



# **THE U.S. REBALANCE AND THE ASIA PACIFIC REGION**



**CPPR – Centre for Strategic Studies**



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## **CPPR- Centre for Strategic Studies**

The Centre for Public Policy Research (CPPR), an independent, non-profit think-tank established in 2004, is working towards a socially just and democratic, secular society. Since its inception, CPPR has been in the forefront of collecting and analyzing ground data from regional and global perspectives reflecting socio-cultural milieus rich in diversity and pluralism.

In keeping with these traditions, CPPR launched its focus study centre, the CPPR-Centre for Strategic Studies in August 2013. The CSS is an interdisciplinary academic study centre focusing on strategic positioning and policy making in the South Asian region. Special attention is given to the relationship between politics, geography and natural resources, economics, military power, and the role of intelligence, diplomacy and international cooperation for security and defence.

Important fields of research include energy and maritime security, strategy, terrorism, inter-state and inter-country cooperation and extremism. Developing resources and building expertise on matters relating to national security, Centre-State relations and responsibilities, surveillance and security systems are also key areas of focus.

The Centre plans to organise national and international seminars, workshops and conferences on the emerging themes within its domain. By organising its first international conference less than four months after its establishment, the CPPR-Centre for Strategic Studies took its first step towards the larger goal of conducting regional and global strategic reviews and reshaping perceptions on global politics and strategy

*The views expressed in this book do not necessarily reflect those of the CPPR*

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Centre for Public Policy Research (CPPR)  
1st Floor, "Anitha", Sahodaran Ayappan Road  
Elamkulam, Kochi, Kerala State, India-682020  
<http://www.cppr.in/>;  
e-mail: [css@cppr.in](mailto:css@cppr.in)*

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## Abbreviations and Acronyms

|        |  |
|--------|--|
| A2AD   | anti-access and area denial                                      |
| AIIB   | Asian Infrastructure Investment Bank                             |
| ANZUS  | Australia, New Zealand, US (treaty)                              |
| APEC   | Asia-Pacific Economic Cooperation                                |
| ARF    | ASEAN Regional Forum   |
| ASEAN  | Association of South East Asian Nations                          |
| BIT    | Bilateral Investment Treaty                                      |
| BRICS  | Brazil, Russia, India, China, South Africa                       |
| CICA   | Conference on Interaction & Confidence Building Measures in Asia |
| CPC    | Communist Party of China   |
| CPPR   | Centre for Public Policy Research                                |
| CRS    | Congressional Research Service                                   |
| CSIS   | Centre for Strategic and International Studies                   |
| CUTS   | Consumer Unity & Trust Society                                   |
| E3     | Extended Economic Engagement                                     |
| EAS    | East Asia Summit   |
| EU     | European Union   |
| FDI    | foreign direct investment  |
| FEE    | Foundation for Economic Education                                |
| FNSt   | Friedrich Neumann Stiftung                                       |
| FTA    | free trade agreements  |
| GAAR   | General Anti-Avoidance Rules                                     |
| GATT   | General Agreement on Tariffs and Trade                           |
| GDP    | gross domestic product   |
| IAF    | International Academy for Leadership                             |
| ICRIER | Indian Council for Research on International Economic Relations  |
| ICS    | Institute of Chinese Studies                                     |
| ICSSR  | Indian Council of Social Science Research                        |
| IDSA   | Institute for Defence Studies & Analyses                         |
| IEP    | International Equity Partners                                    |
| IIM    | Indian Institute of Management                                   |
| IMF    | International Monetary Fund                                      |
| JNU    | Jawaharlal Nehru University                                      |
| MNC    | multinational corporation  |
| NDA    | National Democratic Alliance                                     |
| NEI    | National Export Initiative                                       |
| NSCS   | National Security Council Secretariat                            |
| NTB    | non-tariff barrier   |
| OBOR   | one belt, one road   |
| OECD   | Organization for Economic Cooperation and Development            |
| RCEP   | Regional Comprehensive Economic Partnership                      |
| RIMPAC | Rim of the Pacific   |
| SANEI  | South Asia Network of Economic Research Institutes               |
| TPA    | Trade Promotion Authority  |
| TPP    | Trans Pacific Partnership  |
| UGC    | University Grants Commission                                     |
| UNCLOS | United Nations Conference on the Law of the Sea                  |
| WTO    | World Trade Organization   |

## Foreword

The Asia Pacific region has become a major focal point in strategic domains with the increasing prominence of China, Australia, South Korea, Japan and India. As a major power, the United States has always maintained relationships with the Asia Pacific countries at varying levels. However, during the last decade, a domestic crisis situation in the United States coupled with the war demands in Iraq and Afghanistan forced Washington to focus on its own homeland and in these theatres of war rather than on robust foreign policy initiatives.

The Obama government has recently sought to reorient its approach towards the Asia-Pacific. In tune with the evolving strategic environment, President Obama announced his “deliberate and strategic decision” that “as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends.”

The logic of this strategic shift was explained by Secretary of State Hillary Clinton in an article “America's Pacific Century” published in *Foreign Policy* magazine in November 2011. She asserted that the history of this century would be scripted in Asia and not in Afghanistan or Iraq. “The Asia Pacific has become a key driver of global politics. ...Stretching from the Indian sub-continent to the western shores of the Americas, the region spans two oceans – the Pacific and the Indian—that are increasingly linked by shipping and strategy. It is home to several of our key allies and important emerging powers like China, India and Indonesia.” Hillary Clinton argued that this meant that the region must be a priority for the Obama Administration. The 'pivot' strategy identified the following arenas of action: strengthening bilateral security alliances; deepening America's relationships with rising powers, including China; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights.

Consequently, the US Administration began the process of rebalancing its foreign policy towards the Asia-Pacific region and encouraging similar shifting of emphasis in the policy of important partners outside the region. The Defense Department's January 2012 Strategic Guidance elaborated that the United States will “of necessity rebalance toward the Asia-Pacific region” by strengthening existing alliances, engaging new partners, and investing in necessary military capabilities (Bork & Griffin: 2013).

The Action Plan evolved by the Presidential Advisors in pursuance of Obama's vision primarily revolves around four long term comprehensive pillars:

- 1) **Safeguarding and expanding free flow of trade and commerce:** The United States seeks to achieve this objective through economic diplomacy. During its host year in 2011, the United States refocused APEC on its core mission of facilitating Asia-Pacific economic integration as reflected in the launching of the Extended Economic Engagement (E3) with ASEAN. The Trans-Pacific Economic Engagement will group together economies from across the Pacific –

developed and developing alike, into a single trading community. Energy diplomacy will play an increasingly large role in economic policy on both sides of the Pacific. In November 2012, the United States along with Brunei and Indonesia launched the US-Asia Pacific Comprehensive Partnership for Sustainable Energy.

- (2) **Strengthening US ties with existing allies & emerging powers:** Such allies include Japan, South Korea, Australia, Philippines, New Zealand, Singapore and Thailand. The US also seeks to improve relationships with emerging powers and partners such as China and India. Taking into account the inevitable frictions in the US-China relationship, the bilateral dialogue helped to create a context for disagreement and competition within rules and limits, to minimize the potential for misunderstandings and miscalculations. With India, the United States has launched creative diplomatic efforts to build understanding and enhance co-ordination across the Indo-Pacific, notably the trilateral dialogue involving Japan, which witnessed several successful rounds.
- (3) **Developing and reinforcing a geographically dispersed, politically sustainable US military posture in the region:** The US deployment of troops in Hawaii, Alaska, South Korea and Australia, maritime and naval exercises in the Indo-Pacific region and coordination with its allies such as Japan, South Korea and Australia have increased the momentum of this growing engagement.
- (4) **Drawing on the full range of US diplomatic and national power to support universal values:** The United States is engaging increasingly with multilateral institutions in the region to support universal values like human rights and democracy and to discuss pressing political and strategic issues. The United States has actively supported the transition in Myanmar. It was the first non-member to open a permanent mission to ASEAN. The launching of the Lower Mekong Initiative, US participation in the East Asia summit, the annual ASEAN Regional Forum Meeting of Foreign Ministers, the ASEAN Defense Ministers Plus mechanism and the annual Pacific Island Forum meeting are all noteworthy in this connection.

Given the strategic emergence of the Asia Pacific region and the huge economic interests involved, there has been a significant rethinking on the need to develop and strengthen relationships within the region and also with the United States. It is therefore important to analyze how the regional powers will position themselves vis-a-vis the United States and how they would respond to the rebalancing initiative. Identifying opportunities to expand bilateral trade, which complements the ongoing negotiations toward the multilateral Trans-Pacific Partnership (TPP) accord, is a key component in the whole regional build-up. The concomitant and growing economic and security challenges faced by the Asia Pacific region and the United States are issues that have engaged the attention of political and intelligence circles.

The Indo-Japanese and Australian strategic convergence tends to be perceived as a counterweight to China. Bilateral counter-terrorism and intelligence-sharing to combat Islamic

insurgency and terrorism led to renewed discussions and induced closer US involvement in the region. Regional countries deliberated their approaches and strategies. It is in this context that the CPPR Centre for Strategic Studies sought to develop a knowledge base on the Asia Pacific with special focus on US relations with the region. The context was explored to visualize the future road map for strategic relationships between the United States & the region taking into account developments crucial to the United States and countries outside the region. Some of these key aspects include: Japan's "normal power" positioning vis-à-vis an assertive China; the Indo-China relationship, which swings between hostilities and trade; India's particular relationship with Pakistan; and India's emerging economic and security ties with Japan and Australia.

The CPPR's Centre for Strategic Studies provided a platform for prominent strategists, think tank analysts, leading experts and academicians to discuss, debate and map the future US role in the Asia Pacific. While analyzing how the US rebalancing strategy is evolving and shaping the strategic environment in the Asia-Pacific, the CPPR conference also examined its possible outcomes and implications, particularly for India.

<sup>1</sup>Foreign affairs, <http://www.foreignaffairs.com/articles/61510/daniel-yergin/ensuring-energy-security>

<sup>2</sup>IDSA, NTS Newsletter, Vol 1, No.4, 2013

## Introductory Remarks

*D. Dhanuraj*

The inauguration of this two-day conference *on US Rebalance and the Asia Pacific Region* is yet another significant moment for CPPR and especially its focus study centre, the Centre for Strategic Studies. In the two years since its inception in 2013, the CPPR Centre for Strategic Studies has achieved significant progress in its objective of functioning as an interdisciplinary academic centre focused on strategic positioning and policy making in this region.

As an organization, CPPR's mission is to spread knowledge and awareness among fellow human beings by promoting research, training and dialogue among key stakeholders in society. As a progressive step towards realizing these objectives and staying relevant and connected in today's tech-savvy society, I am delighted to announce the launching of an android-based smart phone app that will feature the latest research papers from ongoing academic research conducted in CPPR's three focus study centres.

Today, the Centre for Strategic Studies is organizing its third international conference, *on US Rebalance and the Asia Pacific Region* and releasing its second publication titled *Energy Security Challenges: Non-Traditional Security Planning in India*. Those associated with the Centre take immense pride in these achievements and are increasingly conscious of their responsibilities in taking its mission forward. At this international conference, the Centre has focused on the realignment of US foreign policy in the Asia Pacific region, especially on the changing US-India relationship.

Strategists cite several reasons for the renewed US attention to the Asia Pacific region in the recent past. Firstly, during the last decade, the United States was involved in two heavy military engagements, first in Iraq and later in Afghanistan. The subsequent US withdrawal from Afghanistan has triggered a shift in the military and geopolitical situation in the region. Secondly, the emergence of India and China as prominent power centres has attracted US attention, even though both countries differ in their geostrategic outlook. Thirdly, the current global economic and financial order is undergoing change with the manifold free trade agreements flourishing in this region.

The US administration has transformed its initial policy label "Pivot to Asia" to that of "rebalance" to clarify that its renewed focus on Asia does not mean that Washington is abandoning its commitments in other parts of the world.

US alliances and partnership building in the region also envisages the acquisition of cutting-edge technologies, an enhanced security partnership and the upgrading of longstanding alliances with Japan and South Korea. Proactive steps have been taken towards new troop deployments to Australia, fresh naval forces being stationed in Singapore, and opening up new avenues for military cooperation with the Philippines.

The United States also hosts the Rim of the Pacific (RIMPAC) exercise and the Department of Defense tries to undertake multilateral work through institutions such as ASEAN and promote trilateral

cooperation between partners through fora such as the Shangri-La Dialogue and the East Asia Summit.

As the realignment of US policy in the Asia Pacific region unfolds, it will be interesting to discern the different aspects of Washington's grand strategy. Notwithstanding the actual contours of that strategy, the future stability and development of the Asia-Pacific region will hinge to a great extent upon Washington's leadership and the depth of US engagement in terms of military, economy, strategic and diplomatic assets.

Asia accounts for one-third of global trade, including \$1.5 trillion annually in trade with the United States. With the anticipated leadership change in Washington in 2016, there is a good chance that the current strategic & economic rebalance in Asia will undergo some rebalancing of its own.

Given this geopolitical context, it is an opportune time to conduct an international conference featuring Indian & US experts who can study the complexities and assess the challenges of the US rebalancing strategy in the Asia Pacific. I am confident that this gathering will facilitate in-depth deliberations on the intricacies and vagaries of this strategy, which would be discerning while strengthening alliances and partnerships, and investing in new capabilities as a part of the rebalancing framework.

We are highly privileged to have in our midst, M K Narayanan, former Governor of West Bengal and the third National Security Advisor of India to inaugurate and deliver the keynote address. A person of his stature, who has served as Director of the Intelligence Bureau under four Prime Ministers, needs no introduction. As we all know, he has played a significant role in the negotiation of the landmark Indo-US Civil Nuclear Agreement of 2008.

The US Consulate General in Chennai is represented here by US Consul General Philip Min and Public Affairs Officer, Ms Ariel H. Pollock. The Consulate General has actively supported CPPR in many ways. And our fruitful working relationship over the years has afforded us wonderful opportunities.

