

China's Military Mercantilism

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ABSTRACT: The People's Republic is a great power in search of a grand strategy. China's maritime adventurism reflects the fragmentation of foreign policy, and the coupling of commercial interests with military force. Without effective statecraft, PLA planning could all too easily become national policy. Creative US initiatives would help to salve historical grievances and reconcile China's disruptive ambitions with the world order.

The future of global security will be largely determined by China's response to the established international order. In recent years nationalist rhetoric, revisionist maritime borders and regular confrontation has undermined the party line of a "peaceful rise," and threatens to inveigle US forces. Why does China menace its neighbors at sea, and what should the United States do about it?

Most arguments concerning the role of China in the international system can be reduced to two broad theoretical perspectives. The first view is liberal institutionalist: China might indulge in populist nationalism, but is not historically expansionist. It remains committed to a peaceful rise within the current international framework. The second view is generally realist: China is bent on the aggressive accumulation of wealth, power and natural resources in a quest for regional hegemony - a return to the Middle Kingdom.

This article will advance a third argument: China has identified a path to national greatness without yet comprehending what the destination might look like. In the absence of a comprehensive national strategy or theoretical philosophy, military and mercantilist imperatives are unduly influencing Chinese statecraft at sea. This trend points to the disproportionate weight of state-owned enterprises and the Peoples Liberation Army (PLA) in the execution of foreign policy.

Chinese ambitions are often served by increasing chaos and the erosion of international norms. But this course is unnecessarily dangerous, threatening to isolate potential allies, alienate Taiwan, and even trigger armed conflict with Japan. This course would enmesh the United States and cripple the global economy, potentially unleashing chaos within China.

The Chinese will determine their own destiny, but Washington should encourage Beijing to consolidate, not diminish the existing international system. This article will outline ways in which the United

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States could work with Australia and Japan towards this end by promoting international law, managing local conflict and reducing regional tensions.

The Liberal Institutional Argument

Liberal institutionalists are confident the existing order can accommodate rising powers without recourse to violence. According to John Ikenberry the contemporary system is open, integrated, and rule-based; with strong political foundations, meaning China is not compelled to overthrow the United States in order to realize national greatness. Moreover, nuclear weapons have made war among great powers unlikely. Today's world order is "hard to overturn and easy to join."¹

China's interest in adhering to international norms is based on three main principles:

1. The open market - China has generated enormous wealth from free trade,
2. The multilateral character of global institutions, which diffuse hegemony and can adapt to reflect evolution in the international order, and
3. The resilience of established rules and norms, which encourage unprecedented co-operation and shared authority.

Zheng Bijian generally endorses each of these points, noting other emerging nations have plundered their way to power by exploiting overseas resources through invasion, colonization, expansion, or even large-scale wars of aggression. He writes (in 2005) that China's emergence has been driven by capital, technology, and resources acquired through peaceful means, in accordance with the policies of Deng Xiaoping.²

This latter point is instructive. Deng shifted China away from Mao's predatory internal fixations towards a measured engagement with the outside world. In 1984 he created fourteen special economic zones to "welcome foreign investment and advanced techniques."³ He also initiated joint development projects with neighboring countries adjoining the South China Sea. Joint exploration was premised on the deferral of territorial dispute. Parties agreed to postpone questions of sovereignty in order to exploit natural resources for mutual benefit.

Yet Deng's co-operative strategy has been overtaken by violence and confrontation. During a limited war in 1988 Chinese gunboats sank a Vietnamese landing vessel in the disputed Spratly Islands, killing 86. In 1992 China passed legislation laying claim to almost the entire South China Sea. Three years later China occupied Mischief Reef, a small atoll less than 200 nautical miles from the Philippines coast. China's incremental aggression led then Filipino President Fidel Ramos to declare the

1 John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs* 87, no. 1 (January/February 2008): 24.

2 Zheng Bijian "China's Peaceful Rise to Great Power Status," *Foreign Affairs* 84, no. 5 (September/October 2005): 18-25.

3 Deng Xiaoping addresses the Japanese delegation to the second session of the Council of Sino-Japanese Non-Governmental Persons (June 1984), *Peoples Daily* (English Language), <http://english.peopledaily.com.cn/dengxp/vol3/text/c1220.html>.

