Chinese leadership positions across a full range of international economic, diplomatic, and security organizations. So long as its system of government remained autocratic, suspicions would fester in Japan and the United States about China's trustworthiness, and there would still be difficult, sometimes acrimonious, negotiations among China, the United States, and Japan over political, geographic, economic, and other issues. However, the three countries could conduct relations, without underlying suspicions that China was engaged in a relentless, unilateral pursuit of its own interests at the expense of others.

Scenario 2: A Powerful and Aggressive China

A China with these characteristics would be the most dangerous and difficult for the United States and Japan. This China would have transitioned to a predominately market-based economy; it would have a sustained rate of economic growth of 5-7 percent, at least 3-4 percent higher than that of the more developed economies of the United States, Europe, and Japan; it would further restrict the activities of foreign businesses in China, in favor of domestic companies; it would pursue strongly mercantilist policies overseas; and it would continue to increase its defense expenditures, so that by 2030 they would approach those of the United States.

Given the confidence and popular support that the CCP would enjoy with this sort of economic and military advantage, China would use its power and influence to move quickly and, if necessary, aggressively to support its current core interests—primacy of the CCP, reunification with Taiwan, secure administration of Tibet and Xinjiang, and success in pursuing its claims in the East and South China Seas. In addition, as its power increased, China would develop more expansive claims in its border disputes with India and seek to become the dominant maritime power in the Indian Ocean to protect its oil supply lanes.

There are limits to China's ability to carry out such a strategy. The more it pursues aggressive policies, the more other countries in the region and the world would react by limiting

their economic interactions with China, which would, in turn, slow China's economic growth. Other countries would also increase their own defense budgets, turn to the United States for support and, in perhaps the most extreme case, form an anti-China coalition, whether formal or informal, to limit China's ability to press its interests in new areas. However, China has ample space to pursue an activist policy to support its overseas interests without rousing an anti-China coalition. It can modulate its challenges to the interests of others by using non-military rather than military means; it can favor some countries as it presses others; and it can periodically offer a more benign face before undertaking a new round of aggressive activity.

Over the next 15 years, a China that was developing along these lines could be expected to take some of the following actions—in fact, China is taking many of them now, and a powerful and aggressive China would sustain or intensify them:

- Increase large-scale air and naval exercises around Taiwan to demonstrate the People's Liberation Army's (PLA) local military superiority.
- Declare that the Taiwan status quo cannot continue, and press aggressively for unification.
- Use mercantile and other coercive tools, continue aggressive action by civilian agencies to support Chinese claims in the South China Sea, and introduce military forces to support those claims, including by attacking rival claimants.
- Take military action along the disputed Line of Control with India.
- Conduct larger-scale military exercises around Japan, extending eastward to Guam.
- Increase cyberattacks to penetrate proprietary foreign information networks and gather information for competitive advantage.
- Continue and increase pressure on foreign companies doing business in China to favor domestic companies.
- Employ more aggressive mercantilist policies around the world, through subsidies and other forms of support, and apply political pressure on foreign countries to favor Chinese companies.
- Develop China-led economic, military, and regional organizations that compete with established international organizations.
- Pursue policies favoring Chinese interests in global trouble spots, such as North Korea and the Middle East, as well as fragile states, such as Afghanistan, Yemen, and Libya.
- Pursue unilateral Chinese policies on transnational challenges, such as climate change and nuclear non-proliferation.

If China were to take such a path, the United States and Japan would have two fundamental choices: contain China's aggression and ambitions or concede to them, seeking some sort of division in spheres of influence or power sharing in East Asia and beyond. These alternatives are discussed below.

Scenario 3: A Weak and Inward-Looking China

This was essentially the China of roughly 1975 through 2000. During the early part of that period, the Cultural Revolution convulsed China. Neither the United States nor Japan felt threatened. The United States and China cooperated against the Soviet Union; Japan sent China large amounts of overseas development assistance; and American and Japanese companies invested in China on a large scale, once the country opened to foreign business in 1989. In 1995-96 when China attempted military coercion of Taiwan, the United States responded with superior military force and China had no military means to respond.

Looking to 2030, a relatively weak China would have failed to shift its economy toward a more market-based model and greater consumer demand-led growth. Its economic growth would be 2-3 percent per year, at most. Chinese leaders would be preoccupied with internal developments—tinkering with economic policies in order to increase growth, and applying social and political controls to deal with popular dissatisfaction over stagnating incomes, diminished opportunities, and income inequality. Military expenditures would be reduced as economic growth slowed and domestic needs increased.

China's slowed economy and inward focus would have global follow-on effects. Current predictions of a tight world oil market over the long term are largely based on strong growth in China. Without such growth, future oil prices would remain low. Low oil prices would have positive economic effects for the United States and Japan. However, reduced revenues for Russia and other oil-exporting countries at odds with Washington and Tokyo could lead to social and political instability or even crisis and conflict in those exporting countries, which would jeopardize U.S. and Japanese interests. Reduced Chinese economic growth would also shrink investment and export opportunities for American and Japanese companies.

A weak and inward-looking China would have little interest in cooperating on common regional and global problems. It would have little or no incentive to turn outward and join political—much less military—efforts to relieve suffering and end the violence resulting from local ethnic and religious conflicts and crises over economic problems. The United States, Europe, and Japan would have to handle these problems largely on their own, with China taking actions only to protect its narrow interests.

A weak and inward-looking China would not give up its core interests of CCP control, sovereignty over Tibet and Xinjiang, reunification of Taiwan, and territorial claims. However, recognizing its reduced international power and influence, it would not pursue activist policies to achieve ambitious goals, and it would maintain its claims, but take minimally aggressive actions to support them.

Over the next 15 years, a China that was developing along these lines would be expected to take some of the following actions:

- Attempt different approaches to rekindle economic growth, sometimes reverting to protectionist and mercantilist policies, while other times seeking increased foreign direct investment and export markets.

- Tighten controls on the media and Internet and suppress any questioning of or resistance to its authority.
- Soften its external policies in order to temper its aggression in the South and East China Seas and on the border with India.
- Reduce participation in international economic, military, and regional organizations because of diminished capacity and fear of exposing its weakness.
- Avoid, or play only a minor role in, cooperatively handling global hot spots, and make decisions based its own interests.

In dealing with this type of China, American and Japanese positions in East Asia would not be actively threatened. However, even if China could only maintain its current military capability, sustained American and Japanese naval and air power in the region would be required to retain a military balance. American and Japanese interests would be challenged, elsewhere, as reduced world economic growth resulted in economic and political crises, and even conflict, in Russia, the Middle East, and the oil-producing states of West Africa. China's disinterest in helping to find and support solutions would make U.S. and Japanese responses to these crises more difficult.

Scenario 4: A Weak and Aggressive China

This future for China would be characterized by lackluster growth and a government laboring to maintain social order in the face of a daunting array of internal challenges. As a major component of its approach to maintaining power, the CCP would blame U.S. and Japanese hostility for its economic problems and the public's dissatisfaction. It would encourage nationalist resentment against foreign countries in order to deflect blame for its own shortcomings. It would take harsh actions in Tibet and Xinjiang to suppress opposition to central Han rule. However, it would go further and initiate actions—from nationalistic rhetoric to military attacks—along its unsettled borders to gain territories for which it has made historical claims.

For an example of this China, consider the Korean War. A China that was much weaker than the United States took the very risky step of permitting, if not encouraging, North Korea to attack the South, counting on the United States not to intervene. The histories of other countries also offer examples of foreign adventures to distract their populations from internal weakness. Consider Argentina's 1982 invasion of the Falkland Islands; and Russia's recent aggressive moves against Crimea and Western Ukraine, as well as its overflights of its neighbors' airspace and menacing exercises along its borders—all have elements of diverting attention from internal woes.

It is important to note that the Chinese government, aware of its weakness, would not be seeking to set off a general war with Japan and the United States. Rather, it would be attempting to keep its provocations at a level below that threshold, counting on foreign responses to be limited.

Over the next 15 years, a China developing along these lines would be expected to take some of the actions described below:

- Despite slow economic growth, discourage foreign direct investment and decline to cooperate in international economic activities, yet sustain or increase military spending.
- Pursue mercantilist policies worldwide.
- Keep regional tensions high by taking provocative, but limited, actions around Taiwan, in the East and South China Seas, and along the border with India.
- Assert unilateral nationalist policies in trouble spots around the world, specifically opposing U.S. and Japanese interests and policies.

Dealing with a weak and aggressive China would be a difficult challenge for the rest of the world. The United States and Japan would adopt the kinds of policies that NATO is currently developing toward Russia, a country with a weak economy pursuing hostile—and domestically popular—policies towards NATO. The United States and Japan would sharply reduce their economic relations with China, either through government policies in response to individual Chinese actions or as a result of the business climate in China becoming more hostile to foreign companies. Keeping their own military forces strong, the United States and Japan would selectively confront Chinese aggression, while ignoring actions of less impact.