P K. Hormis Tharakan, former RAW Chief, who is also currently CPPR's Chief Advisor on Strategic Affairs has been actively guiding our academic efforts in the fields of strategy and security and has helped identified many of the experts for this conference. As the Academic Director of CPPR, Prof K C Abraham is always supportive of CPPR initiatives and was involved in giving concrete shape to this conference.

At this distinguished gathering, CPPR is pleased to welcome learned speakers from India and the United States, security experts, academicians, practitioners, civil society representatives and media persons. I wish our delegates and participants all success in their conference deliberations and hope they will enjoy the stimulating discussions and thought-provoking debates that lie ahead.

## Keynote Address

### The US Rebalance and the Asia-Pacific Region

*M.K. Narayanan*

The conference brief highlights the centrality of the Asia-Pacific in the strategic domain in the 21<sup>st</sup> century. In her *Foreign Policy* article (written in 2011), then US Secretary of the State, Hillary Clinton, had declared that the history of the 21<sup>st</sup> century would be scripted in Asia, stressing further that the Asia-Pacific had become a key driver of global politics. The article clearly underscored the importance attached by the Obama Administration to the Asia-Pacific region.

What followed was an announcement by President Obama of this “strategic decision” viz., that “as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future...” This announcement of the US 'Pivot to Asia,' however, seemed to raise China's hackles. This possibility led the US Defence Department to shift gear in January 2012, and elaborate that the United States will “of necessity rebalance towards the Asia-Pacific region by strengthening existing alliances, encouraging new partners and investing in necessary military capabilities.”

President Obama in this year's address to the nation once again reiterated that “fulfilling our responsibilities depends on a strong defence and secure homeland. It also requires a global security posture in which our unique capabilities are employed within diverse international coalitions and in support of local partners.”

The US President said “the US will remain a Pacific power. The security dynamics of the region risk escalation and conflict. American leadership will remain essential to shaping the region's long-term trajectory to enhance stability and security.” Towards this end, he said the United States would diversify its security relationships in Asia, as also its defence posture and presence. He further affirmed that the United States supports India's role as a regional provider of security, and sees a strategic convergence between India's Act East Policy and the US Rebalance to Asia and the Pacific.

#### **A Problematic Asia**

The 21<sup>st</sup> century is often referred to as the Asian Century. The Asian Development Bank has said that by 2050, or even earlier, Asia would nearly double its share of the global GDP to 52%, and Asia would regain the dominant economic position it once held some three centuries prior to the Industrial Revolution.

The future belongs to Asia not only because it is the world's most populous region, but also because the image of a resurgent Asia has captured the imagination of the world. This is happening at a time of exponentially accelerating change, with new paradigms of thought, action and behaviour overtaking and replacing old ones.

The international spotlight on Asia's dramatic rise should not, however, obscure the serious

challenges that it confronts. This is a region beset by both centrifugal and centripetal forces. While Asian economies are integrated to a considerable extent, at a political and strategic level Asia has emerged as a theatre of conflict and rivalry.

Asia is currently beset by several outstanding territorial disputes. There are, in addition, undetermined and contested claims regarding the sea, largely spurred by China's ever widening maritime claims in South China and East China Seas. Some of these extend more than 1000 kms off China's southern coast for which there are multiple claimants. For example, China and Japan have a dispute over the Senkaku/Diaoyu Islands in the East China Sea, while the Philippines and Vietnam contest China's claims in the South China Sea. Nations across the Indo-Pacific meanwhile have become highly conscious of their rights and obligations under the provisions of the New Law of the Sea under the United Nations Conference on the Law of the Sea (UNCLOS-III).

Many of the disputes are motivated by oil and gas reserves and lucrative fishing grounds. Another prime motivation is the security of the sea-lanes, which are vital to the economies of these countries because the vast majority of their imports and exports come via the sea. Deep seabed mining had emerged as a new and strategic issue. Mining of sulphide deposits to phosphorous module mining for phosphorous fertilizers has further aggravated interstate competition. China has recently secured an international deep seabed block in the south-western Indian Ocean from the International Seabed Authority, to explore poly-metallic sulphides.

The 10-Member ASEAN is sharply divided today, even as the confrontation between Vietnam and China in the South China Sea has escalated, that between the Philippines and China in the East China Sea has intensified and Malaysia and Brunei are involved in maritime disputes with China. Nevertheless, hardly any of the Asian countries are ready to enter into a conflict with the aspiring Regional Hegemon viz., China.

China is increasingly perceived in the region as a nation anxious to expand its strategic footprint across the continent. China's forward policies, specially its maritime claims, are widely seen as an act of calculated confrontation. Beijing's aggressive assertiveness is now extending beyond its 'historic waters' - confined within the 9-dash-lines of the Chinese claim lines - and goes well beyond the First Island Chain, moving further afield. This has greatly widened the fault lines across the Indo-Pacific.

### **The US Rebalance to Asia**

The whys and wherefores of the US Rebalance to Asia and the Asia-Pacific need to be viewed against this backdrop. The very first question that arises is: What is the US interest in effecting such a Rebalance, and what should be understood from it? Is the US rebalancing to Asia solely because this continent is the new locus of economic power and growth, or because if the US does not maintain a presence, it would soon be elbowed out by China, the rising power in the region? No easy answers are available.

There is also another, subliminal question - often glossed over by the US commentators and strategists - which urgently demands an answer. The so-called Pivot to Asia was announced with such fanfare, implying that the United States would be intensifying its Asia-Pacific role as never before. Why



then, did Washington, even before the ink had dried, shift emphasis to 'Rebalance to Asia' thus indicating a lowering of priorities? This pirouette is yet to be satisfactorily explained, notwithstanding the volumes of material put out concerning the 'US Rebalancing to the Asia-Pacific.'

The US Pivot to Asia was possibly one of the most widely acclaimed decisions of any US Government, as far as Asian nations were concerned. Even countries such as India, which had long taken the position that it was better to have less, rather than more US presence in the region, were willing to countenance this step. Most Asian countries saw the US Pivot to Asia as providing a guarantee to withstand the challenge posed by an aggressively rising China. With the possible exception of India, almost every other country on the Asian continent nurses grave concerns about where China is headed. Hence the objective conditions favoured closer concert between Asian nations and the United States.

However, Washington seemed to turn matters on its head, and shift emphasis from 'containment' to 'rebalance.' This policy shift cannot but affect the US image in Asia. Rather than be a guarantor of Asian security, and help check the robustness of China's rise, the United States seemed to opt out. For the smaller Asian countries, given China's size, economic strength and military capabilities, the issue was one of survival, and the US reluctance seemed like a let-down.

US strategic analysts have produced many a dissertation to explain why 'managing' a rising China had to be different from the tactic of 'containment' adopted vis-à-vis Russia in the past. It is claimed that the difference arises from the unprecedented economic linkages and interdependence that existed between China and the United States, unlike the situation that existed between the United States and Russia. Hence, resorting to rebalancing, it is argued, is the most appropriate methodology to suit this kind of situation. It involves close co-operation with a number of allies in a bid to 'defang' rather than 'confront' the Chinese tiger.

The brilliance of the arguments notwithstanding, the dominant sentiment in Asia is one of US unwillingness, or inability, to take on China. It reminds me of a comment made during an international conference that I attended about a year ago. A very senior and high-profile diplomat from an Arab country explicitly stated - in the context of the then raging conflict in Syria-Iraq - that the US in the 21<sup>st</sup> century often made commitments that could be likened to lines on the sand as their assurances were seldom fulfilled.

Former National Security Advisor, Tom Donilon, put forward the argument in 2012 that "the 'rebalance' is ultimately oriented towards making certain that international norms and laws are respected, that emerging powers built trust with their neighbours, and disagreements are resolved peacefully without threats or coercion."

In the true spirit of international diplomacy, this is a good diplomatic explanation. The reality, however, is that China already existed as a state when the US announced the 'Pivot to Asia', and hence an explanation is needed as to why the US backtracked almost immediately. China's rise has been monitored for over three decades, ever since Deng Xiaoping took the decision to transform China. Hopefully, it is not because the current crop of Chinese leaders has decided to abandon Deng's 24-

character strategy: observe calmly; secure your position; cope with affairs calmly; hide your capacities and bide your time; maintain a low profile; and never claim leadership. The Chinese, obviously, no longer wish to be mere observers. They are anxious to ensure that the region is created in their image. This is what causes jitters among Asian nations, especially those in South-East and East-Asia.

Admittedly, for the United States, tackling China poses a challenge very different from that of confronting and containing Russia during the Cold War. In the case of China too, the competition is undoubtedly framed in geopolitical and military terms, but complicated by the fact that the US and Chinese economies are deeply intertwined. This interdependence is said to make it difficult to adopt a policy of 'containment.' 'Rebalancing' implies - or so the experts would have us believe - an integrated strategy that involves diplomatic, economic as well as military components.

The strategic component is the element that most concerns Asian nations. The basic question which calls for an answer, is whether in furtherance of its commitment that international norms and laws should be respected, the United States proposes to maintain requisite military capabilities in the region. This alone would reassure US allies and other Asian nations that Washington means business. Conveying conviction will not be easy, for current US policy does not favour putting any of its 'own assets at risk,' and the United States currently focuses more on expeditionary capabilities - mainly sea and air power. Given Beijing's missile and other nuclear capabilities, possession of the second largest land forces in the world, and pursuit of substantial blue water capability, there is more than nagging concern among Asian countries about the depth of the US commitment to Asia.

The diplomatic component of the rebalancing strategy hinges on building up partnerships with key states in Asia: from Japan to Korea, Taiwan to Singapore to Australia and, of course, India. None of the US allies, nor any of the nations in Asia, are sanguine that US hopes for a peaceful resolution of disputes in the South and East China Sea will be fulfilled. There are possibly better chances of maintaining peace as far as continental disputes are concerned. The 3500 km long Sino-Indian border, for instance, remains tranquil since the two countries maintain roughly equal forces along the disputed border.

Much is riding on hopes and intentions as far as the success of the rebalancing strategy is concerned. Its success is by no means pre-ordained. Most countries in Asia - with the exception of India - lack the capacity to individually stand up to China. Close collaboration with the United States would have been the answer, but most countries are uncertain about US intentions and willingness to risk involvement on their behalf in a conflict against China.

### **China-India-US Rebalance to Asia**

The re-emergence of China in the 21<sup>st</sup> century poses a clear challenge to the United States, and to India, but in different ways. The challenge to the United States is that China's rise has the potential to undermine the US-backed security system in Asia. This could possibly shut out the United States from the region. China's growing pre-eminence is a challenge to India, in that for the first time in history it would have at its doorstep an aggressive power which is seen as a rival, or at least a potential rival. At the same time, both in the case of the US and India, China is a key commercial partner. Hence, both

have to maintain a balance between a geopolitical competitor with ever-widening ambitions, and an economic partner.

China and India already have competing and contradictory priorities on most strategic and civilizational issues. These include Asian security, regional stability and virtues of a Sino-centric world order replacing current polarities. China is presently in the midst of its ongoing Third Revolution, the results of which have, so far, been positive, China watchers, however, see a dangerous trend of increasing nationalistic fervour, a growing belief in its own exceptionalism and uniqueness, coupled with an unwillingness to accommodate and compromise on matters relating to its perceived security. These trends according to them could have unforeseen consequences.

President Xi Jinping of China has perhaps emerged as the most powerful Chinese leader since Deng Xiaoping. This has happened even as China's top leaders are struggling to govern collectively, while called upon to deal with an increasingly complex Asia. Experts believe that in China's case, the amalgam of an ancient civilization and a huge modern state, can prove highly incendiary. As China expands its military, it could also lead to certain eventualities in protecting China's core interests (sovereignty and territorial integrity), reclaiming all 'lost territories' claimed by China at one time or the other, and setting right 'historical wrongs'. Possessing one of the largest land forces, having a substantial missile and nuclear capability, and aiming to have one of the most formidable naval forces in the world, China can no longer be viewed as an enigma.

India's approach to the prevailing regional situation is different. In contrast to China's growing assertiveness, India only seeks to enhance its strategic space and to ensure its strategic autonomy. Any talk or reference to India's 'vulnerability' or to treat it as a 'pre-mature power' however, would be misplaced. Today, India is confident of its own strength and standing, and it is the only country in the Asian region capable of standing up to China. Hence, New Delhi's effort is directed towards ensuring that the power differential between India and China does not increase to the point where China feels it could threaten India's position in Asia.

The current reality is that despite the Chinese military build-up, China does not have any decisive advantage vis-à-vis India. China's land forces are larger than that of India, but it has a much longer border to defend. India has raised two new Specialized Mountain Divisions which are to be positioned in areas close to the border with China. India's Air Force, specially, India's fleet of supersonic planes (including the Sukhoi-30 MKI) compares very favourably with anything that the Chinese Air Force possesses at present. India is currently engaged in a massive upgrade of its Air Force. India is well on its way to becoming a two Aircraft Carrier Navy, and possesses an array of stealth frigates, and one nuclear submarine with another likely to be inducted shortly. India is also proposing to spend several billions of US dollars on capital defence acquisitions such as land-based and carrier-based aircraft, stealth frigates and enhanced naval surveillance capabilities.

What the US rebalance to Asia needs to factor in are the implications of certain recent pronouncements of Chinese President Xi Jinping viz., 'renewal of the Chinese nation', the desire to 'sell the Chinese dream', the concept of the 'Maritime Silk Route', and the emphasis put on 'expeditionary forces' to deal with problems affecting the sea. Chinese exceptionalism today is largely

historical and revivalist, and this poses a danger to all countries which have an interest in Asia. Hence the US rebalance to Asia must try and strengthen an alternative vision of Asian stability, in the absence of a proper security architecture to help maintain the balance and bring peace to the region.

### **Conclusion**

From India's standpoint, there are certain incompatibilities between Washington's rebalancing strategy and India's priorities. However, India is conscious that the gap today is not the kind that existed during the Cold War years, when Washington's strategies directed at the 'containment' of the Soviet Union, were totally at odds with India's attitudes at the time. Nevertheless, India does not, at present, see itself as seeking to contain China whether individually or in concert with the United States.