Spratly Islands were: “a litmus test of whether China as a Great Power intends to play by international rules, or make its own.”⁴

The South China Sea is now a constellation of competing claims. China, the Philippines, Taiwan, Vietnam, Malaysia and Brunei each covet overlapping shares. Yet through extraordinary land reclamation and construction activity China is literally creating a new reality. Unless countered, it will shortly possess the means to station troops, ships, and aircraft across a range of disputed shoals and islets. In due course this will enable the PLA to declare - and potentially enforce - an Air Defence Identification Zone over the South China Sea.

China is engaged in similar confrontation with Japan. In 2008, China began significantly expanding maritime patrols in the East China Sea, specifically around the contested Senkaku (Diaoyu) Islands. Chinese vessels now conduct daily patrols of the area, and have breached Japan’s twelve-nautical mile border around the Senkakus on hundreds of occasions. PLA naval units have also circumnavigated Japan, conducting major military exercises on all sides of the main islands.⁵

Beijing seems no longer satisfied by Deng’s indefinite postponement of disagreement in favor of a peaceful status quo. Maritime tension has escalated to include reprisal in other areas. In 2010, China briefly suspended the export of rare earth resources to Japan, and in 2012 blocked the importation of Filipino bananas.⁶ Both actions have been linked to territorial disputes. Various parties are engaged in cyber-attack, most notably the Chinese. And in 2013, China declared an Air Defence Identification Zone over waters claimed by Japan and South Korea. While the zone was breached in short order by US, Japanese and Korean military aircraft, the message remains clear – China is practicing a new and abrasive statecraft at sea.

Liberal institutionalists cannot easily counter two other conundrums. First, Ikenberry’s concept of the rational transfer of power disregards the incendiary potential of Chinese nationalism. The existing international order is perceived to be a legacy of injustice and exploitation. When Mao announced the formation of the People’s Republic of China in 1949, he declared “the Chinese people have stood up” against colonial humiliation. Nationalist antipathy towards Japan and the West is founded on a strong and often legitimate sense of historical grievance.⁷ Beijing seems inclined to use its growing strength to right past wrongs; not reinforce the primacy of international law, maritime boundaries or established norms.

Second, the existing international architecture is ill-disposed to accommodate a sense of civilization rather than statehood. Kissinger writes that several societies have “claimed universal applicability for

4 Ian Storey, “Maritime Security in Southeast Asia,” in *South East Asian Affairs, 2009*, ed. Daljit Singh (Singapore: Institute of Southeast Asian Studies, 2009), 47.

5 Michael J. Green “Safeguarding the Seas: How to Defend Against China’s New Air Defense Zone,” *Foreign Affairs*, Snapshot, December 2, 2013, <http://www.foreignaffairs.com/articles/140307/michael-j-green/safeguarding-the-seas>.

6 Keith Bradsher, “Amid Tension, China Blocks Vital Exports to Japan,” *New York Times*, September 22, 2010; and Andrew Higgins, “In Philippines, Banana Growers Feel Effect of South China Sea Dispute,” *Washington Post*, June 10, 2012.

7 See also Nicholas Kristof, “The Problem of Memory,” *Foreign Affairs* 77, no. 6 (November 1998): 37-49.

their values and institutions. Still, none equals China in persisting – and persuading its neighbors to acquiesce – to such an elevated conception of its world role... [No-one in China] questions the relevance of ancient precedents to China’s contemporary strategic objectives.”⁸ Can China’s renaissance be accommodated within the strictures of the existing international system? Early indications suggest not. As Pye contends: “China is a civilization pretending to be a nation state.”⁹ Either China or the region will need to adjust its expectations accordingly.

The “Nine Dash Line” starkly illustrates China’s perception of its own greatness. In January 2014 the Philippines referred its grievances over China’s vast maritime claims to the International Tribunal for the Law of the Sea (ITLOS). While most expect ITLOS to rule in favor of Manila, it is equally expected Beijing will simply ignore any edict contrary to its interest. The “Nine Dash Line” demonstrates China has more to gain by undermining the legitimacy of some international accords, or perhaps that Beijing may even regard the collapse of the current order as a *fait accompli*.



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Figure 1. China’s “Nine Dash Line” depicts controversial maritime claims.