As with a weak and inward-looking China, its sluggish economy would be a major drag on the global economy, leading to crisis and even conflict in other parts of the world. The United States and Japan would be stretched to deal with problems in the Middle East, Africa, and elsewhere, while at the same time maintaining the policy attention and military resources to deal with aggressive Chinese actions in its immediate neighborhood.

THE MOST LIKELY SCENARIO: ELEMENTS OF DIFFERENT FUTURES

China's security policy over the next 15 years will emerge from a complicated set of ambitions, perceptions, and domestic developments. These include the driving necessity for economic growth; difficulties in maintaining authoritarian control over an increasingly wealthy and competent middle class; the need for a peaceful international environment; and the self-righteous belief that China's time has come after years of humiliation, and that it is both owed and able to force concessions from other countries.

As a result, China's course of development through 2030 will not fall neatly into any of the four alternatives described above. Since Mao, China's leaders have proven to be very practical—they pursue a set of policies as long as those measures seem to be advancing their objectives, and if not, they try a different approach. The four alternatives that have been described, although they have a basis in Chinese history and the logic of political science, are constructed for the purpose of developing a U.S.-Japan strategy resilient enough to address a mix of possible circumstances.

As a starting point for developing such a strategy, this section will describe a single, baseline projection for China's development and security policies. Later sections will test alternative strategies not only against this baseline but also in light of more extreme, possible developments drawn from the four alternative futures.

Internal Core Interests

The most important developments determining China's future will take place within the country. The preoccupations of China's leaders, as in the past, will be to further their core interests in maintaining the authority of the CCP and the continued economic development and social transition of their country.

Preserving the CCP's governing power will remain paramount. This interest has been constant across dramatic changes in Chinese economic, political, and military policies. The same Deng Xiaoping who drove the most daring liberalization of the Chinese economy in history also ordered the tanks into Tiananmen Square to suppress a challenge to the Party's authority. It is unlikely that in the middle ranks of CCP officials there is a Gorbachev-like figure in his 30s or 40s who will emerge, ready and willing to share, much less abandon, the Party's power. While keeping a tight grip on the levers of power, Party leaders will experiment with different combinations of government security measures and institutional reforms. We are seeing one such combination as the Xi administration has tightened control of the media and the Internet, while attempting to strengthen the rule of law, at least as it applies to everyday crimes, like corruption.

Over the long term, the greatest challenge that Chinese rulers will face in maintaining their grip on power will be a competent and confident middle class that their own economic policies have created. In other dictatorships that have enjoyed economic success, such as South Korea and Taiwan, emerging meritocratic middle classes have eventually questioned the legitimacy and authority of ruling party bureaucrats. It is most likely that through 2030 the CCP will be able to maintain power using a combination of modest concessions to the interests of the new middle class and a continued campaign to prosecute corrupt officials, while avoiding structural changes, such as a free press and independent judiciary, and continuing traditional authoritarian security measures, enabled by still-developing information technology.

The second and related core interest for any Chinese government will remain economic development. The western part of China remains rural and underdeveloped, and so the Xi government intends to raise the urban proportion of its population from 50 percent to 70 percent by 2030. The goal of economic growth has also been modified from pure wealth and job creation to include recognizing the importance of protecting quality of life. Chinese economic officials used to talk about 8 percent economic growth being the minimum necessary to create the types of jobs that would maintain popular support for the government. Now, the government has realized that the negative effects of headlong growth—primarily environmental damage, income and wealth inequality, and corruption—undermine popular support.

In addition, the previous economic model, based on manufacturing exports and infrastructure investment, has reached the end of its potential for generating high rates of growth. Chinese leaders know that that model must be replaced with one that promotes growth based on domestic consumption and support for the private sector, rather than inefficient, state-owned enterprises. However, the current system is difficult to change because of the entrenched interests of state-owned enterprises and provincial governments. It is possible, although not likely, that another Deng Xiaoping or Zhu Rongji will emerge—a leader willing and able to make major, rapid change in the economy by confronting and overcoming such interests. President Xi is accumulating the personal power that would enable such moves, but his initial actions have been modest and the entrenched interests are more economically powerful than they were 15 or 25 years ago. He is more likely to try small-scale economic experiments and manipulate government controls over the financial system, rather than confront, head-on, institutions and individuals with large stakes in the current system.

Most American and Japanese economists who study China predict that Chinese economic growth will slow, but not stall, over the next 15 years to 3-4 percent, well below the current official Chinese goal of 7.5 percent growth, and a sharp reduction from the rates above 10 percent over the past 20 years.

A growth rate of 3-4 percent, especially if it is accompanied by environmental improvements and reduced corruption, should ensure legitimacy for the regime as a provider of a better life for most people. However, growth at this rate will also require greater Chinese involvement in global markets in goods, services, and finance. It will not be in China's economic interest to alarm and antagonize other countries with aggressive territorial and military activities or regulatory policies that discourage foreign direct investment and the operations of foreign companies within China. To do so would invite, at best, sharply curtailed economic relations and, at worst, sanctions that retard Chinese growth.

External Core Interests

Chinese core interests beyond its borders are unlikely to change fundamentally in the next 15 years. The most important include protecting territory and sovereignty with a high margin of safety, bringing Taiwan into a unified China, and advancing historical claims in the South and East China Seas and on land borders with India. Lesser but important interests include enlarging Beijing's role in international political and economic institutions and expanding its influence in protecting Chinese interests in other areas of the world—especially South Asia, the Middle East, and the land and sea lanes that connect them to China.

China's approach to national security—cooperative and benevolent or active and aggressive—is mostly a matter of leadership choice, although as discussed earlier, it will be based on domestic core interests and priorities, and influenced by the state of the international scene and the intent of other major powers.

Chinese leadership decisions, in part, depend on two factors, one acting as an accelerator and the other as a brake.

The accelerating factor is China's increasing economic and military power. In the past decade, China's greater strength has fueled a trend toward more assertive and activist policies in support of its interests. Having suffered heavy losses in pride, sovereignty, and territory to more powerful countries in the past, Chinese leaders feel deeply that their economic and military heft entitles them to greater concessions from other countries. Chinese leadership, supported by many in the middle class and among the prosperous elites who have no memories of a time when China was not one of the most consequential countries in the world, believe that other countries must accommodate China's interests. They also believe that as its relative power increases, China has far greater scope to assert its interests, and that other countries will be more hesitant and reluctant to oppose its initiatives.

When China aggressively supports its interests abroad, it generates nationalism at home. In turn, that nationalism fuels aggressive support of China's interests abroad. Some of this popular feeling is spontaneous, but the Chinese government also encourages suspicion of the United States and Japan and portrays foreign actions as hostile. Heightened nationalism produces a familiar syndrome—a “condition” that favors aggressive rhetoric and actions and discourages compromise and moderation for fear of appearing weak and unpatriotic.

However, there is also a braking factor that restrains such aggression. China requires a generally peaceful international environment to encourage foreign investment and trade. Chinese leaders and spokesmen chant a mantra of “peaceful rise,” meaning that, since China's internal development depends on a benign international environment, China has no intention of upsetting security arrangements in East Asia or around the globe. Although these assertions sound increasingly hollow, this restraining factor will persist for the next 15 years. Even if China is successful in making a major shift to internal consumption and reducing the international trade portion of its gross domestic product (GDP), it will still depend on imports of energy and natural resources, and it will still need markets for its exports.

In addition, Beijing will carefully assess the cohesion of the other states in Asia. At this point, threatened maritime states are taking greater collective action vis-à-vis China than at any point since 1969. However, Beijing can also see obvious gaps, such as Japan-Korea tensions, the ideational divide between Vietnam and the United States, and the diversity of security commitments the United States has made through treaties and agreements across the region. Finally, the role of the United States, Japan, and other like-minded democracies in supporting an open, rules-based architecture will be a critical determinant in how China defines its own trajectory.

In summary, barring a complete collapse of the Chinese economy, the world can expect China to be a demanding member of the global community in the near- and mid-term future. However, there is little likelihood it will deliberately push provocations to the level of conflict with its neighbors or the United States.

From Free Rider to Participating Stakeholder

An important inflection point in Chinese policy would be a transition from free rider to involved and positively contributing stakeholder in world affairs. Chinese leaders currently feel little responsibility to work with other major countries in dealing with regional crises. Beijing sanctimoniously declares that problems must be solved through negotiation, mutual respect, and noninterference, even when it is clear that these passive approaches will have little or no impact on those causing crises, let alone alleviate victims' suffering. When a problem area lies on its border, such as North Korea or Myanmar, China's preference is to preserve the status quo while looking out for its own interests. China also makes no attempt to use its economic influence to solve or head off problems in the countries where it invests; its trade and assistance in Africa and South America, for instance, come with no humanitarian strings attached.

Despite this passive and non-cooperative approach to major regional problems, China has taken small steps to support common goals. Chinese ships have joined the international naval flotilla protecting shipping against pirate attacks in the Gulf of Aden; China has steadily increased its number of participants in United Nations peacekeeping operations and routinely sends assistance to countries suffering natural disasters and disease epidemics; China has also cooperated in international efforts against terrorist organizations.