India favours maintaining a certain level of strategic autonomy, and retaining its independence of judgement and actions, even while being part of multiplex arrangements involving a number of states whether or not they are countries with which it has entered into strategic or co-operative relationships. India has forged several 'circles of engagement' with countries across the globe including the United States and Russia, the United Kingdom, Germany, France, the European Union and Japan, as well as countries in India's immediate and extended neighbourhood. India is also engaging with China, with which it has a strategic and co-operative partnership. With many of these countries, India has strategic dialogues in place, which have produced useful results.

Indo-US relations have not always been smooth. During the Cold War years, relations were decidedly frostily. The US rapprochement with China during the Nixon Administration further complicated Indo-US relations. This situation persisted through the Reagan and Clinton Administrations, which became further exacerbated in the wake of India's nuclear tests in 1998. Indo-US relations were transformed only during the George W. Bush administration, which viewed India as a part of the solution to nuclear proliferation rather than as part of the problem. By and large, the legacy of the past has been overtaken by the warmth that has prevailed during the last decade.

In the context of the US Rebalance to Asia and the Asia-Pacific, Washington would do well to realize that its success is dependent on the extent to which the United States and India remain on the same wave-length and arrive at a realistic entente on the objectives of the rebalance. The United States can neither do it independently, nor hope to succeed with the support of only the smaller Asian nations.

## Chief Guest's Address

### A New Moment for US-India Relations

*US Consul General Phillip Min*

This is an exciting time for US-India relations, filled with great potential. Nothing exemplifies that more than the relationship between the two leaders. From Prime Minister Modi's hugely successful visit to the United States last fall to President Obama's historic visit to New Delhi just four months later, becoming the first US president to be "Chief Guest" at India's Republic Day celebration and the first sitting US president to visit India twice.

During his speech to the people of India, President Obama shared his belief that India and the United States are not just natural partners, but that America can be India's best partner; that when our two nations – the world's largest democracy and the world's oldest democracy – work together, we can lead the world toward greater peace, prosperity and security.

The President said that his visit reflected "the possibilities of a new moment." And under the leadership of US Ambassador to India Richard R. Verma, the US Consulate General in Chennai is focused on the shared efforts that can move the two nations from the possibilities of this moment to the progress that their leaders envision.

#### **Shared Vision for the Asia-Pacific and Indian Ocean Region**

Part of that shared effort is the US Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region. US cooperation on Asia stems from the recognition that, as home to more than two thirds of humanity and world GDP, many of the questions that will define the future of global peace and prosperity will be settled in Asia.

India's Act East policy and the US Rebalance to Asia are complementary approaches based on shared democratic values and respect for the stability and prosperity that the rules-based international system has brought to the world.

As Prime Minister Modi has said publicly, when he thinks of the United States, he doesn't think to look to the West. He thinks to look to the East, and he sees the US Pacific shore. And as the United States implements its rebalance, India is seen as a fundamental provider of economic growth and security across the region.

This strategic vision should not be seen as a strategy that is confrontational to our relationship with China. On the contrary, as the new National Security Strategy outlines, the US welcomes a stable, peaceful, and prosperous China and a constructive relationship that also promotes security and

prosperity in Asia and around the world. At the same time, The US will manage competition from a position of strength while insisting that China uphold international rules and norms on issues ranging from maritime security to trade and human rights.

As President Obama and Prime Minister Modi stated in the joint vision statement they penned last fall, the partnership between the two countries will not only work for the benefit of both nations, but for the benefit of the world. The US partnership in the Asia-Pacific and Indian Ocean Region brings that vision one step closer to reality.

## **Regional Trade and Economic Integration**

In the joint vision statement, the US & India agreed to support regional economic integration through the promotion of accelerated infrastructure connectivity and economic development in a manner that links South, Southeast and Central Asia, including by enhancing energy transmission and encouraging free trade and greater people-to-people linkages.

It's fitting that this conference is being held in Kerala. Its roots run deep in the history of the global economy as a major spice trade center with linkages across the Arabian Sea to major Mediterranean and Red Sea ports as well those of the Far East. The historic spice trade between Kerala and much of the world at the time was one of the main drivers of the world economy, and Kerala's ports were among the busiest of all trade and travel routes.

The ties between India and East Asia continue today. From 1990 to 2011, trade between South and Southeast Asia grew from 4 billion dollars to 86 billion dollars. An increase in infrastructure investment equivalent to one percent of global GDP would likely translate into an additional 3.4 million jobs in India and 1.5 million jobs in the United States.

Asian economic integration is good for economic prosperity and for stability. And when the countries of Asia are trading and working together in an open, fair, rules-based commercial order – that's good for society, for working people, and for the bottom line. As the US President said when he was here, India's rise is in the interest of regional and global stability, and global economic growth. If the US and Indian economies are growing together, it can be a powerful engine for prosperity across the globe.

## **Regional Security**

Regional prosperity depends on security. Shipping lanes and air routes are the veins and arteries that keep the US & Indian economies alive. Through the joint vision statement, the two leaders recognized that their nations can do much more to safeguard maritime security, ensure freedom of navigation and overflight throughout the region, and promote peace and prosperity in the Asia-Pacific and Indian Ocean region.

Last year, the United States, India and Japan jointly participated in the Malabar naval exercise in the Pacific Ocean and the trilateral disaster response and risk reduction workshop in Hawaii. Looking

forward, expanding our bilateral Malabar naval exercise by regularizing the participation of Japan, and elevating our trilateral dialogue with Japan to the ministerial level, are lines of effort that can help to uphold freedom of navigation and peacefully resolve disputes in the region.

### **Strengthening Regional Architecture**

Strengthening regional architecture will also be instrumental to furthering our shared goals in East Asia. The United States therefore welcomes India's interest in joining the APEC (Asia Pacific Economic Cooperation) forum; and looks forward to working with India to strengthen the East Asia Summit to promote regional dialogue on key political and security issues.

In closing, I want to echo the thoughts of Assistant Secretary of State for South and Central Asian Affairs Nisha Biswal:

For the first time in our bilateral relations, there can be no doubt about the strength of the US-India joint strategic vision. Our two countries are indispensable partners in promoting peace, prosperity and stability in the Indo-Pacific region. We are drivers of growth across the region and around the world. And we are net providers of security, together ensuring freedom of navigation and safeguarding maritime security. These values are clearly reflected in our Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region, leaving no doubt about our commitment to a peaceful, prosperous, and stable Asia in the 21<sup>st</sup> century.

## Analyzing the US Rebalance to Asia

*Murray Hiebert*

President Barack Obama launched the “US rebalance to Asia” shortly after he took office in 2009, although he did not use that particular phrase until 2011. He spelled out the goals of the rebalance policy in two speeches in Australia in 2010 and 2011 while former Secretary of State Hillary Clinton presented her perspective in a 2011 article in *Foreign Policy* magazine.

The rebalance was premised on the recognition that the Asia-Pacific would play an increasingly important role in driving the world's political and economic life in the twenty-first century. To take advantage of this shift and boost economic growth at home, Washington pledged to invest more energy and budget resources in developing diplomatic, economic, security and people-to-people ties with the Asia-Pacific. The broad outlines of Asia policy have a strong bipartisan consensus in Washington.

The rebalance was launched at a time when the United States was undergoing a financial and economic crisis and its troop deployments in Iraq and Afghanistan were winding down - or so policymakers thought until the Islamic State emerged as a powerful militant group. It was hoped that the focus on Asia would help spark the US economic recovery.

The rebalance to Asia is based upon five key pillars:

The first pillar is to strengthen US ties with allies in Asia, particularly with Japan, Korea, Australia, and to some extent with the Philippines and Thailand, to create a stable regional security order. One of the strongest supporters of the rebalance is Prime Minister Shinzo Abe of Japan. His rise to power corresponded with China stepping up pressure on Japan in the East China Sea. When Obama visited Tokyo in April 2014, he assured the Japanese that Article V of the US-Japan Security Treaty would apply in a crisis over the contested Diaoyu/Senkaku islands in the East China Sea. South Korea has also supported the rebalance, but its position is complicated by Seoul's expanding political and economic relations with China.

The second pillar of the rebalance is to bolster ties with emerging powers and other countries in Asia, including China and India. The United States faces no bigger foreign policy challenge than finding a way to sustain stable and productive ties with a rising China. Leaders in Beijing have criticized the rebalance as an effort to contain China. In their view, US military exercises in the region and efforts to bolster its alliances are not conducive to regional peace and stability and they warn that the rebalance could encourage a new era of geopolitical competition.

Obviously, the rebalance has had no immediate impact on convincing China to roll back its increased assertiveness in the South China Sea beginning in 2010. If anything, China under President Xi Jin-ping has stepped up its assertiveness against Japan in the East China Sea, and against Vietnam, the Philippines, and to some extent against Malaysia, in the South China Sea.



China appears to be challenging the US rebalance and trying to press Washington toward a more accommodating stance with Beijing. A key question is the extent to which China and the United States will be able to work with regional players to build an enduring and inclusive regional security order. Despite the rhetoric, the number of high-level dialogues and exchanges between the two countries, including between Presidents Obama and Xi, have increased dramatically in recent years, covering even difficult security challenges like North Korea, climate change and the rise of the Islamic State.

Washington also sought to step up its ties with India, partly by enhancing the strategic dialogue on Asia issues as part of New Delhi's "Look East" policy. However, US officials faced challenges in expanding cooperation in economic and security relations in the five years prior to the general election of 2014. After Narendra Modi became Prime Minister, the two governments have moved quickly to repair and upgrade their relationship. Modi visited Washington in 2014, and Obama visited India in January, making him the first US president to visit India twice during his tenure. In their joint statement, India made clear that it is more willing to engage the United States on strategic issues, including maritime security in the South China Sea and on North Korea's nuclear program.

The US-India defense relationship is deeper than many would have foreseen a decade ago. The United States is now one of India's largest defense suppliers and the two countries conduct a number of joint exercises. Of course, much remains to be done if the two countries want to better align their Asia strategies. Of immediate concern is the need for India and the United States to revitalize their engagement in Afghanistan to promote its future stability. On their side, India experts often complain that US statements on strategic reassurance to Beijing and great power relations with China downplay India's own regional role.

The US rebalance may have had some of its greatest successes in Southeast Asia. After years of isolation and sanctions against the ruling junta in Myanmar, Washington's relations with the country have improved dramatically, thanks to the reforms launched by the ruling generals in 2011.

However, the reforms in Myanmar have not been easy. Communal violence has erupted between Buddhists and Muslims, and negotiating a ceasefire between the government and 16 major armed ethnic groups has not been easy. The country will hold elections in late 2015 and it is far from certain that they will be inclusive, transparent and credible. Nevertheless, Myanmar is a large country at the crossroads between Southeast Asia, China and India, which makes it too strategic to be isolated and ignored as it had largely been in past decades.

China's increased assertiveness in the South China Sea since 2010 has prompted some Southeast Asian countries to boost their ties with Washington. (The South China Sea claimants include China and Taiwan, Brunei, Malaysia, Philippines and Vietnam). China has cut the seismic cable of oil exploration vessels off the coast of Vietnam, seized the Scarborough Shoal from the Philippines in 2012, and parked an oil exploration rig in Vietnam's exclusive economic zone in May 2014. Over the past 18 months, the main concern has focused on China's reclamation projects through which it is turning underwater features into larger man-made islands on which it can land its planes.

Vietnam has long tried to balance its relations between Beijing and Washington. But in 2013 Vietnam agreed to establish a comprehensive partnership with the United States and last October, Washington agreed to partially lift its longstanding ban on Vietnam buying lethal weapons from the United States, which had been in place since the end of the Vietnam War in 1975.

The Philippines, which pushed the US military out of its Clark and Subic bases in the early 1990s, has under President Benigno Aquino, moved to enhance its ties with Washington. The United States has offered both Manila and Hanoi naval vessels to boost their maritime domain awareness. During a visit to Manila by President Obama in April 2014, the two sides signed an Enhanced Defense Cooperation Agreement under which the US military will gain access to some Philippines bases on a rotational basis and will get permission to store emergency supplies and equipment to respond to regional disasters.

The one country in Southeast Asia with which US relations have slipped backwards is Thailand, where generals launched a coup against the government in May 2014. It is not clear when the government will return to civilian rule, which creates a challenge for Washington in such areas as the annual Cobra Gold military exercises in Thailand. This year's exercises were continued but scaled down.

The United States says it is neutral in the South China Sea dispute and only calls on countries to resolve their differences peacefully. However, the US military training with and support for the South China Sea claimants in the East Asia Summit (EAS) and the ASEAN Regional Forum (ARF) prompts charges from Beijing that Washington is not neutral.

The third pillar of the rebalance is promoting economic ties with Asia, recognizing that the region will drive global economic growth for decades to come. The economic aspect of the rebalance has three broad objectives: to promote growth and jobs; to uphold and update the rules of the international trading system; and to support the US long-term presence in the region.

The US continues to see the 21-member Asia-Pacific Economic Cooperation (APEC) forum as the core driver in promoting economic integration in the region. One weakness of APEC in this regard is that it does not include India and three countries in Southeast Asia: Cambodia, Laos and Myanmar. However, there are also concerns that adding these countries would make APEC too unwieldy and add significant new challenges.

Much of the US government's energy is focused on the 12-nation Trans-Pacific Partnership (TPP), a high-standard trade agreement that includes highly developed Japan and developing economies like Vietnam. The TPP is critical to the US rebalance. Without it, the rebalance would contain little new substance and would be perceived as driven primarily by military considerations.

The fourth pillar of the rebalance is a focus on building regional multilateral institutions. The United States under Obama signed ASEAN's Treaty of Amity and Cooperation and joined the EAS, which discusses critical political and strategic issues such as the conflict in the South China Sea. One of the more successful new regional institutions is the ASEAN Defense Ministers Meeting-Plus, which gives

the region's defense ministers more opportunities to discuss challenges and train in areas such as peacekeeping and humanitarian assistance.

