



#89

US Indo-Pacific Strategy: Myths and Reality

Robert A. Manning

About the Author

Robert A. Manning

Senior Fellow at Scowcroft Center for Strategy and Security, the Atlantic Council, Washington, D.C

This publication and other papers are available on
<http://valdaiclub.com/a/valdai-papers/>

The views and opinions expressed in this paper are those of the authors and do not represent the views of the Valdai Discussion Club, unless explicitly stated otherwise.

© The Foundation for Development and Support
of the Valdai Discussion Club, 2018

42 Bolshaya Tatarskaya st., Moscow, 115184, Russia

A bit like turning around an aircraft carrier, the shift in US policy toward China from one balancing the cooperative and competitive elements toward one viewing Beijing predominantly as a strategic competitor – articulated in the latest US National Security Strategy – occurred gradually.¹ What does the current US buzzword, ‘Indo-Pacific strategy’, signify? If many in the region are unsure, for the Trump administration itself, Indo-Pacific, beyond a geographic and maritime reality, is very much a work in progress. While abstract ideas have been outlined, they are contradicted by the logic and actual policies of ‘America First’.

The Indo-Pacific concept, on one level, is simply expanding the Asia-Pacific notion to reflect that India, with its Look East–Act East policy, has become an economic and strategic actor in a larger maritime theater. In practical terms, it has meant a modestly enhanced military role to the ‘pivot’ or ‘rebalance’ of the Obama administration stretching it from Asia-Pacific to India, itself only a modest extension of long-standing US policy toward the Asia-Pacific.² In bureaucratic terms, this corresponds to the area of responsibility of the US Pacific Command.

American concern about China’s re-emergence becoming less benign than anticipated by US policy-makers and foreign policy specialists predated the arrival of Donald Trump to the White House. Since China began its ‘reform and opening’ policies in 1979, two core assumptions underpinned a rough bipartisan consensus for US policy:

- as China integrated itself into the global economy and institutions and grew a large middle class, it would become an accepting stakeholder of the rules-based order with a large overlap of common US–China interests enabling cooperation;
- and that political reform, if not democracy, would follow.

¹ ‘National Security Strategy of the United States of America’, December 2017, The White House. Available from: <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

² First outlined by Secretary of State Hillary Clinton see: Clinton, H, 2011, ‘America’s Pacific Century’, *Foreign Policy*, October 11. Available from: <http://foreignpolicy.com/2011/10/11/americas-pacific-century/>. For example of longstanding US policy see: ‘The United States Security Strategy for the East Asia-Pacific Region’, 1998, Secretary of Defence. Available from: <http://ryukyu-okinawa.net/downloads/usdod-easr98.pdf>

The US perceptions that these assumptions were being proven wrong occurred incrementally over the past decade. While there is still no clear new US consensus on a China policy, there is a hard-edged pessimism. A mea culpa by two former Obama administration officials summed it up: ‘Washington now faces its most dynamic and formidable competitor in modern history. Getting this challenge right will require doing away with the hopeful thinking that has long characterized the United States’ approach to China.’³ The current US–China trade clash is a manifestation of this shift, an effort to push back against Chinese mercantilism. Regardless of how they try to explain it, an ‘Indo-Pacific’ strategy is best viewed as an effort to reinforce a rules-based order and counterbalance a re-emergent China, not only as a leading global power, but also as a major maritime actor.

³ Campbell, KM & Ratner, E, 2018, ‘The China Reckoning: How Beijing Defied American Expectations’, *Foreign Policy*, March/ April. Available from: <https://www.foreignaffairs.com/articles/united-states/2018-02-13/china-reckoning>

China Renascent

The US shift should be viewed as a response to growing multi-dimensional Chinese assertiveness over the past decade. It was after the 2008–2009 Western financial crisis, that China abandoned Deng Xiaoping’s strategic guidance: ‘hide your strength, bide your time’. There appeared a sense that China’s historic moment had arrived: the US financial system and Washington Consensus ideology had collapsed. This sense of triumphalism was captured in a rare published article by the head of China’s Central Bank, Zhou Xiaochuan, calling for the RMB to replace the US dollar as the world’s main reserve currency.⁴ Beijing had a sense that the time was ripe to raise its global and regional profile.