At the same time, reluctant to participate as a junior and inexperienced partner in international organizations dominated by the United States and other developed countries, China has attempted to lead some of its own international efforts to deal with common problems. It has set up peacekeeping training centers in competition with those sanctioned by the United Nations; it has pursued security cooperation against Central Asian terrorist groups, through the Shanghai Cooperation Organization; and it recently announced the formation of the Asian Infrastructure Investment Bank, a direct competitor to the Japanese-led Asia Development Bank.

There is an active debate within China about whether and how the country should assume responsibility for managing or solving regional problems, commensurate with its increasing economic and military power. The challenge is most acute when it comes to the Middle East, a source of continual crises that will increasingly affect China's economic wellbeing as its imports of hydrocarbons grow. Currently, the United States and a few of its allies have both the military capability and sense of obligation to maintain enough security in the Middle East for oil and gas to be extracted and exported. It is an open question whether China will continue to rely on the United States to perform this service for the entire world, or whether China will be willing to contribute diplomatic, economic, and military resources, and share in the formation of policies, that benefit not just China but also many other countries.

The most likely projection is that China will very gradually develop a sense of obligation to help maintain the global security and economic environment from which it benefits. It is more likely to develop a cooperative role in diplomatic and economic spheres than in security and military arenas. For example, it will probably continue to build its modest participation

in international humanitarian operations, but it remains unlikely to provide military units to international coalitions led by the United Nations or other countries deployed to restore peace and security in conflict areas.

Wild Cards

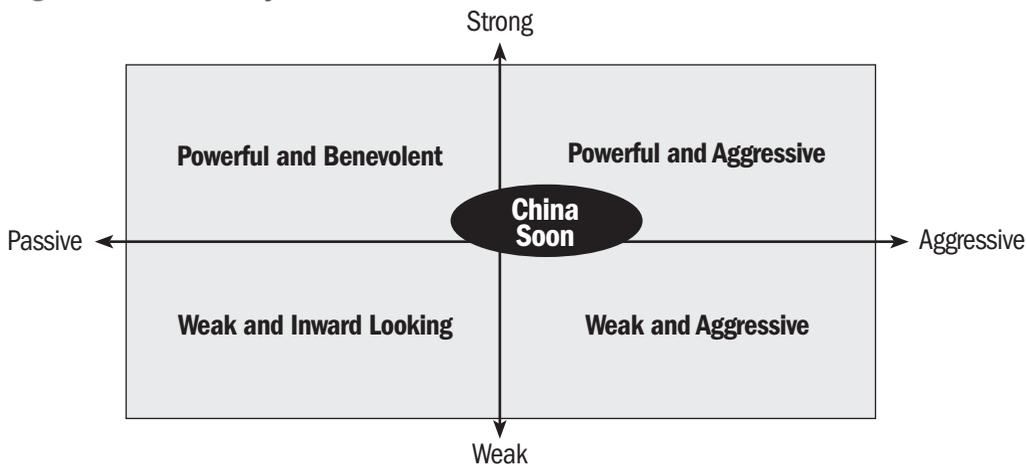
A shortcoming of the alternative futures described above is that they do not capture important internal leadership or external foreign developments that can alter the path of any country. These include the emergence of a powerful leader who dominates policy decisions. It is virtually impossible for another Mao Zedong to emerge in China, but President and CCP General Secretary Xi Jinping has been trying to consolidate power at an unprecedented rate. If his attempts succeed, for better or worse, he could place a personal stamp on Chinese policy on the scale of Deng Xiaoping. Although he is more constrained than Deng, he nonetheless could take China in a direction based on personal convictions that would not match any of the four neat alternatives listed above. An important indicator will be whether he hands over his positions and power to a younger successor after 10 years, or breaks recent tradition and remains in power.

There are risks in Xi's ongoing centralization of power. For example, instabilities in the top leadership may appear during the current transition period, caused by resentment and backlash against his growing personal power. In addition, the mismatch between even a successfully centralized power structure and a decentralized implementation system may undermine stability.

Other events could also make a significant difference over a 15-year period. Although the United States has significant influence on Taiwan, and China on North Korea, neither controls those countries' actions. A move by Taiwan toward independence or a conventional or nuclear attack by North Korea would set an entirely different course for regional developments and Chinese actions. Internal events in the United States and Japan would also make a difference. The most significant would be a U.S. withdrawal from the region, based on economic weakness or popular disenchantment with U.S. engagement in foreign affairs. Similarly, should Prime Minister Abe and his successors fail in efforts to revive the Japanese economy and modernize its defense policies, Japan will be unlikely to play a strong role in regional or world affairs over the long term.

Summary of Baseline Projection

The baseline projection for China over the next 15 years includes the CCP maintaining its grip on power through a mixture of concessions to and repression of newly empowered sectors of the country. China's economy will develop at 3-4 percent annually, but it will not overtake the United States as the largest economy in the world. It could increase its share of GDP allocated to defense spending in order to maintain its rate of increase, but it is more likely to follow its historical pattern of proportionate allocations to defense, meaning it will reduce its annual increases in defense spending from 10 percent to 3-4 percent. The PLA will remain committed

Figure 2: Baseline Projections

to transforming into technically advanced armed forces. This means that, given the increasing unit costs of sophisticated systems, the PLA will grow in capability but not in numbers of weapon platforms. Based on likely projections of U.S. and Japanese defense spending, China will not achieve levels of capability greater than combined American and Japanese capabilities in East Asia.

China will continue to press its claims to Taiwan, in the East and South China Seas, and over disputed territory with India, and it will use both paramilitary and peaceful but coercive military tactics to do so. However, China will not take actions that lead to armed conflict with its neighbors or the United States. China will fitfully assume a more cooperative role in dealing with problems around the world, beginning with diplomatic and economic cooperation, and it will continue to develop Chinese-led alternatives to existing global and regional economic, diplomatic, and military organizations.

This baseline projection for China is graphically represented in Figure 2. Note that the current trends project a somewhat more powerful and aggressive China than the United States and Japan have dealt with in the past.

TODAY'S ALLIANCE POLICIES

The Current, Mixed Strategy

The current strategy of the United States and Japan was first announced in the April 1996 Joint Statement on Security by Prime Minister Ryutaro Hashimoto and President Bill Clinton. Although it has been given different names, the strategy has been remarkably consistent, to date. It has employed a mix of cooperation in economic, diplomatic, and even some military areas; military modernization and declarations of military red lines on select issues; and efforts

with like-minded states to strengthen rulemaking in the Asia Pacific in ways that shape China's choices.

Since China's decision to join the world economy, the United States and Japan have sought to bring China into existing international economic and financial systems, culminating in China's entry into the World Trade Organization (WTO) in 2001. There have been many economic disputes since then, involving trade practices, intellectual property protection, and currency manipulation, but overall economic relations among China, the United States, and Japan have deepened and strengthened.

Diplomatically, the United States and Japan have sought to enlist China in common international initiatives. A successful example has been the control of nuclear weapons and technology proliferation. From a proliferator of nuclear technology, notably to Pakistan in the early 1980s, and a seller of advanced missiles to states in the Persian Gulf, China has become a responsible member of the non-proliferation regime. Its own nuclear weapons programs have been restrained, and it has consistently maintained a public doctrine of no first use of nuclear weapons. China has also, over time, taken a small but positive role in managing regional crises as it has gained a greater stake in a peaceful international environment. For example, to a limited extent, China joined the international sanctions against Iran to encourage it to adhere to its obligations under the Non-Proliferation Treaty. As described earlier, China has also participated to some degree in many smaller-scale international humanitarian operations.

Cooperative military relations have been more difficult. Declared American and Chinese policies have always been at odds over Taiwan's future status. China has maintained that under certain circumstances it would use force against Taiwan, while the United States has maintained that it would respond to the use of force. In 1996, both countries took symbolic military actions in the vicinity of Taiwan in support of these policies. There have been dangerous encounters between American and Chinese ships and aircraft in international waters and airspace off China's coast, most notably the collision in 2001 of a Chinese fighter with an American electronic reconnaissance aircraft. More recently, China has re-asserted its claims to the Senkaku Islands and deployed military forces in their vicinity. Japan has counter-deployed military forces and asserted publicly that it will defend them by military force, if necessary. The United States has stated that its security treaty with Japan applies to the Senkaku Islands but takes no position on their final sovereignty. Chinese and Japanese military and paramilitary forces continue to operate around the Senkaku Islands and occasionally confront each other.

Behind these episodic, low-level military incidents in the region lies a strong and steady increase in Chinese armed forces. Since the mid-1990s, China has increased its military budget by roughly 10 percent each year with a heavy concentration on naval, air, and missile forces. In response, the United States has increased the size and technological level of its own forces based in the Western Pacific. Japan, after years of gradually declining investments in its armed forces, showed small increases in 2013, 2014, and 2015.