The United States stepped up its engagement with ASEAN by appointing a resident ambassador in Jakarta to relate to the ASEAN Secretariat. The United States is an active participant in the ARF where regional issues like the South China Sea dispute are discussed. Washington also launched a Lower Mekong Initiative to promote development, education and health in the poorest ASEAN countries.

The fifth pillar of the rebalance is an effort to boost the US military presence in the Asia Pacific and explore ways to disperse US security forces beyond Northeast Asia. Since the Cold War, the United States has had much of its security presence focused in Northeast Asia. The United States is now exploring the possibility of moving some of this presence closer to Southeast Asia where there is a greater need for human assistance, disaster relief and training. This rebalance of forces has prompted speculation, particularly in China, that the security component is the main goal of the rebalance.

The US Navy has announced that it will shift 60 percent of its fleet to the Pacific and the Air Force has said it will deploy most of its fifth generation fighters to the Asia-Pacific. Over the past few years, Washington has stepped up military cooperation with Australia, where it has agreed to rotate 2,500 marines through Darwin each year, and also with Singapore, where the United States would have stationed four littoral ships by early 2016.

The Washington-based Center for Strategic and International Studies (CSIS) undertook a poll in 2014 of "strategic elites" in the Asia-Pacific and found that 79 percent supported the US rebalance to Asia. In Japan, this figure was 98 percent, Indonesia 87 percent, India 82 percent, but in China it was only 23 percent. Yet 51 percent across the region said the strategy was insufficiently resourced or implemented.

The declining US defense budget poses significant challenges for the rebalance. The emergence of the Islamic State as a threat in Syria and Iraq coupled with changes in the US foreign policy leadership team has prompted questions as to whether the rebalance can be sustained. Moreover, different branches of the administration stress different aspects of the rebalance. For the rebalance to succeed, the United States will have to develop a more unified Asia strategy across different agencies.

However, the growing recognition in the United States about the importance of Asia to its economic growth and security will almost certainly ensure that Washington will maintain its focus on the region beyond the US elections in 2016, regardless of which party wins the presidency - or what name the new president may give to his/her new Asia policy.

## **America's Pivot to Asia Strategy: Goals, Motivations and Responses**

*Chintamani Mahapatra & Amrita Banerjee*

The post-war order in Asia has rested on the presence and predictability of US power, anchored in a network of military alliances and partnerships. This was welcomed in most regional capitals, first to prevent the re-emergence of Japanese militarism, then as a strategic counterweight to the Soviet Union, later as a security guarantee to Tokyo and Seoul (to remove the need for local nuclear weapons programs) and as a damper on a number of other lesser regional tensions<sup>1</sup>. In recent years, China's rise and the United States' fiscal and economic difficulties began to raise questions about the durability of this framework. As a result, a sense of strategic uncertainty and some degree of strategic hedging had begun to emerge in various capitals.<sup>2</sup>

The United States responded to the apprehensions of various countries and allies by announcing its 'Pivot to Asia' policy. The announcement generated shock waves around the world but before proceeding to explain further, it is important to understand the word 'pivot' and what Obama's Pivot policy is all about. The word 'pivot', according to the Oxford Dictionary means a hinge, shaft, pin or crucial point around which something turns. With reference to US foreign policy, this word meant the central hinge or the crucial point around which the entire US policy towards the Asian continent would revolve in the coming decade.

It is well known that the United States has never shied away from taking advantage of diplomatic resources that would benefit the nation. After a decade of engagement in the Middle East and Southwest Asia, particularly in wars in Iraq and Afghanistan, US policymakers realised that China's power and influence in the political economy of the Asia Pacific had increased to a great extent. Concurrently, American allies and partners had found in China a bigger trade partner than the United States. The power balance in this region, crucial to American security and economy, had begun to shift and an active policy reformulation was deemed imperative. The outcome of such deliberations was the announcement of the 'Pivot to Asia' policy, which later came to be known as the 'rebalancing strategy.' Some analysts called it the Obama Doctrine: a part of Obama's "grand strategy."<sup>3</sup> President Obama in his address to the Australian Parliament on November 17, 2011 termed it as a "broader shift" of the US policy in the Asia Pacific. He stated:

"After a decade in which we fought two wars that cost us dearly, in blood and treasure, the United States is turning our attention to the vast potential of the Asia Pacific region...As the world's fastest growing region - and home to more than half the global economy - the Asia Pacific is critical to achieving my highest priority and that is creating jobs and opportunity for the American people. With most of the world's nuclear powers and some half of humanity, Asia will largely define whether the century ahead will be marked by conflict or cooperation, needless suffering or human progress. As president, I have therefore made a deliberate and strategic decision—as a Pacific nation, the United

States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with allies and friends....As we end today's wars, I have directed my national security team to make our presence and mission in Asia Pacific a top priority.”<sup>4</sup>

The “Pivot to Asia” strategy has been elaborately explained and articulated by a number of President Obama's former associates, including the Secretary of State Hillary Clinton, Defence Secretary Panetta and the National Security Adviser to the President Tom Donilon. About the time President Obama was articulating his views on this concept in the Australian Parliament, Secretary Hillary Clinton wrote in *Foreign Policy*: “As the war in Iraq winds down and America begins to withdraw from Afghanistan, the United States stands at a pivot point. Over the last 10 years, we have allocated immense resources to those two theatres. In the next 10 years, we need to be smart and systematic about where we invest time and energy, so that we put ourselves in the best position to sustain our leadership, secure our interests and advance our values. One of the most important tasks of American statecraft over the next decade will therefore be to lock in a substantially increased investment-diplomatic, economic, strategic,<sup>6</sup> and otherwise-in the Asia-Pacific region.”<sup>5</sup>

Now the question arises, why has the US adopted this policy in the first place and what are the Pivot's main goals? National Security Advisor Tom Donilon explained that the Obama Administration desired a “stable security environment and a regional order rooted in economic openness, peaceful resolution of disputes, and respect for universal rights and freedoms”<sup>6</sup> and it sought to achieve that end through appropriate action in five specific areas:

- Strengthening alliances
- Deepening partnerships with emerging powers
- Building a stable, productive and constructive relationship with China
- Empowering regional institutions
- Helping to build a regional economic architecture

The ultimate goal, according to Donilon, was to promote US interests by helping to shape the norms and rules of the Asia-Pacific region, to ensure that “international law and norms be respected, that commerce and freedom of navigation are not impeded, that emerging powers build trust with their neighbours, and that disagreements are resolved peacefully without threats or coercion.”<sup>7</sup> While the goal included building productive and stable ties with China, the urgency to “shape the norms and rules of the Asia Pacific region” meant that managing China's behaviour was crucial.

An analysis will show that the tenor of the policy has strong military as well as economic overtones. Is this a new phenomenon of American engagement in Asia? And if not, what are the different elements of continuity and change? A deeper scrutiny reveals that this policy is not a novel trend. It was just that after a decade of intense focus on the Middle East and South West Asia, it had become imperative for Washington to reposition its strategic assets in the Asia Pacific region. In fact, President George W. Bush had initiated this strategy in economic terms and President Obama carried it further by adding a military dimension.

The Obama Administration's Pivot policy has aimed at fortifying relations with the existing allies in Asia (Japan, South Korea, Australia, the Philippines and Thailand); negotiating the Trans-Pacific

Partnership or TPP to set new rules of economic cooperation; and forging new partnerships with regional heavyweights, such as India, Indonesia and Vietnam. The “rebalancing” to the Asia-Pacific also represents the deepening by the Obama Administration of efforts, begun in 2009, to upgrade US diplomatic visibility and presence in the Asia-Pacific. It also envisages the redeployment of naval forces in ways that would mean keeping 60 percent of the naval power in the Asia Pacific. It speaks of the redeployment of some 2500 US marines in Australia, on a rotational basis. Perhaps most notably, since 2009, the Administration has consistently given considerable time and emphasis to Southeast Asia and to regional multilateral institutions.<sup>8</sup> The pivot policy sought to highlight the earlier initiatives within a proper regional framework.

Moreover, the Administration's greater emphasis on the Asia-Pacific region appears to be more of a change in means (i.e., the enhanced level of resources and leadership attention devoted to this part of the world) than a change in policy goals. Fundamental US interests in the region - including stability, freedom of navigation, free flow of commerce, promotion of democracy and human rights - have all along remained the same. The new variable, underlying much of the Obama Asia-Pacific policy is actually the emerging challenge of managing tensions in Sino-US relations while seeking to deepen China's integration into the international community.

Obama's “Pivot to Asia” strategy distinguishes itself in two notable ways, from the approaches of the two previous administrations towards the Asia-Pacific region. First, it has been packaged comprehensively and has all the necessary components of a strategy, namely military, political, economic and ideological.<sup>9</sup> The second distinguishing feature of the Pivot strategy is that it encompasses a much wider geo-strategic space: what is traditionally known as the Asia-Pacific region comprising of East and Southeast Asia.<sup>10</sup>

That said, there are at least three broad new features of US policy worth emphasizing: new military priorities and deployments; an arguably more integrated and region-wide economic approach to the Asia-Pacific (the TPP); and a vision of a new geopolitical construct, called the Indo-Pacific to merge the Indian Ocean with the earlier regional construct of the Asia Pacific.<sup>11</sup>

### **Rationale for the “Pivot to Asia”**

The next crucial issue is the rationale behind the Pivot policy. Why did the United States formulate this policy and what was the need for such a strategy? The most obvious answer that emerges is the compulsion of realpolitik in contemporary times. In this regard, one of the core motives of the US policy in the post-Second World War period has been to preserve and promote its global hegemony. A key precondition to preserving this hegemony is to ensure that no other hegemon emerges anywhere in the world.<sup>12</sup> The well-known US neo-realist scholar John Mearsheimer says: “My theory of international politics says that the mightiest states attempt to establish hegemony in their own region while making sure that no rival great power dominates another region. The ultimate goal of every great power is to maximize its share of world power and eventually dominate the system.”<sup>13</sup> This theory

correctly explains the policy of successive US administrations to take all necessary measures to prevent the rise of a rival power. Official government documents do not hide this element of US foreign policy goals

This motive of preserving and promoting its global leadership can be clearly discerned behind the Obama administration's "Pivot to Asia" strategy as well. But there are deeper reasons for the articulation of the Pivot strategy, which was to address questions raised both within the United States and from outside. Firstly, domestic voices called for a downsizing of America's foreign policy engagement. The American people felt that the prevailing extensive US involvement in world affairs, symbolised by wars in Iraq and Afghanistan, was unsustainable and unnecessary in view of its domestic economic and social costs. This was even supplemented by President Obama's own determination to end, as much as possible, military involvement in the Middle East and North Africa.

Secondly, it coincided with the administration's perspective that the drawdown of US military forces in Europe was sensible in the absence of any perceived security threat facing the continent. With eyes off Europe, Middle East and North Africa, the obvious choice was to revamp its strategy in Asia because Washington was aware that much of the history of the twenty first century, for good or for ill, would be written in Asia. Consequently, the "Pivot" is the Administration's belief that the center of gravity for US foreign policy, national security and economic interests is shifting towards Asia, and that US strategy and priorities need to be adjusted accordingly.

Thirdly, the Pivot to Asia was also meant for those US allies who had long complained about Washington's neglect towards them. In recent years, China's rise and the United States' fiscal and economic difficulties had made them anxious and apprehensive. China today is no longer a hidden dragon—the speed, scale and reach of its rise are without precedent in modern history. Within a span of three decades, the Chinese economy has grown from being smaller than that of the Netherlands to becoming larger than those of all other countries except the United States<sup>14</sup>. With a strong economy in place, Beijing has also flexed its military muscle wherever needed, especially while dealing with its smaller neighbors surrounding the East China and South China Sea. With rising Chinese economic might and stubbornness in territorial disputes with neighbors, the Obama administration's 'Pivot', better known as 'Rebalance,' has served as a necessary corrective measure, re-establishing strategic fundamentals.

Fourthly, the American economy has not been performing well in recent times. After a major recession in 2008 and subsequent slowdown in the national economy, the importance of the Asian economies for renewal and reinvigoration of the American economy has become crucial for the Obama Administration. The role of the Asia Pacific in this endeavor would, of course, be critical. Significantly, since 2000, Asia has become the United States' largest source of imports and second-largest export market after the North America region<sup>15</sup>. As the world's most populous area and fastest growing economic zone, Asia is expected to become even more vital for the US economy in the future—an expectation that has led the Obama Administration to pursue the Trans-Pacific Partnership and make Asian nations central to its National Export Initiative<sup>16</sup>. Greater trade flows through the Asia-Pacific (particularly the Strait of Malacca and the South China Sea) have also reinforced greater US

security interests in the region, as have the major expansions of other local nations' military forces, most notably China's<sup>17</sup>. Asia becomes relatively more decisive for Washington's recovery because of Europe's own economic crisis and lackluster performance in terms of economic growth in recent years. The Eurozone crisis that started since the end of 2009 took place in several Eurozone member states. These states were unable to repay or refinance their government debt or to bail-out over-indebted banks under their national supervision without the assistance of third parties such as the International Monetary Fund (IMF). This has prompted Washington to turn towards Asia more than towards Europe.

Fifthly, the unprecedented rise of Asian powers, such as China and India and their spreading influence in the continent and elsewhere provided yet another reason for America's pivot. Many have called the 21st century “the Asian Century,” a remarkable passing of the baton from West to East in the history of global affairs. Whether an 'Asian Century' is actually emerging or not is debatable. However, the rise of many Asian states and their role in the global economy cannot be underestimated<sup>18</sup>. Also, as the United States seemed busy fighting wars in Asia, strides made by China in military modernization and its assertion of territorial claims in relation to Japan and South China Sea neighbors induced the Obama administration to read the writing on the wall.