In July 2009, then Chinese President Hu Jintao delivered a speech calling for China to increase its global power and influence.⁵ Beijing began to pursue more pro-active political and military actions, most apparent in the South China Sea. China elevated its claims to disputed islets and reefs to a ‘core interest’, a category previously reserved for Tibet and Taiwan. Beijing stepped up maritime activities in the East and South China Seas, later building military facilities on 3200 reclaimed acres on disputed territory there that it controlled.⁶ Overall, China claims about 90 percent of the South China Sea – the percentage eludes precision because Beijing has used an ambiguously defined Nine-Dash Line. Their claims have been discredited: the United Nations Convention on the Law of the Sea (UNCLOS) International Tribunal at The Hague rejected all Chinese claims and positions in July 2016 (although China refused to litigate a case brought by the Philippines).⁷ The Beijing government rejects the court’s finding – a move incompatible with China’s accession to the UNCLOS in 1994 but consistent with the ‘indisputable’ Chinese sovereignty claimed by Beijing.

⁴ Barris, M, Jing, F & Jia, C, 2014, ‘Replace dollar with super currency: economist’, *China Daily*, January 29. Available from: http://usa.chinadaily.com.cn/world/2014-01/29/content_17264069.htm

⁵ Masuda, M, 2016, ‘Why has Chinese foreign policy become more assertive?’, *East Asia Forum*, February 20. Available from: <http://www.eastasiaforum.org/2016/02/20/why-has-chinese-foreign-policy-become-more-assertive/>

⁶ Swaine, MD, ‘China’s Assertive Behavior Part One: On “Core Interests”’, *China Leadership Monitor*, no. 34. Available from: http://carnegieendowment.org/files/CLM34MS_FINAL.pdf

⁷ Santos, M, 2016, ‘Philippines wins arbitration case vs. China over South China Sea’, *Global Nation Inquirer*, July 12. Available from: <http://globalnation.inquirer.net/140358/philippines-arbitration-decision-maritime-dispute-south-china-sea-arbitral-tribunal-unclos-itlos>

Similarly, little opening appears to exist in the tangle of conflicting national positions about ultimate sovereignty in parts of the East China Sea. Beijing disputes Japan's claims to the Senkaku Islands, which are called Diaoyu in Chinese. Following the Second World War and into the 1970s, Beijing occasionally raised *pro forma* objections to the transfer of the islands' administrative control to Tokyo, but indications of displeasure have risen in recent decades. For the past several years, China has dispatched coast guard vessels and military aircraft to the air and sea zones adjacent to the islands, which represents, in Japan's view, an attempt to disrupt Tokyo's ability to administer the territories. A measure of the pace of increased competition in the area can be found in the number of announced occasions (1,168) in which Japan scrambled its fighter jets in 2016.⁸

In 2017, tensions over Doklam extended this irredentism to the Himalayas. China and India have made no adjustment to some of their respective territorial claims. From New Delhi's perspective, the perception of Chinese intentions and use of language regarding Doklam seems to reflect a pattern employed in both the South China and East China Seas. In this view, China appears to be attempting to change the status quo either by force or by assertiveness backed by force, all aimed at creating new facts on the ground. In Bhutan, a road near a contested border becomes the instrument of assertion.

The language Beijing uses to speak about the Doklam dispute echoes that employed to buttress China's claims in the South and East China Seas. At a June 28, 2017 press conference, for example, China's Foreign Ministry spokesperson Lu Kang explained that, 'Doklam has been a part of China since ancient times. It does not belong to Bhutan, still less, India ... China's construction of roads in Doklam is an act of sovereignty on its own territory.'⁹ This correlates to China's claims in the South China Sea of 'indisputable sovereignty ... since ancient times', as noted in a background paper from Xinhua, the state news agency.¹⁰

⁸ Johnson, J, 2017, 'Japan's fighter jet scrambles set new record in 2016 amid surging Chinese military activity', *Japan Times*, April 4. Available from: <https://www.japantimes.co.jp/news/2017/04/14/national/japans-fighter-jet-scrambles-set-new-record-2016-amid-surg-ing-chinese-military-activity/#.WZ3LM2epV9A>

⁹ Goswami, N, 2017, 'Can China be Taken Seriously on its 'Word' to Negotiate Disputed Territory?', *The Diplomat*, August 18. Available from: <http://thediplomat.com/2017/08/can-china-be-taken-seriously-on-its-word-to-negotiate-disputed-territory/>