In summary, the overall strategy of the United States and Japan has been to favor economic

cooperation with China, seek diplomatic cooperation, check Chinese sovereignty claims through military deterrence, and offset the growth of China's military capability by increasing both the capabilities and numbers of its own forces. Disputes over trade and economics as well as political and military crises have been dealt with as they occurred, and the mixed strategy that has predominated since 1996 has remained. The objective of this mixed strategy has been to encourage China's economic development and elicit its participation in common geopolitical issues, but limit China's inclination to expand its power and influence through military coercion or conquest. American and Japanese roles have not been equal. The United States has taken the lead in the strategy's economic, diplomatic, and military components. Japan has played a substantial role in the economic elements of the strategy, cooperated in the diplomatic aspects, and only recently, with the emergence of the Senkaku Islands as an issue, taken an explicit military deterrence role.

This American and Japanese strategy of the past two decades has been largely successful. China's participation in the world economy has brought many benefits to consumers and businesses in the United States and Japan. China has become somewhat more involved in solving regional crises and problems. Although China's military modernization has cut into U.S. and Japanese military superiority, China has not used its military forces to gain the territory it claims. Thus, it is reasonable to ask why the current strategy cannot simply be continued in the future.

Shortcomings of the Current Strategy

The answer is that China has become so large, economically successful, and militarily capable that it need not, and increasingly does not, accept the policy choices that the United States and Japan offer. China has simply outgrown the boundaries of current the American and Japanese policies of cooperation and deterrence.

China can embrace opportunities for cooperation in economic areas and in dealing with common challenges, such as regional hotspots and climate change. However, it can also devise and pursue independent economic and diplomatic policies that advance its interests. These can range from promoting its rules for Internet governance to starting new international development funds. In the military and security areas, China has been deterred from direct aggression, but has advanced its interests using sophisticated forms of military coercion and simple gunboat diplomacy, as well as a wide range of non-military activities, including administrative declarations, coast guard and fisheries enforcement patrols, and development of disputed territories.

On the economic front, the concept of welcoming China as a junior partner in an American- and Japanese-led economic order is becoming impractical. China's economy is now so big—surpassing Japan's and closing on that of the United States—that it need not always follow the American and Japanese lead on international economic policies that do not meet its interests or ambitions. It has ideas and initiatives of its own, such as making the renminbi

an alternative international reserve currency to the dollar and signing bilateral, long-term hydrocarbon agreements outside the dollar-denominated world oil market system. Whether these initiatives succeed, in terms of China's capacity or in the willingness of the international system to accept them, is very much an open question. However, China's ambition to reshape the international order is unprecedented. It seems that the Chinese feel they have successfully observed Deng's maxim, "hide power and bide time," for long enough, and now it is time to use power.

In addition, China has developed policies that generally stay within the WTO-defined world economic system, while supporting its own economic interests to the maximum extent possible. The most egregious example is in the area of intellectual property rights, an area in which WTO enforcement mechanisms are slow and ineffective. Using a full range of cyber espionage tools in addition to human techniques, Chinese companies, with the encouragement and sometimes active involvement of the government, aggressively pilfer intellectual property and trade secrets from international companies both in China and abroad. In addition, China uses regulatory measures to limit the activities of international companies, from denying access to certain areas of the economy to demanding the formation of joint ventures with domestic companies and prosecuting foreign companies for illegal but common business practices found within Chinese firms. Many other developing countries have used similar practices to attempt to reap the advantages of foreign investment, while building domestic business capability, but the scale of China's economy and the aggressiveness of its measures are unparalleled. So far, the United States and Japan have not developed an effective defense against these practices. WTO cases and diplomatic protests have had little effect.

On the diplomatic front, in contrast to its active economic policies, China participates only in a minor way in international efforts to deal with regional crises and conflicts, and still has not developed alternative ideas of its own. It was not ready to lead the international response to challenges like Iranian nuclear ambitions, the Ebola virus outbreak, or violent extremist groups. Even in the case of North Korea, an international troublemaker on China's own border, Beijing continues to take a relatively passive and reactive role. That said, China has begun to play a more positive and responsible role in meeting certain global challenges, but the country seems in no hurry to do so.

In the military arena, the sheer size of China's growing power is also becoming a critical factor. Military confrontations in East Asia involve maritime and air power, so it is not useful to make side-by-side comparisons of forces. The best way to think about military balances in the region is in terms of the ability to control sea and air space and to contest or deny that control.

Since it began its military buildup in the 1990s with an emphasis on submarines and missiles, China has developed a substantial capability to contest American and Japanese sea and air control in areas near the Chinese coast. Should conflict break out in the vicinity of Taiwan or the Senkaku Islands, Chinese forces would be able to inflict substantial damage on American and Japanese planes and ships. Chinese long-range missiles can reach both American

and Japanese bases in Japan and as far away as Guam. American and Japanese leaders, now and in the future, will have to expect casualties in the event of any military conflict with China. However, now and for the immediate future, Chinese forces cannot sustain a successful campaign to deny American and Japanese sea control in the region, if American and Japanese leaders commit the full weights of their available naval and air forces. China is a long way from developing the capability to maintain the control around Taiwan that it would need to occupy and hold the island, or to maintain the air and sea control necessary to sustain an occupation of the Senkaku Islands.

China does have considerable capacity for military coercion through gunboat diplomacy. It is sending its fleet to exercise at ever-greater distances from home waters, alarming Japan, the Philippines, Vietnam (a country it defeated in a naval battle in 1974 over several of the Paracel Islands), Malaysia, and even Indonesia. In other words, China's growing military force is exerting general coercive power and leverage on issues with its neighbors that they do not consider vital Chinese interests. China has not yet realized its claims in sovereignty disputes with its neighbors. However, if China's military growth continues at the 10 percent annual clip it has in the past—while the military expenditures of the United States, Japan, and other countries in the region continue to fall relative to China's, as they have in recent years—there will come a time when China will have maritime and air superiority in East Asia that it can translate into political leverage or, if necessary, military victory.

A new and important Chinese activity in support of its external claims is aggressive but predominately non-military action—a type of response that falls into what Japanese observers call the “gray zone.” Gray zone aggression uses a combination of administrative proclamations, such as declarations of fishing regulations for the entire South China Sea; establishment of Chinese jurisdiction over disputed waters; physical actions by non-military entities, such as national oil companies and construction companies; patrols by ships and aircraft of civil organizations, such as the Coast Guard and fisheries enforcement departments; and patrols by military ships and aircraft. China has deployed these tactics most extensively in the South China Sea in support of its extensive territorial claims, as well as in the East China Sea, most notably with the November 2013 declaration of an Aircraft Defense Identification Zone (ADIZ).

The objective of gray zone activities is to establish legitimacy for Chinese claims of sovereignty and to demonstrate China's ability to set regulations on issues, such as fishing or mineral rights, that it can physically enforce against countries with conflicting views. China is counting on its ability to muster superior force at specific locations—and on the inability of other claimants to oppose its moves, individually or collectively. So far, China's gray zone strategy has been successful and increasingly bold. Recent actions have included the 2012 patrols of Scarborough Shoal that turned away Philippine fishermen and government vessels; the 2014 deployment of an oil rig to conduct exploratory drilling in an area of the South China Sea also claimed by Vietnam; and the ongoing construction on some of the Spratly Islands claimed by the Philippines and Malaysia, including an air strip on Fierly Cross Reef and various

facilities on Johnson South Reef. American and Japanese responses to these actions have been largely rhetorical and ineffective.

In summary, the current mixed strategy of the United States and Japan is increasingly inadequate, even to deal with the baseline projection for China, outlined above. As China's economic weight grows, it is taking advantage of selective participation in the international economic order led by the United States, Japan, and other developed countries, while simultaneously pursuing aggressive national policies at home and mercantilist policies abroad. In the military arena, its steady buildup imposes a high cost on any country, including the United States and Japan, considering the use of military force to oppose Chinese aggression. At the same time, China has been able to operate in the gray zone to strengthen its claims in the South China Sea.

How would the current strategy fare against the different paths China may take in the future? For a more prosperous and benevolent China, continuing the American and Japanese strategy in the economic, diplomatic, and military spheres would probably be adequate. It would also be adequate, although challenged, in dealing with a weak and inward-looking China. It would not be adequate in dealing with a weak and aggressive China that builds its military forces despite a slowdown of its economy, or against a prosperous and aggressive China that takes bold action across the economic, diplomatic, and military spheres in support of its own interests.

As will be discussed below, the United States and Japan do not need a radical change in strategy to overcome all the shortcomings of the current mixed strategy. However, the current strategy requires substantial reinforcement, if it is to deliver both positive and negative incentives for China to play a cooperative role in the region and the world.