While such a prospect is disturbing to the United States and the region, realists would claim it to be in Beijing’s strategic interest. North Asia is engaged in an arms race, underscored by the risk of nuclear

8 Henry Kissinger, *On China* (New York: Penguin Books, 2011), 2-8.

9 Lucian Pye, *The Spirit of Chinese Politics* (Massachusetts: Harvard University Press, 1992), 235.

proliferation. East Asian nations are casting about for an alliance network or institutional framework to defend their territorial interests. South East Asian countries are mostly burgeoning in wealth, population, and opportunity; accompanied by unresolved ethnic tension and economic inequality. The relative influence of US military force is diminishing, as the authority of liberal institutions and international norms declines. Slender threads binding nations to the peaceful resolution of conflict are unravelling. All these dynamics favour replacing an old, potentially crumbling order with a new and powerful Asian hegemon. China's size, strength, and economic trajectory all suggest it can fill this role. But China is not there yet.

The Realist Argument

At first glance, aggressive Chinese expansionism combined with a rapid rise in military expenditure seems consistent with classical realism. John Mearsheimer predicts China will seek to dominate Asia the way America dominates the Western hemisphere, dictating the boundaries of acceptable behavior to neighboring countries.¹⁰ According to Green, Beijing is deliberately plotting to “chip away at the regional status quo and assert greater control over the East and South China Seas.”¹¹

Christensen notes East Asia is destabilized by different political systems across states; limited economic interdependence; weak regional multilateral institutions; vast differences in wealth within and across national borders; cultural and ethnic tensions; widespread territorial disputes; and the lack of secure second strike nuclear capabilities. The region is unusually fraught with mistrust, animosity, and strategic uncertainty.¹² Defensive realism seems the natural, pragmatic response to such circumstances.

Chinese military imperatives have been clearly articulated in Colonel Liu Mingfu's 2010 book *The China Dream*.¹³ Liu rejects the concept of a “peaceful rise,” arguing China cannot rely solely on its traditional virtues to secure a new international order. Due to the competitive and amoral nature of great power politics, a strong China in a peaceful world can only be assured if China nurtures sufficient military force to deter or defeat its enemies. China needs a “military rise” in addition to its “economic rise.”

Whether or not China is truly a realist power, Andrew Nathan and Andrew Scobell point out the United States is often perceived in Beijing as a hegemon in the classically realist sense. Many Chinese strategists believe Washington must contain China to preserve American influence and privilege. US defense posture in Asia is characterized as a “strategic ring of encirclement” under Pacific Command - Beijing assumes that as China rises, the United States must naturally resist.¹⁴

10 John Mearsheimer, “China's Unpeaceful Rise,” *Current History* 105, no. 690 (April 2006): 160.

11 Green, “Safeguarding the Seas.”

12 Thomas Christensen, “Fostering Stability or Creating a Monster? The Rise of China and US Policy towards East Asia,” *International Security* 31, no. 1 (Summer 2006): 87.

13 Chris Buckley, “Chinese PLA Officer Urges Challenging US Dominance,” *Reuters*, February 28, 2010.

14 Andrew Nathan and Andrew Scobell, “How China Sees America,” *Foreign Affairs* 91, no. 5 (September 2012): 32-47.

China has certainly adopted a calculated mixture of bluff and coercion, repeated over and over to establish more advantageous norms at sea. Through incremental aggression China seeks to advance its territorial claims and revise the regional boiling point upwards. Beijing also eschews multilateral debate of its actions at forums such as Association of Southeast Asian Nations (ASEAN) or the East Asia Summit. Instead, China favors direct, bilateral negotiation where it enjoys a comparative power advantage, and can exclude the United States from discussions. This modus operandi is proving successful in South East Asia: states not directly involved in territorial dispute with China appear unwilling to lend active support to their neighbors, who are largely buckling under direct bilateral pressure from Beijing.¹⁵

Yet, as Robert Zoellick argued in 2005, China needs to understand better how its actions are perceived. Belligerence is exacerbated by a lack of transparency, and contributes to significant risk. Many countries hope China will pursue a “Peaceful Rise,” but none will bet their future on it.¹⁶ The efficacy of the realist argument depends on one critical assessment: that maritime expansionism is not contrary to Chinese interests.