¹⁰ 'China has indisputable sovereignty over South China Sea islands', 2016, *Xinhua*, April 29. Available from: http://news.xinhuanet.com/english/2016-04/29/c_135322815.htm

The convergence of these views, coupled with a disinclination to abide by provisions in the UNCLOS China disputes, suggests an *a la carte* approach to the global rules-based order, and a pattern of Chinese irredentism. Xi Jinping's report to the 19th Party Congress repeatedly emphasized 'the rejuvenation of the Chinese nation', stressing China's focus on 'global combat capabilities' and vowed that in this new era, China will move closer to the center of the world stage.¹¹

China's creation of the Asian Infrastructure Investment Bank (AIIB) and its Belt and Road Initiative (BRI), a \$1.2 trillion vision to reconnect the Eurasian landmass and maritime silk road, stand as major signposts of China's desire to play a leading global role. Similarly, its remarkable rapid rise as a leading technology innovator, mobilizing its resources to create national champions through programs such as the Made in China 2025 plan and declared goal to lead the world in Artificial Intelligence by 2030 are the economic underpinnings of Chinese ambition.¹²

US Search for Strategy

Even were China not displaying signs of a competing vision of regional and world order, the US has had great difficulty in adapting its policies to the dynamics of a multipolar world. But the pace and scope of China's economic and strategic ascendance has been something of a shock to the system. The US record \$375 billion trade deficit with China, and its building of military bases in the South China Sea are emblematic of a jolt to US sensibilities, with the evolving 'free and open Indo-Pacific' response.

The Trump administration has borrowed the term from Japanese Prime Minister Shinzo Abe. Abe initially outlined it during his first term in office, in a 2007 speech to the Indian Parliament:

¹¹ *Jinping, X, 2017, 'Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era', Delivered at the 19th National Congress of the Communist Party of China October 18, 2017. Available from: http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf*

¹² *See: Wübbecke, J, Meissner, M, Zenglein, MJ, Ives, J & Conrad, B, 2016, 'Made in China 2025: The making of a high-tech superpower and consequences for industrial countries', Mercator Institute for China Studies, no. 2, December. Available from: https://www.merics.org/sites/default/files/2017-09/MPOC_No.2_MadeinChina2025.pdf. And on Artificial Intelligence, see: Lee, A, 2017, 'World Dominance in Three Steps: China Sets Out Road Map to Lead in Artificial Intelligence by 2030', South China Morning Post, April 21. Available from: <http://www.scmp.com/tech/enterprises/article/2103568/world-dominance-three-steps-china-sets-out-road-map-lead-artificial>*

The Pacific and the Indian Oceans are now bringing about a dynamic coupling as seas of freedom and of prosperity. A 'broader Asia' that broke away geographical boundaries is now beginning to take on a distinct form. Our two countries have the ability – and the responsibility – to ensure that it broadens yet further and to nurture and enrich these seas to become seas of clearest transparency.¹³

During Abe's current tenure, he has refined the concept further and made Indo-Pacific connectivity a central theme guiding Japan's security and economic aid and investment policies. In a 2016 speech Abe defined it, explaining that, 'the goals of this strategy are to transform the Indo-Pacific region into a region without force and coercion, a region of freedom, a region ruled by law, a region focused on the market economy and a prosperous region.'¹⁴ Tokyo sees three pillars: values and principles – democracy, rule of law, free markets, improving physical and institutional connectivity; security and stability; enforcing maritime freedom.¹⁵

The US version of this Indo-Pacific strategy is evolving, and to some degree bumps up against Trump's 'America First' ideology. For Abe, free trade is central to Indo-Pacific connectivity. This is also a tenet of Australia's 2017 Foreign Policy White Paper, which also places emphasis on the Indo-Pacific.¹⁶ But Trump has pursued protectionist policies and has an aversion to what he calls 'globalism', though in official statements, the US echoes the importance of a 'rules-based order'.

The first authoritative elucidation of US strategy for a 'free and open Indo-Pacific' was offered by Defense Secretary Jim Mattis on June 2 at the annual Shangri-la Dialogue. Mattis outlined four main themes, largely overlapping with those of Japan, Australia and India:

- 'The maritime commons is a global good, and sea lanes of communication are the arteries of economic vitality for all.' The US will help 'partners build up naval and law enforcement capacities to improve monitoring and protection of maritime orders and interests.'