THE BUILDING BLOCKS OF AN UPDATED STRATEGY

Strategic Levers

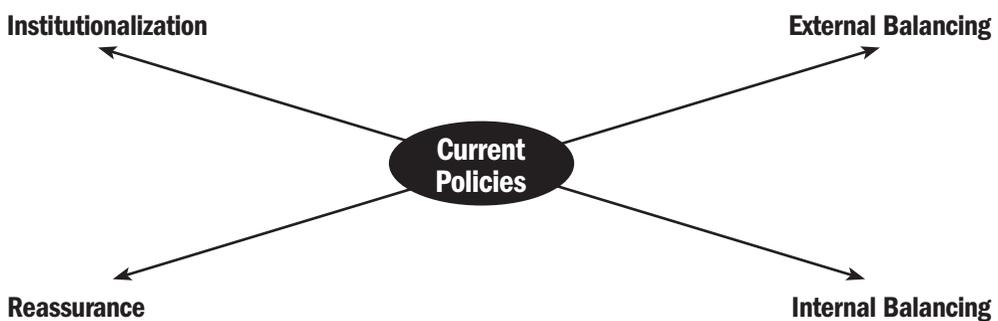
Before discussing specific approaches for the United States and Japan, it is important to understand the strategic levers that are available to both countries. Four categories cover most of the policies and actions the two countries can take to deal with China:

1. **External balancing:** Cooperation with and assistance to other countries in building their capacity to resist Chinese influence. Examples include trilateral cooperation with India, Australia, and Southeast Asia.
2. **Internal balancing:** Political and military measures taken together or separately that increase U.S. and Japanese combined power and influence to offset Chinese influence and deter or defeat its aggression. Examples include increasing defense budgets, upgrading U.S. Forces Japan to an operational command, and allowing military shared-use of civilian airfields.
3. **Reassurance:** Military and diplomatic steps to increase China's cooperation in

meeting common challenges and to help it develop habits of cooperation. Examples include more combined humanitarian assistance and disaster relief exercises, cyber dialogues, and military-military exchanges.

4. **Institutionalization:** Economic steps to promote cooperative, win-win economic arrangements. Examples include welcoming China into the Trans-Pacific Partnership (TPP) trade agreement, completing negotiations over a bilateral investment treaty with China, and supporting the Asian Infrastructure Investment Bank, if it operates in accordance with norms established by other multilateral development banks.

Figure 3: Alliance Policy Options: “Four Levers”



These four levers are illustrated in Figure 3. Decisions on growing or shrinking capacity and activity within each of these levers, and how to employ them in relations with China, should form the basis for the Alliance’s future strategy.

With these four, broad, alternative paths for future Chinese developments and a likely baseline projection as background, and keeping in mind additional developments that may affect China’s evolution, what are the broad approaches available to the United States and Japan?

There are two basic alternatives for dealing with a range of Chinese future developments. The first is a concerted buildup of both economic and military power sufficient to maintain American and Japanese leadership of the world economic system and military superiority in East Asia. This approach concentrates on internal and external balancing. The second involves accommodating China’s increased, relative power by agreeing to greater Chinese economic and military influence in some areas and defending more restricted American and Japanese interests. This approach concentrates on reassurance and institutionalization.

Alternative 1: Economic and Military Buildup

Building American and Japanese economic and military power would seem to be a way of handling all possible future developments in China. If the United States and Japan, together,

maintained a clear margin of economic and military superiority over China, then no matter how China developed, they would have better tools to shape China's development. In the case of a powerful and aggressive China, with relatively stronger military forces, the United States and Japan would have high confidence that they could prevent China from using military coercion to expand its territory or influence. As economic leaders, they could provide both rewards and penalties sufficient to shape China's actions within the global economic order.

A surge in American and Japanese economic growth and military spending would have several beneficial effects. Although most expert assessments described earlier foresee slowing Chinese economic growth, others contend China is on a path to overtake the United States as the world's largest economy; its military forces will soon rival those of the United States; and it will become the dominant economic and military power in East Asia. Reignited American and Japanese growth, especially in the context of reduced Chinese growth (but even if high-growth pundits are correct), would give the United States and Japan greater leverage in encouraging countries in the region not to make unilateral concessions to China and to insist that China follow a common, rules-based order. Moreover, within China, a contraction in the relative size of its economic power would likely be encouraging to those who argue that China's best path to prosperity is to work within the existing global economic system.

In summary, with substantially growing economies and military budgets, the United States and Japan would be in much stronger positions to deal with China's actions under the baseline projection or under a powerful and aggressive China, a weak and inward-looking China, or a weak and aggressive China. In any of these cases, the United States and Japan would be more successful in insisting that China abide by established, international economic rules and in imposing economic penalties if it did not. There would also be no question that the United States and Japan would prevail against any Chinese military challenge to the status of Taiwan or the Senkaku Islands or against any military aggression in the South China Sea.

Only in the face of a powerful and cooperative China would U.S and Japanese military expenditures and sacrifices—in terms of higher taxes and/or reduced domestic entitlement programs—be unnecessary.

This approach is somewhat similar to that pursued by the first Reagan Administration in the 1980s. Faced, then, with a primarily military challenge from the Soviet Union, the United States embarked on a combination of economic policies that were painful in the short run, but that arguably strengthened the national economy in the long run. At the same time, the United States built up its military forces at an unprecedented pace. A few years later, partially affected by the specter of a resurgent United States, although certainly motivated by the realization of the long-term weakness of their own bankrupt economic system, the leaders of the Soviet Union lost faith in their economic and military policies, attempted to reform them, and started a process over which they lost control, ultimately resulting in the breakup of the Soviet Union.

Both Japan and the United States historically have responded to perceived external threats with extraordinary economic and military buildups. There is no question that the superior

resources, technological skill, and dynamism of the American and Japanese economies and defense industrial bases could reverse the current economic and military trends, and so allow the two countries to maintain a lead over Chinese development in both areas. American defense capabilities, in particular, have been sapped in recent years by the bizarre legislative process of sequestration. The annual sequestration funding changes have mandated short-term, inefficient spending decisions in acquiring new weapons systems and have absorbed leadership attention. Ending this political contrivance would add quickly and significantly to American military capability.

Two basic questions about adopting this buildup approach include:

1. Where would the budget resources come from?
2. How would the money be spent?

In both Japan and the United States, public debt is at historically high levels, and greatly expanded government borrowing is not sustainable over the long term. The only way to reduce the debt in either country, let alone provide revenues for defense spending and economic investments, is to reduce spending on social security and medical programs, increase taxes, or pursue some combination of the two.

In both Japan and the United States, defense budgets would be increased substantially, while remaining at historically manageable proportions of GDP. For the United States, this would mean restoring projected cuts in defense spending; for Japan it would mean substantial increases.

To spur the U.S. economy, investments would be required in education, especially in science, technology, engineering, and mathematics (STEM); infrastructure, including highways, bridges, and rail; and information technology. Tax reform, both corporate and individual, also holds promise for stimulating growth.

Japanese actions to raise economic output would build on Abenomics—removing regulatory protection for favored domestic industries, continuing to bring more women into the workforce, and taking aggressive actions to allow vastly larger numbers of immigrants.

Such policies, of course, would raise questions in both countries over political feasibility. This strategy would require sacrifices in domestic economic priorities and bruising battles with entrenched interests. Appealing to the American and Japanese people to embrace such changes, based on the threat of a powerful and aggressive China, would take more committed and persuasive political leadership than either country has shown in recent years. In many ways, gaining support for a Reaganesque buildup, now, is much more difficult against China than it was against the Soviet Union in 1980. At that time, the United States had very little contact with, and faced an unmistakable military and geopolitical threat from, the Soviet Union. Currently, both the United States and Japan have extensive commercial ties to and personal contacts with China, and China presents only an ambiguous military threat. Without some unprovoked and unmistakable military aggression or autocratic crackdown by China, it would be difficult to rally

the publics of the United States and Japan to support a major buildup in military forces.

The second question concerns Chinese reactions. There is little doubt that China, in the near term, would consider such American and Japanese policies to be proof that the two countries intended to contain China and prevent it from achieving its rightful place in the world. It would react by strengthening its own economic efforts and enhancing its bilateral relations with other trading partners. In addition, it would increase its military development, interpreting U.S. and Japanese policy not as a precautionary measure but as a strategy to roll back the gains in influence that China has made in recent years. The cycle of mutual suspicion would make it difficult to maintain positive economic relations. There would be strong political pressure to split the world into competing economic blocs, thereby weakening both an important restraint on aggressive Chinese behavior and China's economic links to the United States, Japan, and other like-minded countries.

Other important questions relate to whether a buildup would be successful over time. Would the United States and Japan be able to sustain their efforts? Would China exhaust itself and fall behind the United States and Japan, given its aging population, lack of domestic energy supplies and other resources, and its authoritarian regime's failure to boost prosperity? Under these circumstances, would the CCP government fall? Alternatively, would China sustain its economic and military development, albeit at a lower level, but maintain its authoritarian control, allowing hostile relations to continue for decades into the future?