On this point, the realist view is unpersuasive. It is hard to discern Chinese interests being advanced through incremental aggression because it encourages dangerous regional competition, while needlessly stoking hostilities with the United States and Japan, both comparatively stronger powers. Wang Jisi, Dean of Peking University’s School of International Studies argues sustained Chinese growth requires a stable relationship with the United States. Chinese strategists have a pragmatic sense of their relative strength, and it would be “foolhardy for Beijing to challenge directly the international order and the institutions favored by the Western world... such a challenge is unlikely.”¹⁷

According to some, Chinese leaders believe they must accommodate the United States while relentlessly developing their own strength. At the end of this period of continued US domination, China will be in a better position to defend and advance its regional ambitions. According to this more convincing realist interpretation, Chinese interests are not served by unnecessary provocation until its relative strength exceeds that of the United States, or even Japan. That prospect is still many years away.

So then, how to account for the current Chinese statecraft at sea? Whatever their intentions, rapidly growing states often appear threatening to their neighbors, as well as to the established hegemon and its allies.¹⁸ Yet neither a liberal institutionalist nor realist perspective can account for China’s incremental aggression towards its maritime neighbors. Underlying all this tension remains the absence of a clear, articulated national strategy from the People’s Republic. The PLA Navy might chase Filipino fishermen out of Scarborough Shoal, but China lacks the means and perhaps even the desire to enforce the Nine-Dash

15 Carl A. Thayer, “ASEAN’S Code of Conduct in the South China Sea: A Litmus Test for Community-Building?” *Asia-Pacific Journal: Japan Focus* 10, Iss. 34, no. 4 (August 20, 2012).

16 Robert B. Zoellick, “Whither China: From Membership to Responsibility?” Remarks to the National Committee on US-China Relations, New York City, September 21, 2005.

17 Randall L. Schweller and Xiaoyu Pu, “After Unipolarity: China’s Visions of International Order in an Era of US Decline,” *International Security* 36, no. 1 (Summer 2011): 53.

18 *Ibid.*, 41-72.

Line. The United States and neighboring states are lining up to reject the concept with increasing explicitness.¹⁹ Why does China articulate such counterproductive objectives, particularly when it lacks the legal grounds or military wherewithal to meaningfully pursue them?

Could it be that China has yet to possess any overarching foreign policy at all? According to Rear Admiral McDevitt (US Navy, Retd), perhaps not. “I’m increasingly coming to the view that China’s reputation as a brilliant strategist is misplaced... They’re very tactical [and] focused on whatever is in the inbox... Their reactions in many places seem designed to shoot themselves in the foot.”²⁰

China has yet to figure out how to define its national greatness, and the role of diplomatic strategy has declined, but McDevitt is wrong to suggest the government is completely reflexive. China’s foreign and security policy spheres have fragmented, but two powerful dynamics have emerged with consistent regularity in the South and East China Seas – the commercial voracity of state-owned enterprises, and the relentless pursuit of tactical military objectives. Mercantilist and martial imperatives now substitute for Chinese statecraft at sea.

The Money State

On May 2, 2014 the state-owned China National Offshore Oil Corporation deployed its deep sea drilling rig HD-981 in disputed waters south of the Paracel Islands, approximately 120 miles off the Vietnamese coast. China deployed eighty ships, including seven military vessels, along with aircraft to support the rig. In response, Hanoi dispatched twenty-nine ships to disrupt the rig’s placement and operations, resulting in collisions and a hostile standoff before the rig was ultimately withdrawn on July 15.²¹ This is a dramatic, but illustrative example of the increasing voracity of state-owned enterprises, with the PLA Navy and Coast Guard in strong support.

In recent years, growth in the domestic economy has slowed, while the global financial crisis threatened potential earnings abroad. During this period state-owned enterprises have become an indispensable component of China’s foreign policy, benefiting from monetary and political support from Beijing. Soaring energy demand has led firms to explore politically unstable areas, particularly in search of oil and gas. State-owned enterprises are encouraged to act aggressively in the acquisition of natural resources.²² This is consistent with China’s eleventh Five Year Plan (2006-2010), which called for the support of “companies in exploring resources overseas... in short supply domestically.”²³

At last year’s Third Plenum the private sector was given prominence, as the Central Committee undertook rebalance of the domestic economy

19 Anne Marie Murphy, “Jakarta Rejects China’s Nine Dash Line,” *Asia Times*, April 3, 2014.

20 Sydney J. Freedberg, “Does China Have a Pacific Strategy, or are They Just Bumbling Along?” *Breaking Defense*, September 24, 2013.