¹³ '«Confluence of the Two Seas». Speech by H.E. Mr. Shinzo Abe, Prime Minister of Japan at the Parliament of the Republic of India', 2007, Ministry of Foreign Affairs of Japan, August 22. Available from: <http://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>

¹⁴ Brown, J, 2018, 'Japan's Values-Free and Token Indo-Pacific Strategy', *The Diplomat*, March 30. Available from: <https://thediplomat.com/2018/03/japans-values-free-and-token-indo-pacific-strategy/>

¹⁵ 'A Free and Open Indo-Pacific Strategy', 2018, Atlantic Council, March 8. Available from: <http://www.atlanticcouncil.org/events/past-events/a-free-and-open-indo-pacific-strategy>

¹⁶ 'Foreign Policy White Paper 2017', Australian Government. Available from: <https://www.fpwhitepaper.gov.au/>

- Interoperability. 'We recognize that a network of allies and partners is a force multiplier for peace [...]. We will ensure that our military is able to more easily integrate with others.'
- 'Strengthening the rule of law, civil society and transparent governance.'
- 'Private sector-led economic development'. The US will enhance 'development and finance institutions, recognizing the need for greater investment, including in infrastructure.'¹⁷

This reflects the US National Security Strategy (NSS) and Defense Strategy both released in late 2017, which places an emphasis on the security dimension of the Indo-Pacific. The NSS was the first explicit US definition of China predominately as a strategic competitor: 'China seeks to displace the US in the Indo-Pacific region, expand the reaches of its state-driven economic model and reorder the region in its favor.'¹⁸ The near-term US concern is that China is seeking to dominate the first island chain around its maritime borders and pursue an anti-access strategy to limit and raise the cost to US military actions in the region.

This is echoed in the Pentagon's 2018 Defense Strategy:

China is leveraging military modernization, influence operations, and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to their advantage. As China continues its economic and military ascendance ... it will continue to pursue a military modernization program that seeks Indo-Pacific regional hegemony...

In response, the document touts a free and open Indo-Pacific and adds, 'With key countries in the region, we will bring together bilateral and multilateral security relationships to preserve the free and open international system.'¹⁹

In fact, security cooperation in the Indo-Pacific region has been increasing steadily over the past decade, in large measure as a response to a bigger Chinese footprint. US–Japan–Australia defense cooperation and annual trilateral meetings are a staple of US Asian diplomacy. The US has bolstered its defense

¹⁷ 'Remarks by Secretary Mattis at Plenary Session of the 2018 Shangri-La Dialogue. Press Operations. Secretary of Defense James N. Mattis; John Chipman, Director-General and Chief Executive, IISS', 2018, US Department of Defense, June 2. Available from: <https://www.defense.gov/News/Transcripts/Transcript-View/Article/1538599/remarks-by-secretary-mattis-at-plenary-session-of-the-2018-shangri-la-dialogue/>

¹⁸ 'National Security Strategy of the United States of America', December 2017, The White House, p. 25. Available from: <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

¹⁹ 'Summary of the 2018 National Defense Strategy of the United States of America: Sharpening the American Military's Competitive Edge', Department of Defence. Available from: <https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>

relationship with India both bilaterally and in the annual Malabar US–Japan–India military exercises.²⁰ In addition, with its \$425 million Maritime Security Initiative (MSI) announced in 2015, the US has been increasingly helping key ASEAN states enhance their respective maritime capabilities, particularly Vietnam, the Philippines, Malaysia and Indonesia in response to Chinese activities in the South China Sea.²¹ These efforts have been loosely coordinated with Japan and Australia.