The answers to these questions lie not in data-based analysis, but in the occurrence and outcomes of unpredictable events and in the abilities of the different countries—both their populations and leaders—to sustain difficult policies. Thus, economic and military buildup is an approach with high risks and very uncertain outcomes.

Alternative 2: Accommodation

Accommodating Chinese interests would reflect a calculation that China has limited interests beyond its borders, and that once those interests are satisfied, relations with the United States and Japan would be peaceful and mutually beneficial. The United States and Japan would attempt to improve their own economic performance for domestic reasons, but not explicitly to deal with China; neither country would substantially increase its military budget, choosing instead to maintain roughly its current capability.

Following this approach, the United States and Japan would expect to continue robust economic relations with China, and would expect Chinese cooperation on common diplomatic initiatives outside of East Asia. In East Asia, the United States and Japan would not accede to all of China's territorial claims in the South China Sea, abandon Taiwan, or concede the Senkaku Islands. However, the United States and Japan would make it clear that they favor negotiated settlements of these disputes in a way that would satisfy many of China's interests at the expense of some of the interests of other claimants. In adopting this position, the United States and Japan would need to be convinced that China's territorial ambitions were limited, and that a good

relationship with China was more important than good relationships with contending claimants in the South China Sea and with Taiwan, and more important than Japan's sole ownership of the Senkaku Islands.

In the economic sphere, the United States and Japan would continue to insist on maintaining the basic, current, international economic structure, encouraging China to take a leadership role in governing institutions without altering or dominating that structure. In the military sphere, the United States and Japan would maintain a high-confidence capability to defend Japan, including the Senkaku Islands, and would enforce their right to operate air and naval forces throughout East Asia. This capability would also provide the means to challenge China's military attempts to extend its sovereignty beyond negotiated limits, and would even provide an intervention capability against Chinese use of force within the territories that had been ceded to its control.

Accommodation would be efficient and successful in dealing with a powerful and cooperative China. By contrast, a powerful and aggressive China would take advantage of the impression, if not reality, of American and Japanese relative weakness in order to press its historical claims and its other interests around the world. Accommodation would make it easier to deal with a weak China, whether inward looking or aggressive, because Beijing would be able to claim that it had achieved historical Chinese ambitions, and would be less likely to cause or tolerate trouble elsewhere in the world. For the baseline projection of China's future, accommodation would have a chance of success, only if the fundamental assumption of limited Chinese ambitions were correct. It is equally possible that China would pocket any concessions and generate more ambitious interests.

Accommodating China's current demands also raises difficult questions. Again, a first set of questions concerns domestic political support. Would an American or Japanese government be able to gain and sustain political support for this approach? Would political opponents be able to exploit the memories of Munich and Yalta? Would there be legislation by a hostile Congress or Diet that prevents an American president or Japanese prime minister from pursuing such a diplomatic course?

A second set of questions involves regional and global reactions. At a minimum, America's allies and partners in the region and elsewhere would recalculate the value of their relationships with the United States. However skillfully accommodation was executed, it could not help but feed a general impression that the United States and Japan were conceding regional, and perhaps global, interests to a rising China. East Asian countries would inevitably strike the best deal they could with China and would weaken their military, and perhaps economic, relations with the United States. This process would make it difficult to limit the damage to the American and Japanese positions in East Asia and elsewhere, as more and more countries downgraded their relations with them and sought their own accommodations with China.

A third set of questions concerns China's reaction. Would China be content with negotiated settlements that partially satisfy its sovereignty claims, or would success breed further

ambition and even expand its definition of core interests? If it agreed to a negotiated settlement that granted less than full sovereignty within its “nine-dash line” map of the South China Sea, would it pursue the remaining territory? If it agreed to an essentially autonomous Taiwan within a very loose political arrangement, would it renege on the agreement, as it appears now to be doing in Hong Kong, and seek to consolidate control?

China’s recent actions are not encouraging. For the last decade, its ambitions have seemed to increase with its power and influence. If the self-image of some future Chinese leaders is a modern version of the Middle Kingdom, further ambitions will come to light as current gains are consolidated.

The fourth and most important set of questions about accommodation concerns whether or not it would work over time. If China were satisfied with the concessions granted by the United States and Japan, if its form of government were to become more democratic and its relations with its neighbors friendlier, such a policy would turn out well. This would certainly be the case for a powerful and cooperative China. However, if China pocketed the concessions and pushed for more, would the United States and Japan have realistic options to change course? Would they have put themselves in such an unfavorable economic, military, and domestic political position that China’s rise to regional military and global economic dominance would be unstoppable? Or would an aroused United States and Japan be able to respond with sustained buildups of their own military and economic power in order to contain Chinese expansion and even roll back some of the concessions?

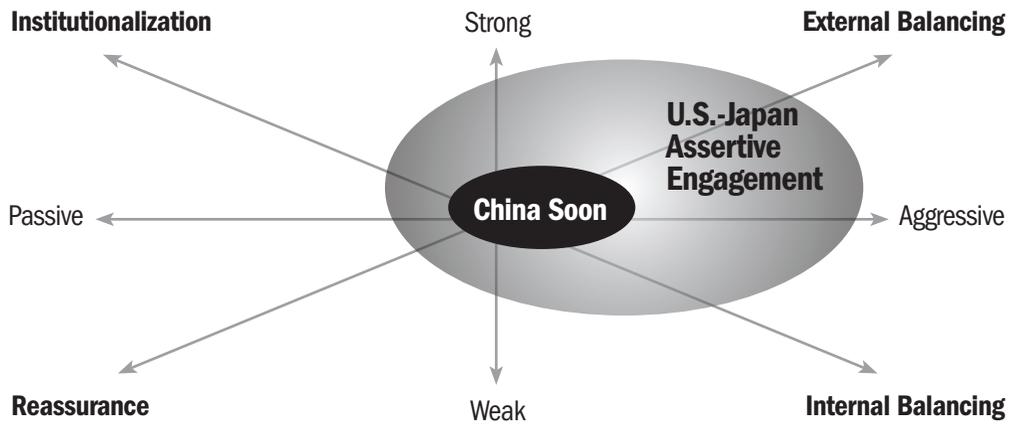
Recovering from an unfavorable economic position is difficult, but because economic relations are not zero-sum, the United States and Japan could embark on an accelerated economic buildup of the kind described earlier. However, territorial issues are zero-sum, and concessions are rarely reversed without military action. The territorial issues in the East and South China Seas would continue, but the United States, Japan, and their partners and allies would be in a much less favorable position to contest them.

In summary, a strategy based on accommodation with China runs high risks and provides little certainty of success.

A FRESH APPROACH: ASSERTIVE ENGAGEMENT

Even this abbreviated discussion of two basic alternatives to the current strategy makes it clear that there are huge uncertainties and risks in adopting either approach. Neither has enough of a clear advantage over the current mixed strategy to warrant replacing it.

Figure 4 gives a graphical representation of an “assertive engagement” strategy against the background of the baseline projection and the four alternative, future Chinas, and across the four strategic levers. The black oval represents the baseline projection for Chinese development, which posits a somewhat more prosperous and aggressive China. The gray area illustrates a strategy of maintaining, and selectively increasing, actions for

Figure 4: An Alliance Strategy of Assertive Engagement

reassurance and institutionalization. It uses both internal and external balancing much more actively to contest aggressive economic and gray zone Chinese actions that are unchecked by the current strategy and that, over time, would undermine vital American and Japanese interests.

There are five policy areas that the United States and Japan can address to reduce uncertainties and risks and strengthen the current Alliance strategy for the next 15 years.

1. A Better Integrated American and Japanese Strategy towards China

The first improvement is to do a better job of integrating American and Japanese strategies. While the policies and actions of the two countries have generally been closely aligned, there have been policy differences that have not been fully resolved. These include differences of perceptions of China, historical issues affecting the trilateral U.S.-Japan-Korea relationship, and policies toward Russia. In addition, the basic values underlying the relationship have unfortunately received decreasing emphasis in U.S.-Japan relations in recent years, making the relationship seem more transactional. In 2015, the 70th anniversary of the end of World War II offered the opportunity to re-emphasize the values of free people and free markets that both countries share and that China challenges.

China's increasing power and influence have altered the fundamental roles that Japan and the United States have traditionally played in their defense relationship. During the Cold War, the United States was on the front lines—in Korea, Vietnam, Europe, and the North Pacific. Japan was the strong rear base from which the United States could project power. After the Cold War ended, it was still the United States that was heavily engaged in crises and military operations—in the Balkans, Afghanistan, and Iraq. Japan played a welcome, supporting diplomatic role but a smaller supporting military role. With China's recent aggressiveness in the region, widening military deployments, challenges to the regional order, and especially its challenge to Japanese sovereignty over the Senkaku Islands, Japan now feels that it is on the

front lines and its own core interests are under direct threat. The United States views China less as a threat than as a challenge to its friendships, alliances, and military and economic leadership in the region.