The American disquiet over China's rise was adequately mirrored in a series of Pentagon documents and studies. The Pentagon's 2010 Annual Report to Congress sounded a serious alert on the security implications of China's military modernization for the United States<sup>19</sup>. The Report underlined China's strategy of “Offense as Defense” and drew attention to its “Anti-Access/Area Denial Capabilities” enabling it<sup>20</sup> “to counter third party intervention, including by the United States, in any future cross-Strait crisis”<sup>21</sup>. The Obama Administration's compulsion to confront economic slowdown at home and the need to reduce its defense expenditure and sharpen its focus partly account for the announcement of the “Pivot to Asia” strategy. It was recognized that the old strategy of fighting two simultaneous wars was becoming incrementally difficult and therefore setting new priorities was essential. The strategy of Rebalance toward Asia was officially confirmed as the administration's policy in January 2012 by the Pentagon's report on new strategic policy guidance. The underlying impetus of this report was clear the available defense resources could no longer support the long-standing US strategy of maintaining the capability to fight two major conflicts at the same time. With apparently no political prospects for closing the gap in military resources, the administration made a strategic decision to stabilize an increasingly problematic situation in Asia.

### **Contestations of 'Pivot': Views from Home and Abroad**

Notwithstanding the new US focus on Asia, declarations of intent and enunciations of strategic doctrines are not by themselves sufficient either to reorient global realities or to safeguard US interests. As with other prior policies, the Pivot also evoked a mixed response both at home and abroad. Some declared that the Pivot was not a strategy per se and hence there was no need to harp on it. Others expressed the doubt that lower defense expenditure, planned reduction in the submarine force, sequestration and furloughs and continuing need for engagement in the Middle East do not make it viable to implement such a strategy. The most recent shipbuilding plan of the US Defense



Department has stipulated that the US Navy's attack submarine fleet is slated to drop steadily from 55 currently active to 41 by 2028<sup>21</sup>.

A section of US public opinion also asked the federal government to repair its badly broken political system, which appeared incapable of making tough decisions and further suggested closely aligning government revenues and expenditures to invest in economic infrastructure and human capital like healthcare, which if left unchecked, would eventually bankrupt the country. In this regard, voices from the home front have stressed a US strategy for the 21st century that would begin with domestic renewal. At the end of the day, however, US success or failure in the 21st century will be determined less by any Pivot toward Asia than by how skilfully Washington addresses its domestic challenges. This requires both political will and significant economic resources.<sup>22</sup> Such domestic opinions recall the days of isolationist sentiments during the inter-war years and to some extent, public concerns over US "imperial overstretch" in the 1980s.

In terms of external impact of the "Pivot" policy, it is intended to reassure friends and warn competitors that the United States retains both the resolve and the capacity to maintain its leadership in the Asia-Pacific. Consequently this policy has generated considerable enthusiasm among American allies and friends who had earlier felt neglected by Washington. On the other hand, Obama's Pivot to Asia strategy has drawn flak from US competitors, most particularly from China. Beijing has been viewing this strategy as an all-inclusive endeavour to thwart its ascent to a global power status. The "Pivot to Asia" strategy's emphasis on reinvigorating military alliances has disconcerted the Chinese government.<sup>23</sup> Similarly, as the United States pushes forward the Trans-Pacific Partnership (TPP) in the Asia Pacific region, China considers it as a straight rivalry with its own move towards establishing a "Regional Comprehensive Economic Partnership" or RCEP.<sup>24</sup> In this regard, a *People's Daily* editorial in early 2012 titled "Obama, Not Afraid of Breaking Your Back Pivoting to Asia?" pointed out that as China emerges on the world stage, the United States would not like to lose its number one position in the existing international order in general and in the Asia-Pacific region in particular.<sup>25</sup> In a nutshell, China rebuked the United States for adopting a strategy that means little, other than containing the rise of China. The Chinese Defense Minister Chang Wangquan even went to Washington in August 2013 for a rebalancing of the "rebalancing strategy" because Beijing felt that this strategy was emboldening and encouraging Japan, the Philippines and Vietnam to contest Chinese interests in the region (<http://www.defense.gov/news/newsarticle.aspx?id=120644>).

Beijing reads the Pivot as an implicit signal of a "war-weary" and "recession-ridden" Washington jostling to make the best of its waning global influence. Instead of accepting the Obama administration's offer of a new "G-2" condominium, China's ambitions appear to be growing, not receding, as it persists with its military modernization and expansion and behaves even more assertively with neighbouring states.<sup>26</sup> The Chinese leaders also complain against the US rebalancing strategy which has apparently strengthened the resolve of its smaller neighbours to challenge China's territorial and maritime claims. According to Xinhua, "By stoking the flames, Washington is further emboldening countries like the Philippines and Vietnam to take a hardline stance against China, raising suspicion over the real intention of the United States and mak[ing] an amicable solution more difficult to reach."<sup>27</sup>

The United States has, however, sturdily refuted the Chinese allegations. Washington has argued that, even if the US Pivot might have emboldened its allies and partners, it is still China that is acting in an offensive manner in disputed waters. For example, China took the offensive in placing an oil rig in disputed waters with Vietnam, and tried to block the same resupplies that the Philippines has been bringing to the Second Thomas Shoal for decades. Similarly, it is China that has stepped up patrols of disputed areas in the South China Sea, such as the Scarborough Shoal, and it is also Beijing that is building various fixtures on the disputed islands that it administers.<sup>28</sup>

By envisioning the creation of a new Silk Road connecting China with South, Central and West Asia and going all the way up to Europe, proposing the creation of a new Asian security architecture consisting only of Asian countries and endeavouring to establish an Asian Infrastructure and Investment Bank, China appears to be putting together some of the disparate elements in an evolving Chinese strategy to try to counter Washington's 'Pivot' to the region.<sup>29</sup> While Chinese leaders have not given the growing list of initiatives a label or said they had an overall purpose, Chinese analysts and diplomats said Beijing appears set on shaping Asia's security and financial architecture more to its liking. Sun Zhe, the Director of the Centre for US-China Relations at Beijing's Tsinghua University is of the view that "China is trying to work out its own counterbalance strategy."<sup>30</sup>

One vital ingredient of China's diplomatic outreach has been to breathe life into an obscure Conference on Interaction and Confidence Building Measures in Asia (CICA), which has languished since Kazakhstan first proposed it in 1992, in order to promote a Chinese version of peace and security.<sup>31</sup> CICA comprises two dozen mostly Asian nations, as well as Russia and some Middle Eastern countries. The United States, Japan and the Philippines are not part of it. China took over as chairman of CICA for three years at a summit in Shanghai in May, 2014.<sup>32</sup> There, President Xi Jinping lectured on a new "Asian security concept", saying China would explore the formulation of a code of conduct for regional security and an Asian security partnership programme.<sup>33</sup> While Xi gave few details and made no direct mention of disputes in the South China Sea, he warned Asian nations against strengthening military alliances to counter China--an oblique reference to the US Pivot. "Asian problems must be resolved by Asian people, and Asian security must be protected by Asian people," Xi said.<sup>34</sup>

The Pivot to Asia saw a response from Russia too. As it asserted its strategic interests in Eurasia by annexing Crimea, warning the United States and European countries against interfering in its conflict with Ukraine, it also took steps to expand its economic and diplomatic foothold in the Asia Pacific. Moscow's most spectacular initiative in this regard has been an energy deal with Beijing to the tune of about \$40 billion. In addition, Russia sought to improve relations with North Korea at a time when US-North Korean ties had hit rock bottom. Moscow undertook a succession of initiatives vis-a-vis North Korea that included the Duma writing off Pyongyang's Soviet-era debt and ratifying several economic deals that had remained unattended. Russia and North Korea set an ambitious target of \$1 billion in two-way trade by 2020 and to further facilitate their relationship, they expedited the number of bilateral meetings. The increasing closeness between Moscow-Beijing and Moscow-Pyongyang, signals the disquiet prevailing amongst these countries because of the American rebalancing strategy.

Reactions of American allies to Obama's Pivot to Asia strategy are also significant in their own right. Australia and the United States are part of the ANZUS strategic alliance since 1950s. This alliance has survived the end of the Cold War and the bilateral security arrangement between the United States and Australia has increasingly been fortified. When China became a vital trade and investment partner of Australia, the US-Australian defence and security ties remained unaffected. However, US-China tension over the Pivot to Asia strategy of the Obama Administration has generated an acute dilemma for Canberra. It has to reconcile its rapidly expanding trade ties with Beijing and its deepening military alliance with Washington. When President Obama and Prime Minister Julia Gillard announced the decision to deploy additional Marines to Darwin in 2011, China bristled. A recent Lowy poll regards China as "Australia's best friend in Asia" (ahead of Japan).<sup>35</sup> As a palliative, for the first time Australian, American and Chinese soldiers conducted a joint exercise on Australian soil in October 2014.<sup>36</sup> But the dilemma does not seem to have disappeared.

Significantly, even Japan, South Korea and the Philippines have, over the years, developed very intense economic cooperation with China. All of them have greatly benefitted from economic opportunities in the vast Chinese market. Even though China has expressed much apprehensiveness with this US strategy, countries such as Japan, Australia, Philippines and South Korea have welcomed and expressed its support for the US rebalancing strategy.<sup>37</sup> Similar is the case with many members of ASEAN. Those ASEAN members who were overtly concerned about Chinese assertiveness on maritime and territorial issues have gained some confidence and assurance from Washington's decision to pivot its military and economic policies to Asia. Most ASEAN members have openly welcomed the Pivot to Asia strategy hoping that it would serve as a preventive tool vis-à-vis China assertiveness and military muscle flexing.<sup>38</sup> However, some nations have voiced caution or concern over how China might respond to these strategic moves by the United States. In his initial comment on this strategy, the Indonesian Foreign Minister pointed out the danger of "a vicious cycle of tensions and mistrust" in the region as an implication of this strategic move by the United States.<sup>39</sup> The Malaysian Prime Minister expressed concern about the likelihood of increased tensions in the region.<sup>40</sup> Cambodia appears to be aligning itself with Chinese positions.<sup>41</sup> Ian Storey, Senior Fellow at the Institute of Southeast Asian Studies in Singapore has rightly observed that "The U.S. is already doing so much in the region, but no matter how many times the U.S. says it's committed to the region, still there are doubts."<sup>42</sup>

Those doubts have stemmed largely from US budget woes. The US Congress has found no solution yet to sequestration, a set of automatic budget cuts that resulted in Defense Department's civilian furloughs and reduced operations. In the absence of plans for big defense spending, US credibility in implementing the strategy is under question. The champions of Atlanticism in Washington's policymaking circles opposed the Pivot to Asia policy on the ground of offending European allies, even as some analysts complained that the Rebalancing strategy was not well defined and lacked any credible content.

### Whither the Pivot?

The announcement of the policy itself created immediate ripples around the world. The main question that arises is whether or not the Pivot to Asia policy is actually being implemented. And if it is really happening, what is the future of this policy? The question elicits a divided response. Some say that the Pivot is taking place while others say that it is not taking place. With a mini Cold War-like situation developing in the wake of the Russian annexation of Crimea and instability persisting in eastern Ukraine, foreign policy watchers thought the Obama Administration would have no breathing space to implement the Pivot to Asia strategy. Others considered the difficulties of implementing the exit strategy in Afghanistan and the deeper and deeper US involvement in combating terrorism in the Middle East. In response, Admiral Samuel Locklear III, Commander of the US Pacific Command, stated that the military aspect of President Obama's Pivot policy is "moving forward" despite the unrest in Russia and Ukraine.<sup>43</sup> He said the Army is increasingly getting involved, especially in a plan called Pacific Pathways that develops small units to be forward-deployed for a quick response to humanitarian emergencies or regional threats.<sup>44</sup> He noted the start of the withdrawal of troops from Iraq and Afghanistan, some of whom were returned to the Asia-Pacific, which hosts seven of the 10 largest armies in the world. It has been repeatedly pointed out that despite its growing operations in the Middle East, Africa and Europe, America's Pivot to Asia still seems to be led by the Department of Defence.<sup>45</sup>

In a press conference, Pentagon Press Secretary Admiral John Kirby said that the Pentagon's and armed forces' new responsibilities in the Middle East would not come at the expense of its focus on Asia.<sup>46</sup> Admiral Kirby emphasized: "I think given the fact that there's a lot going on in the world that we're still making these visits and still having these discussions speaks volumes about how important we believe the Asia Pacific theater is," He also pointed out that "more than 350,000 American troops are based somewhere in the Pacific, 200 ships, the majority of the Navy is in the Pacific. And we have five of our seven treaty alliances are in the Pacific region. We're very committed to that region."<sup>47</sup> The admiral made the point that despite distractions elsewhere, defense and military officials continue to accord high priority to the Asia-Pacific. Defense Secretary Chuck Hagel's frequent visits to the Asia Pacific region are a powerful pointer to the fact that slowly but steadily, the Pivot to Asia strategy is taking shape.<sup>48</sup>

Yet another group believes that America's Pivot to Asia strategy is not taking place. These scholars believe that the United States is not only afflicted by a gargantuan debt and hefty budget deficit at home but also suffering visibly from foreign-policy fatigue and remains side-tracked by crises in Gaza, Ukraine and the Middle East. In this sense, Washington seems to be adrift.<sup>49</sup> Meanwhile, a rising China seems to be probing US vulnerabilities and testing American tenacity in the region. In this context, it appears that Obama's "Pivot" to Asia has pivoted away again.<sup>50</sup> Washington has slashed its defense budget to the deepest level since World War II. Meanwhile, President Barack Obama had a hard time persuading both congressional Democrats and Republicans to support the Trans-Pacific Partnership.

Analysts contend that although giving greater attention to Asia is definitely required, if it comes at the expense of other key parts of the globe, it will probably be counterproductive. They would rather support a policy where America's resources and attention would be drawn into those areas whenever the security situation demanded. Hence, it is argued that a true Rebalancing is neither possible, given the current state of the US military, nor likely to be sustainable, if planned defense cuts are not reversed.