For more than a decade, the region has seen a pattern of deepening intra-Asian defense cooperation – Japan, with Vietnam and the Philippines, and maritime activities among ASEAN states, as well as Japan–India, Singapore–Taiwan.²² During a 2016 Summit in Delhi, an elaborate Japan–India security and economic partnership was declared.²³ Strengthening Japan–India collaboration is a priority for both governments. In addition, India, seeking to expand economic and defense trade with East Asia, has also been building defense cooperation with the ASEAN states, particularly with Vietnam.²⁴ As India perceived increased maritime competition with China, in 2010, India and Vietnam upgraded their defense ties.²⁵ Delhi has become more vocal on South China Sea issues, as well as deepening its defense ties to Hanoi. On a 2016 visit to Hanoi, Indian Prime minister Narendra Modi issued a Joint Vision Statement and Delhi has offered a \$500 million defense credits.²⁶

²⁰ Shukla, T, 2017, 'India, Japan to Step up Defence Ties, Deepen Malabar Exercise with US', *Live Mint*, September 6. Available from: <https://www.livemint.com/Politics/7RJdW3Yxt93lqcSMpJhulM/India-Japan-to-step-up-defence-ties-deepen-Malabar-exercis.html>

²¹ <https://obamawhitehouse.archives.gov/the-press-office/2015/11/17/fact-sheet-us-building-maritime-capacity-southeast-asia> See also: Parameswaran, P, 2016, 'US Kicks Off New Maritime Security Initiative for Southeast Asia', *The Diplomat*, April 10. Available from: <https://thediplomat.com/2016/04/us-kicks-off-new-maritime-security-initiative-for-southeast-asia/>

²² Ratner, E, Cronin, PM, Fontaine, R & Hosford, Z, 2013, 'The Emerging Asia Power Web: The Rise of Bilateral Intra-Asian Security Ties', *Centre for a New American Security*, June. Available from: <https://www.cnas.org/publications/reports/the-emerging-asia-power-web-the-rise-of-bilateral-intra-asian-security-ties>

²³ 'India-Japan Joint Statement during visit of Prime Minister of Japan to India (September 14, 2017)', *Ministry of External Affairs, Government of India*. Available from: <http://www.mea.gov.in/bilateral-documents.htm?dtl/28946/IndiaJapan+Joint+Statement+during+visit+of+Prime+Minister+of+Japan+to+India+September+14+2017>

²⁴ Chaudhury, DR, 2018, 'India, ASEAN leaders agree to boost maritime cooperation', *The Economic Times*, January 26. Available from: <https://economictimes.indiatimes.com/news/defence/india-asean-leaders-agree-to-boost-maritime-cooperation/articleshow/62654982.cms>

²⁵ Brig, VA, 2017, 'Achievements: India- Vietnam Defence and Security Cooperation', *Vivekananda International Foundation*, May 12. Available from: www.vifindia.org/article/2017/may/12/achievements-india-vietnam-defence-and-security-cooperation

²⁶ 'PM Modi's Visit to Vietnam Kicks off with Defence, Trade as Top Agendas', 2016, *The Indian Express*, September 2. Available from: <http://indianexpress.com/article/india/india-news-india/pm-narendra-modi-visit-vietnam-nguyen-xuan-phuc-tran-dai-quang-india-kicks-off-two-nation-tour-with-with-defence-trade-as-top-agenda-3010193/>

This regional networking – all occurring before ‘free and open Indo-Pacific’ became the mantra – is the context in which to view the November 2017 resurrection of the Quad (US–Japan–India–Australia) – a diplomatic expression of the Indo-Pacific strategy. Contrary to some reports, that working level (Assistant Secretary level) meeting is unlikely to become the harbinger of an ‘Asian NATO’. It is in effect, a modest, symbolic gesture, more another regional talk shop and networking exercise seeking to create an agenda than a functional organization. The working level meeting was a dialogue on the range of Indo-Pacific issues discussed above.²⁷ At best, it is a work in progress that could evolve into a more functional coalition over time. Following the Quad, discussions about creating a joint regional infrastructure plan to compete with BRI ensued, but it remains at the conceptual level, and only Japan has a large-scale aid and investment program for regional infrastructure, though efforts to expand World Bank and Asian Development Bank (ADB) infrastructure lending are underway.

Indo-Pacific Contradictions

The aspiration for a strategy to counterbalance China and bolster the rules-based order faces a host of contradictions that suggest how problematic the exercise may be. For starters, a continuing trend in the region is that economic and security issues pull in opposite directions. Economically, the Asia-Pacific is an increasingly integrated region with more than 53% of its trade within the region, intra-regional investment growing, and a regional economy of some \$20 trillion. Yet, as outlined above, in security terms, the region is rife with distrust, territorial disputes, rising nationalism and irredentism, all hedging against uncertainty.²⁸ Correspondingly, something of an Asian arms race, particularly in the maritime realm, has been underway most of this century.²⁹ While increases in military spending are slowing, Asian nations spend substantially more than Europe on defense.³⁰ Which of the two Asias – economic or security – will prevail?