21 Ernest Z. Bower and Gregory B. Poling, “China-Vietnam Tensions High Over Drilling Rig in Disputed Waters,” *Center for Strategic and International Studies*, May 7, 2014.

22 Jie Yu, “Firms with Chinese Characteristics: The Role of Companies in Chinese Foreign Policy,” *London School of Economics*, June 2012, <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR012/yu.pdf>.

23 Eve Cary, “SOEs Declining Role in China’s Foreign Investment,” *The Diplomat*, July 3, 2013, <http://thediplomat.com/2013/07/soes-declining-role-in-chinas-foreign-investment/>

to better reflect market forces. This shift has not yet diminished the role of state-owned enterprises in maritime adventurism, as evidenced by the deployment of HD-981 to the Paracels in May. State-owned enterprises remain the primary instrument for foreign investment in the national interest to secure internal growth, while according to the twelfth Five Year Plan energy remains the highest national priority.²⁴ The Chinese government is also financially dependent on state-owned enterprises, which account for one-sixth of its total revenue.²⁵

A commercial, mercantilist imperative is clearly fuelling incremental aggression at sea. However, this could only occur with the active support of China's national security structure.

The Military State

The degree to which the PLA operates independently from political decision-making is a question that divides both Chinese and Western experts.²⁶ Unlike the United States, China lacks a public document outlining its national military strategy.²⁷ However, leaders' speeches, official documents, and military doctrine enables insight into the manner in which military power is employed as a tool of statecraft. Five clear objectives emerge: regime security, territorial integrity, national unification, maritime security, and regional stability.²⁸

Within the PLA the weight of the Navy has increased along with growing recognition of the importance of maritime security. Fravel notes the PLA Navy is casting itself as the protector of China's economy to increase the navy's budget.²⁹ The Coast Guard is becoming increasingly muscular, recently fielding a class of cutters larger than some PLA Navy frigates.³⁰ Two new Coast Guard vessels are currently under construction in Shanghai, each with a displacement of around 10,000 tons - twice the size of a Luhu guided missile destroyer.³¹

The increasing heft of maritime forces reflects the fragmentation of traditional Chinese diplomacy. China's expanding global role and the complexity of international issues have multiplied policy stakeholders. The powerful Commerce Ministry; state-owned enterprises; the energy

24 Chet Scheltema, Frank Yang, and David Chan, "Chinese Outbound Foreign Direct Investment Faces Rigorous Scrutiny," *China Briefing: Business Intelligence from Dezan Shira & Associates*, December 31, 2012, <http://www.china-briefing.com/news/2012/12/31/chinese-outbound-foreign-direct-investment-faces-rigorous-scrutiny-2.html>.

25 Linda Jakobson and Dean Knox, *New Foreign Policy Actors in China*, SIPRI Policy Paper 26 (Sweden: SIPRI, September 2010), <http://books.sipri.org/files/PP/SIPRI26.pdf>.

26 James Mulvenon, "Rogue Warriors? A Puzzled Look at the Chinese ASAT Test," *China Leadership Monitor*, no. 20 (Winter 2007), <http://media.hoover.org/sites/default/files/documents/clm20jm.pdf>.

27 David M. Finkelstein, "China's National Military Strategy: An Overview of the 'Military Strategic Guidelines,'" in *Right-Sizing the People's Liberation Army: Exploring the Contours of China's Military*, eds. Roy Kamphausen and Andrew Scobell (Carlisle, PA: US Army War College, Strategic Studies Institute, 2007), 69-140.

28 M. Taylor Fravel, "China's Search for Military Power," *The Washington Quarterly* 31, no. 3 (Summer 2008): 126-127.

29 M. Taylor Fravel and Alexander Liebman, "Beyond the Moat: The PLAN's Evolving Interests and Potential Influence," in *The Chinese Navy: Expanding Capabilities, Evolving Roles*, eds. Phillip C. Saunders, et al. (Washington, DC: National Defense University Press, 2011), 41.