This role reversal has led to new concerns between the allies. Whereas the United States previously suspected that Japan was free-riding on American actions that were protecting common interests, now Japan suspects that the United States will not provide the support it needs against China. Many Japanese point to a “perception gap,” as the faraway United States does not consider China as powerful a threat as does nearby Japan. The Japanese also have an abiding concern that the United States might lean more toward China and away from Japan because of China’s size and the greater economic opportunity it presents. While the phrase from the 2013 U.S.-China summit communiqué, “a new model of great power relations,” plays well in China, in Tokyo it raises fears.

Meanwhile, the Americans are concerned that Japan will never forge the internal political consensus to be a full partner with the United States. They fear that the pacifist strain in Japan will prevent it from the sort of bold, flexible security policies that are needed to deal with a rising China. At the same time, Americans are concerned that, if Japan overcomes this pacifist tendency and amends the military restrictions in its constitution, it might become too independent and pursue policies that do not coincide with American interests.

The first action the United States and Japan must take together is to craft an updated common strategy towards China, revising the 1996 Clinton-Hashimoto Security Declaration to highlight a strategy of “assertive engagement.” A formal, authoritative declaration of such a strategy must include both a ringing endorsement of the common values of liberty, democracy, free markets, and free trade, along with far more specific “treatment” of China than found in the 1996 version.

The specifics must include a common assessment of Chinese capabilities, and articulate the bilateral economic, diplomatic, and military policies that the United States and Japan are prepared to follow towards China. What is more, any revisions that both nations make to their national security strategies in the future should be in sync with this updated joint strategy. (Japan issued its first comprehensive national security strategy in December 2013; the United States issued its latest national security strategy in 2010.)

In order to align threat perceptions in the two countries, it is also important to coordinate closely the official documents on China issued by both governments. The American Department of Defense issues an annual report on China’s military power, and the Japanese Ministry of Defense issues a periodic white paper with an extensive treatment of China’s military modernization. Each side should coordinate these important documents with the other, prior to final publication, in order to present consistent assessments and recommendations.

The United States and Japan also need much stronger habits of consultation, coordination, and action at all official levels. Despite time zone and language differences, they should hold more frequent Washington-Tokyo conversations on all the important issues

facing both countries. Japan's establishment of its own national security council is a promising development, as it provides a channel for communication at the highest levels on security issues in both countries.

2. Stronger American and Japanese Economies

The second set of actions to improve the current strategy involves the economic fundamentals in both the United States and Japan. The United States is emerging from a recession that it inflicted on itself and much of the world in 2008 due to reckless policies in its housing market. Japan was felled by a similar debt bubble two decades ago, but has in recent years undertaken a set of vigorous policies to reignite its economy. In both the United States and Japan, short-term actions by central banks are having positive effects. However, sustained improvement depends on difficult structural changes. The United States needs to control government entitlement expenditures in order to improve its education and infrastructure and boost workers' wages. Japan needs to expand its workforce, despite its aging population, remove protections for sectors of its economy that have become inefficient and uncompetitive, and handle the continuing urbanization of its population, which is leaving the areas outside its major cities economically backward.

It is unlikely that China can sustain the economic growth of the past 20 years as its economy matures and it has to deal with the problems caused by growth. In addition, China faces demographic problems comparable to Japan's and far more severe than those of the United States. Therefore, solid American and Japanese growth, along with greatly reduced Chinese economic growth, would limit China's relative growth in economic power and influence.

There are, of course, powerful domestic reasons for leaders in both countries to improve their economies through bold action. However, these reasons have not given American and Japanese leaders the political footing to convince their electorates that the strong investments described above as "Economic and Military Buildup" are necessary. Leaders in both countries should educate their citizens about the impact of China's influence over the global economic system. They should explain that such influence may threaten American and Japanese prosperity over the long run, and that their two economies must be strong and growing to uphold the rules of fair economic competition that allow their businesses to compete, prosper, and provide jobs. Such explanations should help American and Japanese leaders take more politically difficult actions.

If China is no longer perceived as the country that will soon dominate the world economy, it will be easier to integrate China further into the international economic structure. China can be given greater roles in international financial institutions without fear that it will turn them to its mercantilist advantage. It will also be easier to hold China to its obligations under the WTO and other bilateral and multilateral economic agreements.

3. Realistic Economic Relations with China

While working to improve their own economic performance, the United States and Japan need to take an updated approach to economic relations with China. With China's economy larger than Japan's and growing faster than that of the United States, it is unrealistic to think that the United States and Japan can force China to accept a global system developed largely without China's input. Instead, the United States and Japan will have to deal on much more equal economic terms with China, cooperating with it in some areas and contesting its actions in others. The tools to carry out this approach include not only international mechanisms, such as the WTO, but also coordinated, WTO-consistent actions, particularly in countering Chinese theft of intellectual property.

Now that the TPP negotiations are complete, China should be actively encouraged to join by meeting the trade pact's requirements. In fact, in the economic sphere, no issue is more important than rapid ratification of the TPP. The initial economic benefits to both the United States and Japan are modest but positive. However, they will grow substantially if China and other countries join. Moreover, the benefits in terms of demonstrating American and Japanese global economic leadership are immense. TPP's implementation will ensure that, in the most dynamic economic region of the world, the economic principles that the United States and Japan believe in and follow will provide the foundation for greater regional trade, business, and financial relations.

It is also worth bringing China more closely into the Organization for Economic Cooperation and Development, if not as a full member, then in a capacity that allows it, for example, to join the International Energy Agency, where it could cooperate on the security and resilience of the global energy market.

In addition, Japan and the United States can play a greater role in making the recently announced, China-led Asian Infrastructure Investment Bank effective. There is no question that Asia needs additional capital for infrastructure and economic development, and working from within the organization, the United States and Japan are better positioned to ensure that the bank meets international lending standards. Moreover, even from China's point of view, in order for the new bank to be viewed as an international financial institution on par with existing organizations, support from Japan and the United States is important. U.S. and Japanese involvement would also reassure China that, when it initiates actions for the common good, it would find support, not opposition. Even if Japan and the United States do not join the bank right away, through observer status and more informal communications channels they can influence it to observe international lending standards.

However, there are areas in which the United States must contest Chinese activities with far more powerful measures than WTO cases and diplomatic complaints. Most important is protecting intellectual property. China-based cyber intrusions have been justifiably called the greatest illegal wealth transfer in history, amounting to more than \$300 billion every year. Chinese companies have brazenly profited from intellectual property pilfered from American

and Japanese companies, with the encouragement of official Chinese policies of indigenous innovation and sometimes the active participation of Chinese officials; four individuals from the PLA were identified and indicted by the United States in 2015.

The response to Chinese activities has amounted to little more than diplomatic protests, including, for example, the flurry of visits and declarations in connection with General Secretary Xi's visit to the United States in the fall of 2015. The indictments against the four PLA officers have no chance of being enforced. The United States and Japan need to take concerted action to deny access to their own markets as a penalty against Chinese companies that conduct or benefit from intellectual property theft. Once guilty Chinese companies have been identified, their exports to the United States and Japan can be confiscated, use of banking systems halted, and attempts to sell equity in American and Japanese stock markets denied, among other penalties. Although these measures would not affect Chinese companies that steal intellectual property and use it in the domestic Chinese market, they would have a powerful impact on Chinese companies seeking to become international players.

A related area in which the United States and Japan must take the lead is in Internet governance. China leads a group of countries that asserts "cyber sovereignty," which holds that each country should own and regulate all Internet content transmitted within its borders. The United States and Japan lead another group of countries that favors an open, international Internet. In international meetings on the future of the Internet, both countries need to use all their political, economic, and diplomatic skills to prevail on this important issue. For the United States, this means resolving privacy issues quickly with the large American companies that still dominate many aspects of the Internet, so that there can be a united front on international Internet practices.

In summary, the United States and Japan should welcome positive Chinese contributions to regional and global economic prosperity, while insisting that China meet its WTO commitments and follow global rules. They should also impose penalties on China for theft of intellectual property and work together to prevent the Internet from becoming Balkanized into nationally regulated segments.

4. Stronger Combined Military Capability of the United States and Japan

Chinese military power has increased in recent years, but it still cannot match the combined military power of the United States and Japan. Japan has no competing defense priorities or obligations that compare to China's, and American defense obligations elsewhere around the world do not appear overwhelming. While the United States will need ground and special forces for contingencies in the Middle East, the numbers will not be large, and these forces are generally not relevant in East Asia, which is a maritime and air theater. American naval forces are already 60 percent deployed in the Pacific, and that weighting should be increased. American air forces are deployable within days around the world, especially to East Asia, where there are ample bases available to them.

Both the United States and Japan still need to continue to modernize their forces. If acquisition budgets are not slashed as deeply as they have been in recent years, and if the United States ends the sequester legislation, there is no objective reason that the United States and Japan cannot maintain the relatively stable maritime and air balance in the region, denying China a high-confidence ability to take and hold Taiwan, the Senkakus, or other islands in the South and East China Seas. Programs that require emphasis in the future include anti-submarine capabilities, land and sea missile defenses, cybersecurity, and space systems.