²⁷ Chandran, N, 2018, ‘The US and its Asia Pacific Allies are Boosting Security Ties – That Could Upset China’, CNBC, March 22. Available from: <https://www.cnbc.com/2018/03/22/us-japan-india-and-australia-security-talks-could-anger-china.html>

²⁸ See: Feigenbaum, EA & Manning, RA, 2012 ‘A Tale of Two Asias’, *Foreign Policy*, October 31. Available from: <http://foreignpolicy.com/2012/10/31/a-tale-of-two-asias/>

²⁹ ‘James Stavridis: Submarines are a new facet of Asia’s arms race’, 2016, *Nikkei Asian Review*, May 26. Available from: <https://asia.nikkei.com/Politics/James-Stavridis-Submarines-are-a-new-facet-of-Asia-s-arms-race>

³⁰ Béraud-Sudreau, L, 2017, ‘Defence-spending trends in Asia: a slowing pace?’, *International Institute for Strategic Studies*, June 2. Available from: <https://www.iiss.org/en/shangri-la%20voices/blogsections/2017-b8c0/defence-spending-trends-in-asia-3553>

One question arising from these discordant trends is: how will nations in the Indo-Pacific define their respective interests? That will determine the limits and possibilities of any Indo-Pacific strategy. Like China, India has historically been an autonomous strategic actor, wary of alliances, and a lingering non-aligned, anti-US mindset remains in the Delhi bureaucracy. In his keynote June 1 address at the Shangri-la Dialogue, Prime Minister Narendra Modi emphasized that India's Indo-Pacific vision is 'inclusive, and not "a grouping that seeks to dominate". And by no means we consider it directed at any country.'³¹

China is the largest trading partner of every economy in the Indo-Pacific: Japan, the Republic of Korea (ROK), ASEAN, India, and Australia. The economic patterns render it less problematic to conceive of an inclusive economic architecture for the region than an inclusive security structure. The Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP) has 11 members, and is now complete, ratified by several members and expected to enter into force later this year when the required majority of states have ratified it. The ROK, Thailand, Taiwan, Philippines, Indonesia and the UK have expressed interest in joining, and of late, President Trump, who in the first week of his presidency withdrew from TPP, is now considering rejoining it. Its accession would also be open to China at some point. Alternatively, the Regional Comprehensive Economic Partnership (RCEP) still being negotiated, could at some point meld with CPTPP.

In addition to the trade factor, China's BRI has an allure for the region, and Beijing has been actively cultivating projects from South Asia to ASEAN nations. Despite discomfort with China's growing regional footprint and occasional coercive tactics, few see an alternative to coming to terms with Beijing.

The biggest fear for nations in the Indo-Pacific region is having to choose between the US and China. It is one thing for nations to hedge with uncertainty over US durability in the region and over China's emerging role. It is quite another in the event of a crisis or military conflict, in key flashpoints, for example, in the South China Sea, Sino-India conflict, over Taiwan, or on the Korean Peninsula, to be forced to choose sides. Geography alone, with China neighboring 14 nations on the Asian mainland, and the US whose outreaches stop at Guam and an uncertain future in the region, is compelling.

In any case, ASEAN operates on a consensus basis, and is dedicated to a posture of neutrality, so much that it has been politically paralyzed

³¹ 'Prime Minister's Keynote Address at Shangri La Dialogue (June 01, 2018)', Ministry of External Affairs, Government of India. Available from: <http://www.mea.gov.in/Speeches-Statements.htm?dtl/29943/Prime+Ministers+Keynote+Address+at+Shangri+La+Dialogue+June+01+2018>

in the South China Sea dispute, though four of its members have dispute claims with China.³² Similar dilemmas hold true for Australia, whose trade with China has been a driver of economic growth, and the ROK, whose hopes for managing the North Korea problem and reunification will require cooperation with its largest trading partner, China.