30 Cornelius Weening, "China Launches New 3,000-tonne Coast Guard Cutter," *Jane's Defence Weekly*, October, 23, 2014.

31 James Hardy and Cornelius Weening, "China Building 10,000-tonne Coast Guard Cutters," *Jane's Defence Weekly*, October 15, 2014.

and metals lobbies; the security and ideological arms of the Party, and of course the People's Liberation Army all have vested and competing interests.³² The Ministry of Foreign Affairs must often rely on other agencies for expertise, and contend with them for influence. During state visits or meetings with overseas delegations the Foreign Minister is sometimes fifth or sixth in protocol.³³

The Third Plenum also resulted in the establishment of a National Security Council. This central decision making body has enabled Xi Jinping greater control over the country's vast domestic security apparatus, though his influence over the PLA remains to be seen. Certainly, Xi's concentration of power is yet to manifest in a cohesive national strategy. The Chinese Academy of Social Sciences – a leading think tank – was recently directed to lend strategic substance to Xi's lyrical "Chinese Dream." Their report is still pending.³⁴

In the absence of effective statecraft, it is all too easy for outsiders to mistake military planning and capability development for national strategy. Chinese military expansion is more a consequence of double-digit growth in spending, courtesy of the nation's extraordinary economic story. Like any professional military, the PLA is predisposed to evolve in purpose and sophistication. It defines likely objectives and adapts to likely competitors in every realm: land, sea, air, space, cyberspace. Unfortunately, in the absence of statecraft, military objectives can all too easily become national policy.

Like Imperial Japan at the turn of the last century, China has allowed nationalism, military priorities and perceived economic imperatives a disproportionate and ill-considered weight in its regional interaction. This may yet prove effective in the South China Sea, where no single country (except the United States) can meaningfully challenge China. However Beijing's belligerence is particularly dangerous in the East China Sea, where several major powers are engaged in competition.

Danger in North East Asia

North East Asia presents the greatest risk of war as the most combustible conflict can be found here. These include:

- Historical grievances capable of arousing nationalist sentiment on several fronts, which once unleashed are hard to contain,
- Powerful military forces in China, Japan, Russia, North Korea and South Korea capable of fighting a major war,
- Clear precedent or formal alliances that could inveigle the United States in direct support of Japan, South Korea or Taiwan, and
- An unpredictable and vexatious nuclear-armed North Korea.

China cannot achieve its objectives through increasing antagonism in this region. Historical grievances run too deep for Japan to succumb to

³² Jonathan Fenby, "Does China Have a Foreign Policy? Domestic Pressures and China's Strategy," in *China's Geoeconomic Strategy*, ed. Nicholas Kitchen (London: London School of Economics, June 2012), <http://www.lse.ac.uk/IDEAS/publications/reports/SR012.aspx>.

³³ Jakobson and Knox, *New Foreign Policy Actors in China*.

³⁴ Christopher Johnston, "In Search of a Grand Strategy: China's Meiji Moment," *Lowy Interpreter*, October 18, 2013, <http://www.lowyinterpreter.org/post/2013/10/18/China-A-great-power-in-search-of-a-grand-strategy.aspx>.

aggression. Nor should Japan or South Korea feel compelled to concede interests or territory – both possess a sophisticated military, supported by formal alliance with the United States. The potential for miscalculation is highest around the Senkaku (Diaoyu) Islands. There is significant risk for all parties, but arguably China has the most to lose. It may indulge some domestic nationalist sentiment, but at considerable risk given the potential for armed conflict between near-peers.

A major war in North East Asia would be a battle for prestige, power and freedom of navigation, involving the high-tech destruction of military and economic infrastructure. Tensions could manifest in direct clashes at sea, in the air, space or cyberspace. All parties have a strong, shared interest in averting such a disaster.

Proposed US Policy Initiatives

Resolution of the Senkaku (Diaoyu) Islands Dispute

Armed conflict between the United States and China, however unlikely, represents the most perilous security contingency in the Asia-Pacific region. It is historically unusual that neither party has any territorial design on the other, but would most likely become embroiled over a third country or disputed territory. Rather than remaining resolutely on the sidelines, the United States should actively encourage the resolution of disputes in the East China Sea. There are greater dangers here, and better prospects for diplomacy than Washington might find in the Middle East or elsewhere.