Some commentators have drawn attention to the activities of the US Department of State. US Secretary of State John Kerry's East-West Center speech — though entitled “U.S. Vision for Asia-Pacific Engagement” — offered little in the way of actual vision.<sup>51</sup> Moreover, Kerry's trips have usually been dominated by events elsewhere, especially the Middle East. Thus, while Kerry has been physically present in Asia, his attention has usually remained focused elsewhere. More notably, the White House continues to be entirely absent from the Asia-Pacific scene. Obama seems to lack a point person on China or Asia after Kurt Campbell and Tom Donilon left office.<sup>52</sup> Most White House advisors appear generally uninterested in the region and this outlook extends to the President himself. The appointment of Ashton Carter as the Defense Secretary silenced such voices, but events in the South China Sea have become a real test case of the seriousness of Obama's Pivot to Asia strategy.

## Conclusion

The high-profile manner in which the “Pivot to Asia” initiatives have been unveiled - through a series of Presidential and Cabinet-level trips, announcements, speeches and articles - appears to have been designed to attract as much attention as possible.<sup>53</sup> The intent may also have been to demonstrate to regional players the depth of the Administration's commitment and resolve. However, this approach also carries potential costs and risks. The high profile Obama Administration officials with their blatant statements about the Pivot have led leaders of the other regions into believing that the United States is disengaging from their respective regions and focusing on Asia alone.

As one commentator observed, “The Europeans are worried that the pivot to Asia means neglect of European security issues.”<sup>54</sup> However, the apprehension that the United States may abandon Europe for the Asia-Pacific seems misplaced. Keeping these apprehensions in mind, the use of the term 'Pivot' has been substituted with the term “Rebalancing.” To sum up, the “Pivot to Asia” is not a pivot as it is shifting focus from one part of Asia to another. Also, it is not just the United States that is pivoting towards Asia. In recent times, the United Kingdom and France seem to be pivoting too in that direction, except that they did not get a lot of press attention. France's economically driven Pivot to Asia, which is intended to benefit its economy, is just one example. Similarly, Putin has intensified Russia's Pivot to Asia amid the Ukraine crisis. India also has pivoted from 'Look East' to 'Act East'.

In a nutshell, all these countries seem to pivot according to their geopolitical needs and circumstances. So, the US Pivot is no misnomer. It suits the United States at the present time and situation, in the world of realpolitik. No doubt this new strategy has thrown up certain crucial questions but only the future will reveal how it will unfold. Till that time, it is better to wait and watch.

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## The Strategic Contexts of the US Pivot in the Asia Pacific

*W. Lawrence S. Prabhakar*

The US Pivot to the Asia-Pacific and the realignment of naval air forces to the Indo-Pacific is the outcome of the increasing economic and strategic gradient of the Asia-Pacific. The US Pivot to Asia is in direct response to the assertive rise of China and its military and strategic modernization. These developments have driven Washington to adopt a two-pronged strategy: firstly, to engage with the Asia-Pacific closely on economic and commercial terms with a renewed emphasis on multilateral frameworks and secondly, to recalibrate the US deployment of enhanced military power in the region to counter Chinese strategic moves and military modernization. The US Rebalance forms the larger part of the economic and multilateral trade initiative, the Trans-Pacific Partnership, which aims to reengage Asia, while the US Pivot gives strategic reassurance to its allies and partners in the region.

The US Pivot considers various means to counter the asymmetric strategies adopted by China, Iran and North Korea, which are deemed threatening to its regional allies. The Asia-Pacific region is increasingly important to US economic interests, and China is of particular importance to the economic future of the United States.

The United States' ability to project power and its freedom to navigate within the Asia-Pacific region may be challenged by China, given the latter's growing military capabilities and its claims to disputed maritime territory. As China's anti-access and area denial capabilities increase, US naval and air predominance can no longer be taken for granted. This situation has gradually dented the US ability to surmount Chinese challenges and assure deterrence to its regional allies. US allies in the Asia-Pacific have doubts about Washington's commitment to the region, in view of its budget cuts, particularly in the defense budget.

Fear of losing its influence in the Asia-Pacific drives US intents-objectives to counter the political-military challenge posed by China. The United States has deep apprehensions about the loss of military supremacy, evident in Chinese military-strategic gains, compounded by the slashing of US resources and its defense budget. The Rebalance and the Pivot serves to “dissuade” China militarily. However, Beijing perceives this initiative as being aimed primarily at containing China and insulating the region from its influence—thus prompting Chinese protectionist measures and its indifference to US economic interests in the region.

### ***Strategic Contexts of the US Rebalance in the Asia-Pacific***

The United States is in the process of shifting its global geopolitical dynamism and expanding its economy in a sustainable manner. It is building extensive diplomatic, economic, development, people-to-people and security ties with the Asia-Pacific. The strategic contexts of the Rebalance take the form of a “forward deployed diplomacy”—the key commitment being economic assurance and strategic reassurance to US allies and partners in the region.

Six priorities are featured in the strategic contexts of the US Rebalance in the Asia-Pacific:

*Strengthening Alliances:* It strengthens the US alliances that form the bedrock of engagement in the region and provide the pillars upon which the region's sustained peace and security rest. In partnership with its allies, the United States strives to create a stable security order that builds strategic confidence within the region and provides the context for states to build closer ties with each other.

*Improving Relationships with Emerging Powers:* While cementing alliances, the United States is focused on building new partnerships with emerging powers. One of its toughest challenges had been to build and maintain relations with China while keeping a balance. Besides China, the United States has been building relations with India. The US challenge with regard to India is finding real ways to expand cooperation in economics, development and security. While expanding its ties with India, the United States has engaged in a tripartite engagement with Japan for an expanding strategic and economic footprint in the Indo-Pacific. The United States is also expanding its engagement with Indonesia, Vietnam, New Zealand and Singapore.

*Economic Statecraft:* The core element of US foreign policy aimed at boosting its economic recovery is the crafting of new economic policies and regional economic partnerships. US allies in the Asia-Pacific are keen to invest in the United States under the framework of a transparent and predictable legal and investment system. The US initiated Trans-Pacific Partnership (TPP) will bring together economies from across the Pacific – developed and developing alike – into a single trading community. Along with the Association of Southeast Asian Nations (ASEAN), the United States has launched the Expanded Economic Engagement (E3) initiative to build capacity in Southeast Asia. Energy diplomacy is also one initiative that the United States has begun in the region.

*Engaging with Multilateral Institutions:* The new and innovative elements of US regional policy in its engagement with the Asia-Pacific are focused on maturing multilateral institutions. These bodies, though relatively young, have the potential to build and reinforce a system of rules and responsibilities to address complex transnational challenges and promote cooperation. US participation in the ASEAN Defence Ministers Meeting (ADMM Plus) and the annual Pacific Forum meetings are ways of enhancing its engagement with multilateral institutions.

*Support for Universal Values:* Nurture and support for universal values has been integrated into all US diplomatic engagements in the Asia-Pacific region. It relies on steadfast support and advocacy for universal values, including human rights and democracy. The United States has provided impetus to political and economic reforms, upholding the right to organize and greater press freedom, among others. The United States has also reiterated the importance of safeguarding fundamental human rights as the ultimate source of domestic stability, national greatness and economic prosperity.

*Increasing US Military Presence:* The United States is developing a geographically dispersed, and politically sustainable force posture in the region. It has been announcing new troop deployments to Australia, new naval deployments to Singapore, and new areas for military cooperation with the Philippines. It has stated that, notwithstanding reductions in overall levels of defense spending, the US military presence in East Asia will be strengthened. The US Pivot is an operational strategy that would bring about the deployment and basing of a 60/40 distribution ratio of US naval and air forces into the region along with a very substantive US nuclear submarine force, which would enhance its expeditionary, assault and amphibious capabilities.

### ***Endurance of the US Alliance System in Asia-Pacific***

*Hub and Spokes* has been the traditional pattern of US bilateral mutual security agreements with Japan, South Korea and Australia (1951), Philippines (1952), South Korea (1953), Thailand (1954), and Japan (1960). It has resulted in the forward-basing of forces in Japan and South Korea. The United States has increased intelligence cooperation with Australia and access to bases in Singapore and Thailand. It has enhanced the prepositioning of conventional forces as well as the deployment of tactical nuclear weapons in South Korea and theatre missile defenses in the region. The US reconfiguration of its power matrices in the Southeast Asian and East Asian theatres was made through its global forward-basing power realignments in 2004. Rebalancing of naval and air forces in the region and robust interoperability have become the standard US operational initiatives. The pivot is based on strengthening alliances; deepening partnerships with emerging powers; building a stable, productive and constructive relationship with China.

Seven initiatives and measures underpin the enduring US Alliance system in the Asia-Pacific:

*Reinforcing naval access and basing strategies:* This prominent military transformation development has resulted in robust forward-basing of naval and air assets including Unmanned Aerial Vehicles (UAVs) and other surveillance equipment. The US rebalancing has resulted in new deployments of naval and air assets in Singapore, South Korea and Japan that have enhanced the efficacy of air naval expeditionary capabilities. Joint exercises have increased the interoperability of the forward-based forces with the regional powers.

*Ramping of naval and air expeditionary capabilities:* This move has boosted the investments made in the order of battle of the Southeast Asian states, South Korea, Japan and Australia. The emphasis on naval and air expeditionary capabilities reveal that the nature of future wars would be in the air-sea domains, even as regional maritime disputes seem to move towards heightened contestation. The US has been transferring military hardware to Southeast Asia and also relevant technology to its allied partners that has created and enhanced new capabilities.

*Development of anti-access and area denial capabilities (A2AD) and countermeasures:* This has prompted technological responses and counter-responses that have led to the development of anti-access and area denial capabilities. The US-China arms competition has seen a slew of new missile technologies being unleashed by both sides, even as they battle in area dominance and denial operations. The development of anti-access and area denial capabilities is in tune with the regional and theatre military strategies of the United States and China.

*Air-sea & space-cyber architectures constitute the operational framework:* Such architectures constitute the main operational framework of emerging capabilities, even as the United States and China build their capabilities to contend and neutralize the other. The US-led initiatives have now been integrated into the allied capabilities of Japan, Australia and South Korea that presents a strategic interdependence of the United States with its regional allies. Chinese responses to these new architectures have been robust and have continued in order to keep pace with ever increasing

investment into new technological frontiers.

*Forward-basing and strengthening of regional alliances:* Forward-basing by the United States has brought a renewed US troop presence in Darwin, Australia as well as the stationing of unmanned aerial assets in the region to maintain surveillance over the South China Sea. US rebalancing efforts have increased the efficacy of its forward-deployed forces throughout the region and augmented its naval and air assets during the recent Korean flashpoint crisis triggered by Pyongyang.

*New thresholds of sea-based nuclear forces:* Nuclear ballistic and cruise missile deployments have been accentuated by the United States, China and India. These countries are now investing and building sea-based assets in the form of nuclear-propelled platforms as well as nuclear-tipped ballistic and cruise missiles. Deployments of nuclear ballistic and cruise missiles and their platforms raise the threshold of strategic competition. The United States however has predominance in two classes of nuclear-tipped missiles and in the number of platforms that operate in the Pacific Command. Sea-based nuclear forces have their scope and purpose in conducting coercion and compellence missions and also aid in the extended nuclear deterrence of allied partners.

*Sea-based missile defenses:* Such defenses have proven their increasing relevance in the age of ballistic and cruise missile proliferation. The United States, Japan and South Korea have increased the numbers of cruisers and destroyers armed with sea-based ballistic missiles that have been deployed to counter the North Korean ballistic missile threat.

Thus the region is undergoing various military transformations, even as it posits the prospect of economic growth as well as strategic competition. The Indo-Pacific's seamless maritime space thus presents scope for re-energized alliance dynamics based on maritime partnerships of trade and security.

### ***Chinese Responses to the US Pivot in the Asia-Pacific***

Chinese counter-responses to the US Pivot could encompass the following measures:

*Soft balancing:* China has preferred this optimal external strategy as it does not attract immediate international or contending hegemonic responses of hard balancing. It has been engaged in a limited arms buildup, initiated ad hoc cooperative exercises, and has engaged in several collaborative initiatives with regional or international institutions. However China has the option to convert these into open, hard-balancing strategies, if and when security competition intensifies. China sees the United States, Japan and India as contending powers from where it expects concerted aggressive opposition to its rising power.

*Internal balancing:* A variant of soft balancing, China has diligently sought to soften and to blunt the aggressiveness of US & Japanese economic and strategic power through a complex process of "engagement with the adversary's economic power base." This engagement is known as Internal balancing. China has been increasing its potential power by focusing on economic development with synergies to convert its wealth into military might at a more propitious time. China's strategy of internal balancing is less likely to arouse immediate security concerns among other states by its constant

manipulation of its relative economic and military capabilities. Internal balancing for China would be an optimal strategy to maintain a delicate balance between the poles of economic and military power.

China's combination of soft balancing in the external realm, and internal balancing of economic development in the domestic realm, which it terms “peaceful rise” and “peaceful development” would be the blunting instruments of hegemonic power vis-à-vis its adversaries.

*Asymmetric military strategy:* This is China's most favored strategy against its foes. China's Taiwan strategy is based on denial of US intervention power in its hubs of operation. Asymmetry is defined as the prevalent lopsided balance in power and capabilities in a two-sided contention. Asymmetry however weighs in great advantage for the weaker power to resort to various hostile deceptive and denial actions against the stronger adversary. China's asymmetric strategy is pivoted on the “Assassin's mace” that consists of short- and medium-range ballistic missiles and long-range land-attack cruise missiles armed with electro-magnetic pulse, anti-radar, thermo-baric and conventional warheads. China's asymmetric weapons are designed to neutralize and defeat a formidable superpower like the United States in a conventional conflict, including the Dong Feng 21D (DF21-D) medium range ballistic missile to defeat US carrier power in the Pacific.