Even for the US, its large and complex relationship with China, \$600 billion annually in bilateral trade and nearly \$100 billion invested there, need for cooperation on North Korea, Afghanistan and global issues where interests overlap, suggest that a one-dimensional labeling of Beijing as 'strategic competitor' may be overly simplistic. A 'free and open Indo-Pacific' may be necessary for the US and its allies to sustain a rules-based order, but it is not sufficient. For example, on trade and investment issues, increasingly US–EU–Japan (and other OECD economies) trilateral coordination in the WTO will increasingly be key to undo Chinese gaming of the global economic system.³³ In March 2018, for example, a US–EU–Japan trilateral complaint was filed in the WTO charging China with coerced transfer of technology as a condition of foreign investment.

Indo-Pacific Futures

In light of all the above-discussed factors, impacting an Indo-Pacific strategy, what is its likely trajectory? To conceive the spectrum of possibilities, posing alternative futures looking over the horizon to 2025 (without assigning probabilities) offers a heuristic device to better grasp the dynamics, from best to worst cases:

Scenario 1: *Renewed part cooperative, part competitive consensus* based on Chinese economic reforms, opening to more foreign direct investment (FDI) in restricted sectors, reducing subsidies for state-owned enterprises (SOEs), reaching bilateral investment treaties with the US and EU assuring reciprocal investment; supporting WTO digital commerce and other technology agreements. In the security realm, a cooperative resolution

³² Edwards, S, 2016, 'Why ASEAN Must Remain Neutral on the South China Sea', *The Diplomat*, March 31. Available from: <https://thediplomat.com/2016/03/why-asean-must-remain-neutral-on-the-south-china-sea/>

³³ See for example: 'Joint Statement by the United States, European Union and Japan at MC11', 2017, Office of the United States Trade Representative, May 12. Available from: <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states>

of the North Korea nuclear problem via renewed Six Party talks, US–China–ROK–DPRK talks on arms reductions and turning the armistice into a peace treaty. US–China cooperation in Afghanistan, phase out of US troop presence, continued counter-terrorist and counter-narcotics cooperation with frontline states (China–Russia–India–Iran–Pakistan) under Shanghai Cooperation Organisation (SCO) auspices, negotiating terms of a Taliban-dominant government in Kabul on condition of no terrorist safe havens. According to this scenario Indo-Pacific Quad exists as a talk shop, consultation mechanism;

Scenario 2: *Muddle through:* Continued drift towards confrontation and tensions in the East and the South China Seas and Sino-Indian ties, limited cooperation on North Korea, interim solution – ending intercontinental and ballistic missiles (ICBM) and nuclear program, part dismantled, part frozen. Continued economic jousting over trade and technology issues, with WTO resolving some in US favor and US negotiated voluntary export restraints in sectors of Chinese over-production. Continued efforts by the US and like-minded partners to press China for more normative trade and investment behavior, pledged by Xi Jinping in Boao Forum speech.³⁴ Indo-Pacific partners deepen consultation with focus on building capacity for security cooperation to counterbalance China, in something of a standoff.

Scenario 3: *Heightened tensions and confrontation:* US–China trade confrontation escalates, both sides believing they can prevail. Trade dispute hits stock markets and slows growth in the region. After a protracted period, modest steps to partially resolve trade conflict are taken. Geopolitical tensions grow – Sino-India over disputed borders in Himalayas, India maritime fears of encirclement with China building ports in Gwadar, Sri Lanka, Maldives, Bangladesh; US–China over Taiwan, and over increased US and Chinese military activities on the South China Sea. On North Korea, China presses both Koreas for a nuclear freeze, US opposes. This scenario is harbinger of a new Cold War-like divide. Miscalculation could trigger conflict with the potential to escalate in each of these situations. The Quad becomes a more active strategic planning forum aimed at countering Chinese anti-access policies and pressing other Asian actors to tilt against China, with very limited success.

³⁴ Chu, K, 2018, 'Ball in Donald Trump's court as Xi Jinping champions free trade at Boao Forum', *South China Morning Post*, April 14. Available from: <http://www.scmp.com/news/china/article/2141754/ball-donald-trumps-court-xi-jinping-champions-free-trade-boao-forum>



Council on Foreign and Defense Policy



 ValdaiClub

 ValdaiClub

 ValdaiClub

valdai@valdaiclub.com