Resolving the status of the Senkaku (Diaoyu) Islands (or at least diminishing their incendiary potential) should be accorded the highest priority. On China's side there is scope to return to the principle of peaceful joint exploration established by Deng Xiaoping. Japan could do more to assuage China's legitimate historical grievances. And Washington could, in quiet consultation with Tokyo, step back from its recent unequivocal assertion of undisputed Japanese sovereignty. An ideal outcome would see the question of sovereignty either indefinitely deferred, or resolved through the sale or demilitarization of the islands and surrounding waters.

Recasting the Pivot

America's "pivot" to the Asia Pacific presents a range of unfolding consequences, not least that the US military has largely assumed the public face of America in Asia. President Obama's first public announcement of the policy occurred before an assembly of Australian soldiers and US marines in Darwin. The United States has arguably done little since to recast the pivot in diplomatic or economic terms, or emphasize collective benefits for the region, most notably for China. While this is due in part to a lack of political commitment to free trade in Washington, it reinforces Beijing's perception of the pivot as a form of strategic containment. The Obama administration's untimely exit from Iraq and Afghanistan, its ambivalence towards Syria, and haphazard approach to the Arab Spring has diminished US influence in the Middle East. This has not been matched by a perceptible increase of influence in Asia.

The most common ground between key regional players is their interdependency in trade and investment. However, the proposed Trans-Pacific Partnership, with its vision of a free trade area in the Asia Pacific, appears designed to exclude or compete against China. The terms for its accession have not been made public but are believed to require fundamental changes in China's governmental structure, including state-owned enterprises. In contrast, ASEAN states—along with China, Australia, Japan, India, South Korea and New Zealand—are now working towards the world's largest-ever regional trade agreement, the Regional Comprehensive Economic Partnership. Given heightened competition between the two and its potential to result in competing trade blocs, it clearly is in US interests for China to commit to economic cooperation and shared prosperity.³⁵

Beijing might yet be encouraged to join the Trans-Pacific Partnership. However, if the Chinese economy continues to increase in relative terms compared to the United States, its incentive to do so will diminish. Australia has just concluded a free trade agreement with China, having already signed similar agreements with South Korea and Japan. Canberra and Tokyo could potentially help broker a deal between Washington and Beijing to transform the emphasis and incentive of the TPP. This would help to recast the US pivot away from the perception of military containment towards the principle of collective economic advantage.

Encouraging International Law and Civil Society

It is clearly in US interests for China to support, not overturn established international covenants. To be seen as an honest broker the United States should also uphold the primacy of international law. When it comes to averting maritime conflict the most important legal instrument is the UN Convention on the Law of the Sea (UNCLOS). This convention is already observed in practice, if not in principle by the US Navy. Washington has publicly supported the Philippines in its appeal to the International Tribunal for the Law of the Sea. The US Senate should proceed with the formal ratification of the UN Convention on the Law of the Sea to follow its 1994 Agreement on Implementation.

The increasing role of civil society should also be considered. The Asia Foundation was recently instrumental in securing a peace agreement in Bangsamoro.³⁶ It might be more useful to assign capable officers to the International Crisis Group than send them to Staff College. Pacific Command can afford to be more nimble and engaged with the civilian aspects of Asia's evolving regional security architecture.

Strengthening Regional Institutions

The United States also shares a vital interest in the peaceful resolution of territorial disputes in the South China Sea, particularly involving China and the Philippines, a US ally. It would be prudent for the United States, Australia and Japan to invest in all the instruments of regional

35 Henry Kissinger, "The Future of US-Chinese Relations: Conflict Is a Choice, Not a Necessity," *Foreign Affairs* 91, no. 2 (March/April 2012): 44-55.

36 For the background to this crisis, see Steven Rood, "Implementation of Bangsamoro Holds Lessons for Philippines as a Whole," *Asia Foundation*, March 26, 2014, <http://asiafoundation.org/in-asia/2014/03/26/implementation-of-bangsamoro-holds-lessons-for-philippines-as-a-whole/>

dispute resolution, including peacekeeping forces. Given China's seat on the UNSC, it is unlikely UN troops could ever be deployed in a manner potentially injurious to Chinese interests. The United States, Australia and Japan should consider bolstering ASEAN and the Pacific Forum to more capably facilitate conflict management and peacekeeping.