*Encouraging brinkmanship states:* This strategy involves encouraging brinkmanship states to pursue revisionist policies that challenge the prevalent international status quo. Encouraging such states provides strategic gains to China and gives it leverage to secure its position vis-à-vis the United States and its Asian allies. Brinkmanship states like North Korea, Iran and Pakistan provide important leverage for China while the US re-balances and reinvigorates its alliances in the region.

### ***China, Japan, Russia and India: Parallel pivots and responses***

Four pivots have emerged in competition to the US Pivot in the Asia-Pacific. Each of these pivots reflects Great Power ambitions and dynamics in the Asia-Pacific as economic and strategic interests converge and collide with each Great Power's pivot.

*China's Pivot:* China is the driving force in East Asia, advancing many labels for its pivot. In the 1990s it focused on great power multi-polar relations after moving beyond the “strategic triangle” of the Cold War era. In the 2000s and 2010s China made a series of pronouncements about “neighborhood diplomacy.” China had been engaged in a slew of initiatives viz: the Six-Party Talks, which Beijing is still vigorously advocating, the Look West policy, the Silk Road Economic Belt proposal, the Maritime Silk Road proposal, and ASEAN +1 and the recent 2014 Xi Jinping's “Asia for the Asians” concept. September 2013 Xi's Silk Road Economic Belt was announced with a 40 billion dollar Silk Road Infrastructure Fund followed by the Asian Infrastructure Investment Bank and the Maritime Silk Road.

*Russia's Pivot:* Putin's mid-2014 Russian pivot talks about the “turn to the East” as a response to the Ukraine crisis and the sanctions that followed against Russia. Putin relies on increasingly close Sino-Russian relations, emphasizes Russia's central role in a multilateral security framework centered on North Korea, and puts energy and development of the Russian Far East and Eastern Siberia high on the agenda. The Russian pivot symbolizes “leaving Europe and entering Asia” while the Japanese

focus on “leaving Asia and entering Europe.” Russia's pivot has not been faring well despite their brave front. Xi's leadership and initiatives actually sidelined Moscow, forcing Russia to ride along with the Chinese pivot. The decline of oil and gas prices and the imposition of western sanctions have hurt Russia. India, which was one of Russia's key partners, has gone to great lengths to engage with the United States, Japan and Australia, thus undermining the effectiveness of the Russia pivot.

*Japanese Pivot:* Prime Minister Shinzo Abe's prioritization of the “Asianism” concept opened the gambit for the Japanese pivot, which is focused on Southeast Asia. Japan's pivot covers Northeast and Southeast Asia. Japan emphasizes its “autonomous diplomacy” and is engaged with the US-Japan initiatives in the Trans Pacific Partnership talks. Japan emphasizes universal values and collective security and also aims at a possible role for Japan's self-defense in the future.

*India's Pivot:* The Modi administration has initiated the “Act East” policy that constitutes the India Pivot. It has prompted a series of bilateral economic, commercial, trade and investment agreements with the United States, Japan and Australia. The India Pivot is a hedging strategy vis-à-vis China. The India Pivot has led to an extensive campaign of defence diplomacy in Southeast Asia and Northeast Asia, which in conjunction with economic and trade agreements, enhances maritime connectivity and bolsters trade and economic relations.

In summation, the US Pivot opens the gambit for the Chinese, Russian, Japanese and Indian responses and counter-responses. The US Pivot is seen as a hedging strategy vis-à-vis China employing the full spectrum of political-diplomatic, economic-commercial-trade and military instruments of policy and strategy. On the other hand, the US Pivot has triggered Chinese counter-responses, including grandiose new regional and multilateral initiatives, such as the New Silk Road Economic Belt and the Maritime Silk Route. In terms of military expenditure, China had made a recent hike of 10% in its 2015 Fiscal Year Defence expenditures. The US Pivot has also buttressed a clear maritime engagement with the Asia-Pacific and the Indo-Pacific regions with Northeast Asian allies and with Southeast Asia. With Northeast Asian allies, the US Pivot draws Japan, South Korea and Australia closer, bolstering against the North Korean threats and the Chinese and Russian challenges, besides consolidating its TPP negotiations with Japan and Australia.

With Southeast Asian allies, the United States pursues the consolidation of its economic and trade talks and also the strengthening of security ties as a bulwark against China. The India-US partnership covers wide ranging economic, commercial and trade relations and solidifies the military ties that bring India into a multilateral engagement with the United States, Japan and Australia in the Indo-Pacific. However, the US Pivot cannot be at the expense of radically downsizing US commitments in Europe and the West Asia-Middle East-Persian Gulf even as threats and challenges in those regions are on the rise.

Similarly the vacuum in Afghanistan after the US exit is also going to trigger serious repercussions that would hinder full energetic rebalancing to the Asia-Pacific. Asymmetric threats from North Korea and Iran would persist, as US energies would be dissipated over a wide spectrum of contingencies and challenges.

## The US Pivot and Rebalancing in Asia: An Economic Assessment

*Joe Thomas Karackattu*

The US “pivot” or “rebalancing” with respect to Asia is commonly attributed to the articulation of an intensified role for the United States in the Asia-Pacific region.<sup>1</sup> Prominent foreign policy analysts, particularly in the United States, believe that this move makes conflict with China unavoidable.<sup>2</sup> The rationale is that as countries grow richer, their wealth would be used for modernizing their militaries which, in turn, will push the rising power to challenge the reigning hegemon since it seeks to create an international order that more truly reflects and furthers its own interests.<sup>3</sup>

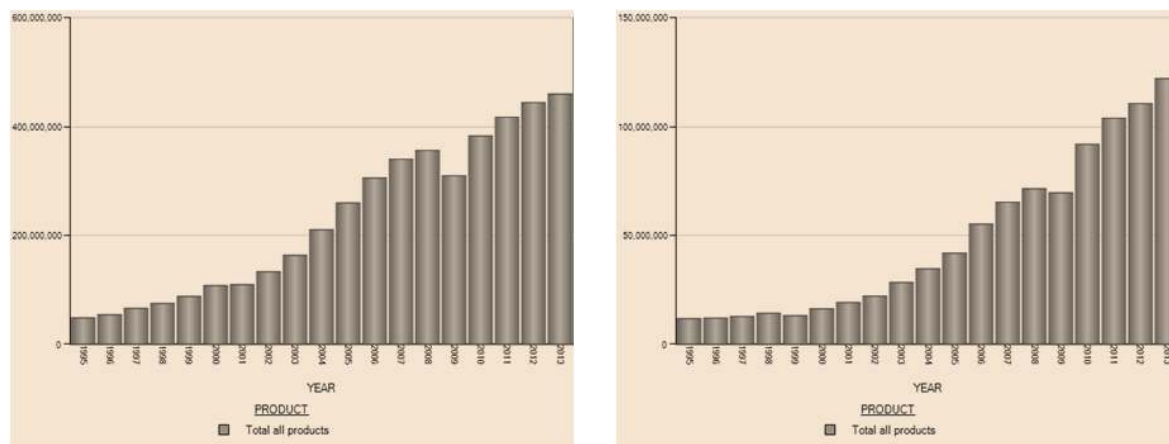
The theoretical position derives largely from the 'realist' school (and variants therein),<sup>4</sup> which evaluates the significance of the US pivot almost singularly in terms of expected realist behavior.<sup>5</sup> It is almost as if foreign policy is enacted the way it is, because the theory wants it to be thus. However, does one perceive the pivot singularly in realist terms? Or are there other paradigmatic optics that offer better insight in rearranging what is presented? The competing 'liberal institutional approach' is useful to deduce that states are not the only relevant actors, and that sub-national and supra-national units do have an effect on state behavior. This could be through shifting the balance of power among competing domestic political coalitions (stronger trade lobby, for instance), aversion to the opportunity costs of lost trade (or investment), as well as the fact that deeper economic engagement expands the 'signaling' options available to states to convey intentions more credibly, reducing uncertainties that could lead to war.

There is literature on how economic interdependence acts as a constraint on states in a dyadic setting; when it leads to bargaining between states; and when it fails to constrain states (leading to escalation or conflict).<sup>6</sup> Interdependence, however, cannot occur unless there is some degree of dependence and cost on *both* sides of a dyadic relationship. In the following segments, some empirical evidence is offered on how the United States has a rather shallow economic engagement with the region (including even with the other key actor, China) implying that the pivot with respect to Asia remains weak on economic grounds. It follows that the realist prognosis on 'rebalancing' or the 'pivot', unfairly trumps other approaches to understanding international politics precisely because 'economic interaction' is confused with 'economic interdependence.'

### **US economic engagement with the region**

With economic reforms, and on the back of a robust manufacturing sector, China's economic growth has led it to acquire a huge trade surplus with the United States (Figure 1). China's exports to the United States in 2013 were roughly four and a half times larger than US exports to China, resulting in a US trade deficit almost equal to its trade deficit with all other countries combined.<sup>7</sup>



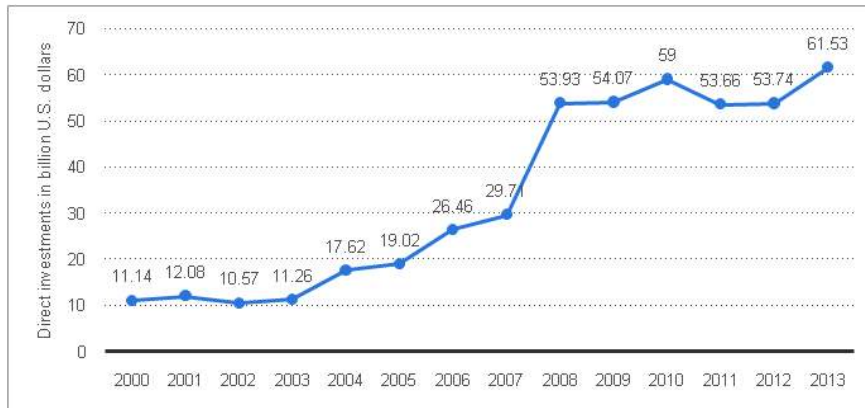
**Figure 1: US imports and Exports (in USD thousands) from China (1995-2013)**


(Source: Author; Database: <https://www.census.gov>)

Interestingly, over 50% of China's exports to the United States in 2013 comprised cell phones, computers and white goods (over 30% comprised labour-intensive goods such as clothing, furniture, footwear, toys and sporting goods).<sup>8</sup> Meanwhile, US exports to China equalled only \$120 billion even as US exports to the rest of the world equalled \$1.5 trillion.<sup>9</sup> However, the trade relationship per se is not the real problem for the United States as American consumers actually benefit from cheap imports from China, and the lower pricing expands the choice of goods and services available at the disposal of an average American family. Over a decade (2002-2012) the pricing trends in key consumables such as electronics (TVs, PCs) reveals an 80 per cent drop in prices owing to trade.<sup>10</sup> Likewise, for toys there is a drop of over 40 per cent, while for furniture and bedding the drop is a modest 7 per cent over this period.<sup>11</sup>

There is also a perception issue, in that it is assumed that much of the value of 'Chinese' exports is actually created by US companies operating in China (to take advantage of abundant and relatively cheap Chinese labour force). If the actual empirical data is examined, there is surprisingly little cross investment between the United States and China,<sup>12</sup> the two largest economies in the world. At the end of 2011 the total stock of FDI in the world was around \$19 trillion, and of this, 19 percent was in the United States and 10 percent was in China<sup>13</sup> (with these two biggest economies in the world being also major providers of direct investment). Surprisingly, *only 1.2 percent of the stock of US direct investment abroad is in China* i.e when the world as a whole invests 10 percent of its FDI in China, the United States puts only roughly one-tenth that amount.<sup>14</sup> Much of US outward investment lands up chiefly in the Netherlands, United Kingdom, Canada, Ireland and Japan. Likewise, given that the United States is the world's largest recipient of foreign direct investment (FDI), the stock of Chinese direct investment in the United States is also lower than would be expected (only 3.3 percent of its overseas investments at the end of 2013, compared to 19 percent for the world portfolio).<sup>15</sup>

**Figure 2: US direct investment position in China from 2000 to 2013  
(in billion US dollars, on a historical-cost basis)**



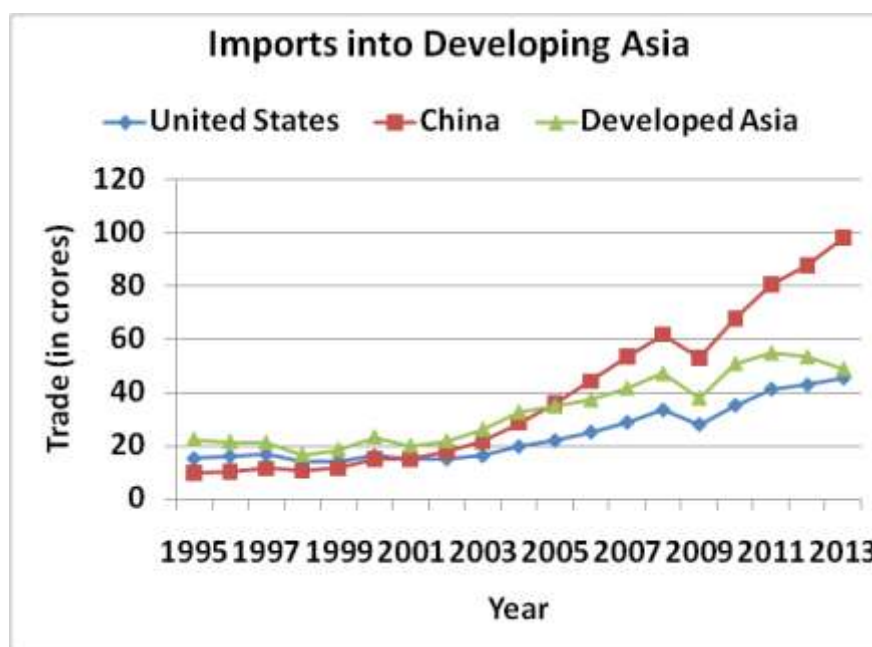
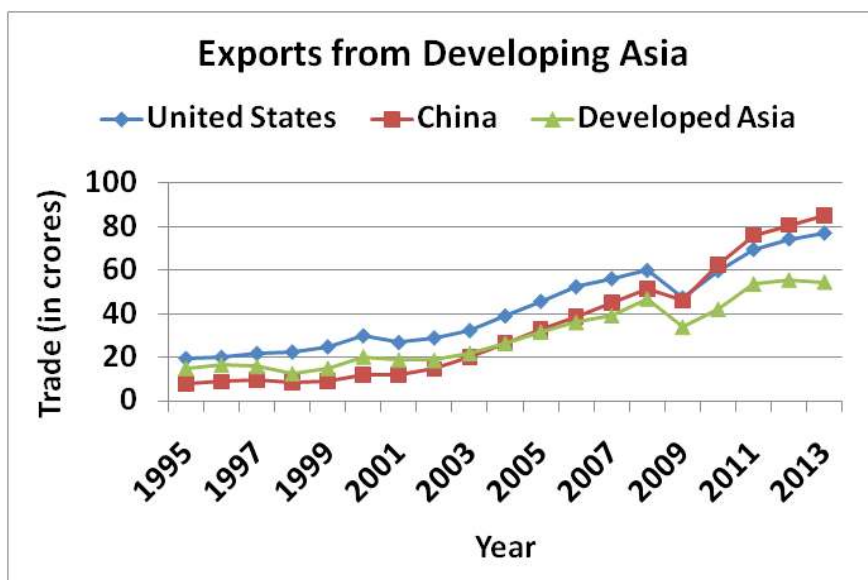
Source: Levinson (2014)<sup>16</sup>