Another important improvement in the military effectiveness of the Alliance is to bolster the ability of the two countries to act together both in East Asia and globally. In the past, the United States and Japan could tolerate some uncertainty and ambiguity in their commitments and roles. However, with increasing Chinese military power, uncertainty and ambiguity can send dangerous signals.

There are encouraging recent developments. In the Senkaku Islands, Japan declared unequivocally and publicly that it would defend the islands from attack, and the United States said that it would oppose any attempt to change the status quo by force. In addition, Japan is developing the military capability both to defend the islands and to remove any forces that occupy them, and the United States is participating in discussions and exercises on the various contingencies. The Alliance needs the same clarity for scenarios in Taiwan, the Korean Peninsula, and the South China Sea.

U.S. bases in Japan have been, and under the U.S. rebalance to the Asia Pacific will continue to be, an effective, reliable, stable, and indispensable U.S. power projection platform for maintaining regional security. Greater shared use of American as well as Japanese bases would enhance resilience and operational flexibility of forces from both countries. The two countries need to evolve the U.S. basing structure in Japan to collocate U.S. forces with Japan Self-Defense Force units, and to move bases away from dense urban areas where they interfere with civilian activity and where accidents can cause civilian casualties. U.S. bases in Okinawa face the greatest challenge and demand the most urgent resolution. The current plan for consolidating the bases and moving many of the forces elsewhere in the Pacific is a good one, but must be accelerated to win popular support in Okinawa.

The United States and Japan should continue to engage China's armed forces in exercises, such as the multilateral Rim of the Pacific Exercise (RIMPAC) and in operations to meet common challenges, from anti-piracy patrols to health emergencies, tsunami relief, and the full range of peacekeeping operations. In addition, there is scope for an array of confidence-building measures, such as hotlines, exercise notifications, observer exchanges, and protocols for seamanship and airmanship when encountering U.S. or Japanese ships and planes.

5. Countering Chinese Aggression in the East and South China Seas

A fifth set of improvements to the current strategy has to do with countering Chinese maritime actions, particularly in the East and South China Seas.

East China Sea

The United States and Japan should maintain a reliable deterrent posture in the Japanese territories and adjacent areas, including the East China Sea. This means Japan should have an amphibious capability to remove potential Chinese personnel landing on the Senkaku Islands, and it means both countries must plan and exercise a capability to deal with Chinese aggression there. The two governments have repeatedly confirmed that Article Five of the Mutual Security Treaty, describing the bilateral commitment to defend Japan, applies to any areas under Japanese administrative control, including the Senkaku Islands. In addition to such deterrent efforts, the two countries need to work with China on confidence-building measures to avoid unintended incidents or accidents that could escalate into military conflicts. This point is particularly important since Chinese air and naval forces have become more active in the East China Sea areas where Japanese and U.S. aircraft and ships have always been actively operating.

South China Sea

China has been challenging international laws by unilaterally drawing the so-called “nine-dash line” to claim most of the South China Sea as its territorial waters. Currently, Chinese support of its territorial claims in the South China Sea is taking place primarily below the level of military confrontation. This gray area aggression has been refined and intensified in recent years, and neither the other claimant nor interested countries—Vietnam, the Philippines, Malaysia, Brunei, and Indonesia—nor the United States and Japan have formulated effective responses.

Although both Japan and the United States maintain that they take no position on the territorial disputes in the South China Sea, in fact, both have a strong interest in preventing China from successfully asserting its claim to virtually the entire South China Sea. The way China interprets the rights of a country within its exclusive economic zone (EEZ)—especially the restrictions on traditional military activities—would severely limit American and Japanese access to allies and partners in the region. Therefore, Japan and the United States need to formulate effective responses to the actions of Chinese civil agencies, backed up by military forces that seek to establish *de facto* jurisdiction over the entire South China Sea.

There is also the issue of limiting Chinese aggression through rules-based diplomatic and economic channels. With its announcement of a maritime Silk Road that needs to be established and protected, naval deployments to the Indian Ocean, and economic ambitions worldwide, China’s influence and ambitions are on the ascent. The United States and Japan have successfully deterred China from taking direct military actions in the East China Sea, but they have not figured out effective strategies to deal with gray zone aggression that uses non-military force and activities to coerce and gain influence.

Such a strategy needs to be developed in the South China Sea. The United States and Japan should respond at a level below the use of military force, and should include both penalties against China for taking aggressive actions and support for other claimants in areas clearly within their own territorial waters or EEZs, or deemed so by any reasonable impartial

adjudication. The response should also leave a path for China to join a negotiated, peaceful settlement of contested issues.

American and Japanese statements about the region have been toughening since then—Secretary Clinton’s 2010 declaration of American interests at the Association of Southeast Asian Nations (ASEAN) regional forum and Prime Minister Abe’s speech at the Shangri La Dialogue in 2014. In addition, the United States has been expanding its military contacts with Malaysia, Vietnam, and the Philippines, and Japan has provided assistance to the latter two countries to improve their maritime surveillance capacity. However, the United States and Japan need a more comprehensive approach.

First, the United States and Japan should encourage, even facilitate, at least the elements, if not the exact shape, of a multilateral settlement for all conflicting South China Sea territorial and EEZ claims, including those of China. Such an action should attract the support of all countries involved, except China, which of course would denounce it and refuse to participate. This action would further isolate China as the outlier in the effort to find a reasonable solution based on international standards. However, it could also reassure China. China has some strong claims, and any reasonable adjudication would award China a healthy EEZ in at least the northern part of the South China Sea. Establishing this settlement would provide a positive diplomatic vision around which all countries, except China and its few subservient friends, could throw their support.

Second, based on a general scheme for a reasonable settlement of all conflicting claims—although not accepted by China—the United States and Japan should encourage all parties to take actions that are their right and responsibility on their islands and within their territorial seas and EEZs. The United States and Japan should recognize these actions as legitimate, rather than follow the current approach of simply calling for restraint and moratoria by all claimants.

Because of the extremely complicated geography of the South China Sea, it will be impossible to establish clean EEZs for all claimant countries. Major areas will have to be designated for joint development. The United States and Japan should actively support joint development zones, in which the profits from hydrocarbon extraction are shared among claimant countries, including China, according to an equitable formula.

China would then lose much of the initiative it now enjoys. Instead of being the only country that takes the initiative to pass laws, build up and fortify atolls and reefs, and enforce fishing laws, it would be faced with four other countries doing the same, simultaneously strengthening many of the 25 features that Vietnam claims in the Spratly Islands, the seven claimed by the Philippines, the four by Malaysia, and the one by Brunei. Chinese fishermen would then be challenged by the coast guards of four other countries throughout EEZs that most of the world considers reasonable.

The objective of these activities would be to demonstrate to China that it cannot necessarily win a game in which it is unilaterally strengthening its own claims, that many can play that game, and that the game does not necessarily play to China’s advantage.

At worst, an initiative like this would strengthen the claims of countries other than China, increasing the resiliency of the region.

Third, the United States and Japan should take actions to support their primary interest in the South China Sea—lest it become a territorial sea or EEZ of China. The Chinese interpretation of littoral state prerogatives in EEZs includes the right to impose restrictions on the military activities of other countries—restrictions that are intolerable for the United States. The United States and Japan need to conduct traditional military activities, such as exercises and reconnaissance, and survey air and sea operations with enough frequency and strength to establish precedent and prerogative.

Fourth, in addition to these diplomatic and military actions, the United States and Japan should provide economic and other assistance to claimant countries to build their capacities to enforce maritime security in their claimed territorial waters and EEZs.

Fifth, the United States should ratify the United Nations Convention on the Law of the Sea (UNCLOS). Within the United Nations, China is mounting a strong diplomatic and legal campaign to gain acceptance for its view of the expansive rights of littoral states over activities within its territorial seas and EEZs. The United States, although it observes the provisions of UNCLOS, is hampered in its attempts to oppose Chinese actions because it is not a member in full standing of the Convention.

CONCLUSION

China's phenomenal economic growth of the past quarter century has been both enabled and welcomed by the United States and Japan. However, China has exploited its economic influence and the military capability funded by that growth to assert its claims and interests at the expense of other countries in the region and beyond. A combination of historical grievances and authoritarian impulses has fueled China's persistent and increasingly aggressive campaign to expand its territory and influence around the world.

The current American and Japanese strategy of encouraging common economic and diplomatic interests with China, while maintaining military deterrence against direct aggression, is no longer adequate to protect both countries' interests against Chinese activities. The U.S.-Japan Alliance needs to update its current, mixed strategy—adopted in 1996—of cooperation in economic, diplomatic, and some military areas; military modernization and declarations of select military red lines; and rule-making with like-minded Asia Pacific states.

A new strategy must be based on assertive engagement. This updated approach would protect bilateral interests, while cooperating with China in forging responses to common concerns and equitable, peaceful compromises where interests conflict.



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