With the assistance of Australia, Pacific Islanders could be encouraged to join a new "Pacific Regiment," raised, trained and sustained under the auspices of the Pacific Forum. This force could emulate the best aspects of the African Union—a flawed but still immensely valuable peacekeeping force. While requiring economic and logistical support, this model would avoid a controlling United States or Australian interest while significantly bolstering the capability of the forum to enhance regional stability. Canberra's recent rapprochement with Fiji could aid such efforts.

If such an initiative were to occur, a "Pacific Training Centre" could be established in Townsville, perhaps in collaboration with the Australian Civil-Military Centre. Given the strategic interest in the Southwest Pacific region, other countries would likely be willing to help. New Zealand and Japan could be relied on to make a significant contribution. ASEAN would have a strong vested interest in encouraging the capacity of such an organization. China, the United States, Japan and other Asian countries could be invited to rotate an infantry battalion through joint regional exercises, attached to the Regiment as part of a useful confidence-building measure. Only Australia and Pacific Command could facilitate such an initiative, spanning Asia and the Pacific to the mutual benefit of all.

Nuclear and Energy Security

The competition for energy and resources is a major factor underlying territorial disputes in the East and South China Seas. Meanwhile, the Fukushima disaster has compelled the Japanese Government to transform its energy industry from nuclear to fossil fuels, which will increase carbon emissions and energy competition. This tragedy arose in part because of Japan's inability to safely store and process nuclear waste, a vexing incapacity shared by most nations with nuclear power, including China. Loose nuclear materials present an unacceptable risk to the environment and regional security.

As a leading exporter of uranium, including to the Fukushima reactor, Australia should consider assisting in the safe processing and storage of nuclear materials. Australia is blessed with space and geopolitical stability unique in the region, and perhaps the world. With technical assistance from the United States and Japan, Australia could expand its uranium industry to provide a "cradle to grave" service for the safe storage and disposal of nuclear waste. This would diminish the risk of nuclear terrorist attack and further disasters such as Fukushima. Increased use of nuclear power would also mitigate the devastating regional effects of climate change.

There are other ways US technology could help ease tension in the Asia Pacific. In the last three decades China's urban population has risen by more than 500 million, and is forecast to reach one billion by 2030. Chinese internal security will be determined by the stability of its cities.

So will the fate of the global environment. China surpassed America in 2006 as the biggest emitter of carbon dioxide from energy, and is now producing nearly twice America's level.³⁷ China, the United States, and Japan could unite to address this challenge more effectively through shared innovation in energy technology.

Conclusion

No single school of thought can account for increased provocation, but Chinese nationalist military mercantilism is clearly ascendant in the South and East China Sea. This is most injurious to China's strategic interests in North East Asia. If Beijing simply maintained defense spending relative to GDP it would in time become the most formidable power, with commensurate economic clout. This trajectory would ensure the decline of relative Japanese and US strength, bestowing on China unrivalled regional influence. The only event that could derail this trajectory is war, in which China could not currently prevail. Yet, this is the very contingency Beijing risks by courting disaster in the East China Sea.

This speaks to the fragmentation of Chinese foreign policy, which has in turn allowed state-owned enterprises and the PLA disproportionate influence. Beijing is trying to achieve the following, potentially competing objectives:

- To set the conditions for a return to civilizational greatness,
- To erode international norms deemed injurious to China,
- To secure contested terrain of potential military value,
- To protect China's supply of natural resources and economic growth, and
- To indulge popular nationalist sentiment.

The Chinese people will determine China's future. However, there are still tangible steps the United States and its allies can take to diminish the risk of confrontation, while strengthening regional institutions sufficiently to manage and resolve conflicts when they occur. These objectives have assumed new urgency as the Chinese economy begins to plateau, natural resources subside, the environment and population reach breaking point, and Beijing's relative military strength increases.

For the first time in history, Chinese wealth and internal stability largely depends on the global economy, secured by law and covenant, created and sustained by the United States. If the People's Republic can truly reconcile its sense of civilization within the region, and be genuinely encouraged to do so, the Asia Pacific Century might yet transcend the violence and bloodshed which begot the contemporary international order.

37 "Urbanisation: Where China's Future Will Happen," *Economist*, April 19, 2014.