The relatively small amount of US investment in China is traced to two primary factors: poor protection of property rights (intellectual property rights, and otherwise) and China's restrictions on direct investment in many sectors that are important to US firms.<sup>17</sup> Likewise, the relatively small amount of Chinese investment in the United States can also be traced to two factors: first, the United States not being a resource-rich country relative to its GDP or population (Chinese firms aggressively scout for natural resources), and second, national security reviews of Chinese firms in the United States, which have dissuaded many Chinese investors.<sup>18</sup>

Not only is the American economic clout vis-a-vis trade and investment with China exaggerated, but an assessment of American exports and imports to 'Developing Asia' reveals that over time, China (as the largest trader) has become the hub of production networks in Asia. A China-centric economic structure is taking shape in Asia, with trade in parts, components and sub-assemblies, becoming a high proportion of the total trade in several Asian economies<sup>19</sup> (Figure 3). China's active pursuit of regionalism (more energetic since its WTO accession in 2001), has enabled it to become an engine of institutional regionalism in Asia.<sup>20</sup> The January 2010 ASEAN-China Free Trade Area is a case in point, as one of the world's largest FTAs (1<sup>st</sup> by population and 3<sup>rd</sup> largest by value). In addition, despite the China-centric economic structure, the *de jure* regionalism in Asia in political terms is far from being China-centric as ASEAN remains in the driver's seat.

## Exports from Developing Asia

Figure 3: Developing Asia Trade Patterns (Total Product)



Source: Author; Database: Unctadstat

## The Way Ahead

In terms of sheer reorganization of economic activity, it would be difficult for the United States to replace the hub-role that China has assumed in the region over the last decade or so. The primary reason is the falling share of global manufacturing value-added (US share has contracted from 30% in the early 1980s to 17%-18% currently; Japan's share has declined from 21% in 1993 to around 10%, and Germany's has fallen from 10% in 1990 to 6%).<sup>21</sup> The economic logic of ASEAN economies now becoming upstream suppliers of intermediate goods to China (thus causing their trade surplus with China to increase) cannot be replicated by the United States where manufacturers use a low proportion of imported inputs and a high proportion of domestically produced inputs. Nearly 80% of the value of US exports of transport equipment in 2009 was added in the United States, and in the exports of electrical and optical equipment, the domestic value added was as high as 89%.<sup>22</sup>

The corollary is that there is weaker reason for China to challenge the existing order because this has been greatly conducive to its rise. China's stakes are higher in the region. As far as the United States is concerned, although the pivot/rebalancing strategy claims to be a comprehensive approach (including diplomatic, economic, cultural, and military elements), the most striking and concrete elements have largely been in the military realm. This needs to be corrected. There is nothing in theory that posits that the so-called Thucydides Trap (see endnote 2) need necessarily replicate itself across time and space especially in the context of enmeshed economic interests. Greater economic interdependence is the only way forward to actually ensure that *exiting the economic relationship becomes costly* (emphasis added) for any actor. Templates such as the Trans-Pacific Partnership (TPP) which are more restrictive to new members such as China, would only lead to conditions unfavourable for cooperation. Instead, a more engaging strategy that tries to lock-in necessary reforms relating to standards on environment, labour, and state-owned enterprises, etc would be conducive to encouraging much-needed reform in China.

“Good theory” leads to “good policy,” and US policy in the region needs to be anchored to options beyond realist strategy making, which will indiscriminately cast China and United States as tragic actors condemned to re-enact the Peloponnesian War.

## Notes

1. Some trace this to the Fall 2011 announcement by the Obama Administration that “the center of gravity for U.S. foreign policy, national security, and economic interests is shifting towards Asia.” Others date this further back to the February 2009 visit of then US Secretary of State Hillary Clinton to the ASEAN Secretariat, noting that the US was “back in Southeast Asia.”
2. Also known as the so-called 'Thucydides trap'; this trap refers to the Peloponnesian War between rising Athens and reigning Sparta from 431 BC to 404 BC, where the rise of Athens instilled fear in the status quo power, Sparta, which made war inevitable.
3. See Beeson 2013, Pg. 4.
4. In accordance with power transition theory, rising China will be dissatisfied with the existing order, leading to the creation of a new world order. Offensive realism posits a more pessimistic picture of international politics as being characterized by dangerous inter-state security competition that is likely to lead to conflict and war, on the premise that a state becomes more expansive with an increase in power. Defensive realists stop short of direct conflict but predict balancing strategies.

5. Chen 2013, Pg. 54
6. For a detailed conceptual discussion on the three equilibriums (in the context of another dyadic setting viz India and China), see Joe Thomas Karackattu, "Assessing Sino-Indian Economic Relations in an Interdependence Framework: 1992-2008," *Economic and Political Studies*, Vol. 3, No. 1, January 2015, 129-159.
7. Willem Thorbecke, 2014, Pg 1
8. Ibid, Pg 14
9. Ibid, Pg 21
10. David Thomas, "How the US economy benefits from international trade and investment," Business roundtable, at URL: [http://businessroundtable.org/sites/default/files/legacy/uploads/general/BRT\\_State\\_Studies\\_-\\_US\\_Total.pdf](http://businessroundtable.org/sites/default/files/legacy/uploads/general/BRT_State_Studies_-_US_Total.pdf)
11. Ibid
12. David Dollar, 2015, Pg 2.
13. Ibid
14. Ibid
15. Ibid
16. Marc Levinson, "U.S. Manufacturing in International Perspective," Congressional Research Service, No 7-5700, February 20, 2014
17. David Dollar, 2015, Pg 16, 17
18. Ibid, Pg 16, 1
19. Dilip K Das, 2013, Pg 5
20. Ibid, Pg 19
21. Marc Levinson, 2014, Pg 3
22. Ibid

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## The Structural Consequences of China's Rise

*Rajesh Rajagopalan*

China's rise, over the medium term, can lead to three possible structural consequences, depending on different permutations of Chinese and US economic growth rates. These are (in random order) a continuation of the current unipolar order; a bipolar system with China joining the United States (US) as a polar power; and a multipolar system in which China and one or more powers join the US as polar powers. Over the long term, there are other possibilities such as a non-polar order or a unipolar system with China as the unipole, but these are not considered here.

Different international systems have varying consequences for maintaining global peace and stability, developing norms as well as building and sustaining international institutions. On the other hand, for India and the Asian region, the consequences are much less varied because the only variations depend on how wide the disparity of power between China and the other Asian powers, such as India, will become. This suggests a greater incentive for regional powers, such as India (and others) to partner with the US as well as to develop intra-regional partnerships. Whether such partnerships develop will depend on Washington, which might not have the same structural imperative.

These different structural consequences are examined by considering each possibility in turn: unipolar, bipolar and multipolar systems. These different orders refer to the global balance of power, but the consequences are also felt at the regional level. What follows is more of a thought exercise, a set of relatively brief and cryptic hypotheses, rather than a fully-fleshed out argument, which requires a longer treatment.

### **A persistent unipolar order**

One possibility for the near and medium term future is a continuation of the unipolar order, with the US maintaining its position as the only great power with global reach. Though the relative power of the US has eroded almost continually since the end of the Second World War, it has not declined sufficiently for the current order to be anything but unipolar. Part of the reason why the relative decline of the US has not altered its position as the unipolar power is that this decline has not benefited any single power but several powers, including many US allies. The rise of Europe, Japan, Southeast Asian states, as well as many states in the developing world has cumulatively reduced the US share of world power. If this decline had favoured a single power, its effect on the global balance of power would have been profound. However, because this benefit was shared by many countries, its overall effect on US hegemony was not as significant. As importantly, most other states that gained from the decline of American share of the world's wealth are America's allies, who have supported, not opposed the global position of the U.S.

Nevertheless, China's dramatic growth, if it continues at a brisk pace and for a prolonged period, could eventually lead to a bipolar world. While this is a possibility, it is not a certainty. In the last seven decades, there were at least three other powers that sought to match the US. The surprising speed with which the Soviet Union caught up with the US in high-technology in the 1950s led to expectations that Moscow would surpass Washington. However, by the late 1960s, the inefficiencies of the Soviet command economy had ensured that this scenario would not happen. Though the costly US

involvement in Vietnam coupled with the rapid growth of Soviet client states in the late 1970s made it appear that Moscow was on the march, its economic system was already creaking. The Soviet collapse in the late 1980s ended this particular challenge short of war.

In the 1980s, Japan was viewed as the next superpower. It is often forgotten that one of the most prominent scholarly books of the period, Paul Kennedy's *Rise and Fall of the Great Powers*, was at least partly a cautionary tale about US power. Japan's growth over the previous three decades was unprecedented, and its unique state-directed but private sector-based industrial development with an export orientation was quickly adopted by South Korea, Southeast Asian states and eventually by China. Yet Japan's rise also ended in the late 1980s as its economy stumbled. While Japan remains a rich and powerful state, and will likely remain as such for some time, no one today would consider Japan as a candidate for polar power.

The third challenge to US power, much less serious than the two above-mentioned, came from the European Union. The EU has neither developed nor is it likely to develop the essential elements of a state, such as a common foreign policy or military force. Nevertheless, the Euro was, at least briefly, considered a possible replacement for the US dollar as the primary international currency. Even without significant diplomatic or military power, the replacement of the US dollar with the Euro would have significantly eroded American power in world politics. However, this challenge was even more short-lived than the two other challenges to American power.

It is also worth recalling that although balance of power systems have been dominating the international order over the last few hundred years, hegemony has been the norm over the longer term. Whether in Europe, East Asia or South Asia, great powers have emerged that managed to achieve and maintain hegemony over hundreds of years (though this hegemony was mostly regional rather than global, as John Mearsheimer points out in *Tragedy of Great Power Politics*). The global expansion of the international community possibly increases the difficulty of achieving global hegemony both by increasing the number of states that need to be dominated and by requiring any aspiring hegemon to achieve dominance across regions, rather than within a region. The democratization of violence also reduces the likelihood of any power acquiring global hegemony. However, balance of power systems are not inevitable, and US dominance (if not hegemony, as Mearsheimer defines it) could continue for a considerable period. Such dominance cannot be predicted because it depends partly on the internal dynamics of the US and potential challengers such as China but it cannot be dismissed either. Hence, while there is a good likelihood that US dominance of the global system would end soon, it is still not inevitable.

What are the consequences of continuing US dominance? At the global level, the dominant status of the US should trigger attempts at counterbalancing it, though many states will also seek to join the bandwagon to benefit from US power. But any effort to counterbalance the US will suffer from the serious disadvantage that no other power is as yet strong enough to counter it. Indeed, no power is even strong enough to lead any efforts to create an alliance against the US. Ever since the end of the bipolar order, American Realists such as John Mearsheimer, Kenneth Waltz, Christopher Layne and others have argued that other great powers will chafe under American hegemony and respond by building a counterbalance to Washington. More than two decades have passed since these



predictions but no such counter-coalition has arisen mainly because no other power is strong enough to act as the anchor. However this situation could undergo change as China grows ever stronger and gains the potential to become such an anchor. Already a nascent China-Russia axis is developing, although these two powers are also wary about each other. If the balance of wealth and power continues to shift towards China, such counter-coalitions could potentially end American hegemony, although this scenario will only develop gradually.

Picturing a unipolar global structure helps pinpoint some of the consequences for great power politics but the analysis would be incomplete without understanding how this global system interacts with regional systems. Much of international politics is regional, a fact that is obscured by the (American) Realist's exclusive focus on the global order. For most states, the regional order probably impacts with greater immediacy than the global system. The logic of politics in regional orders is not very different from the global order (except that the shadow of the global order impacts the regional system and complicates matters, while the global systemic order stands alone). States worry about other states with the potential to cause harm, usually neighbours or great powers within the region (and occasionally, from outside). States are also anxious to counter such threats because there are usually far greater power inequalities within regions than between great powers at the global level. The consequence is that weaker regional powers look to great powers outside the region to help them counter local threats. This is an important regional dynamic that has helped to maintain US hegemony: regional imbalances and insecurities constrained regional powers because their weaker adversaries looked to the US to balance the regional power.

This regional dynamic and its global effect can be seen clearly in the Asian regional system. As China grows stronger, the Asian regional order becomes increasingly unipolar, creating insecurities for its weaker states. Japan, Vietnam, India, Australia are all cognizant of the consequences of China's rise, and being neighbours, have much more reason to worry than states outside the Asian system. Consequently, they look towards each other, as well as to Washington for assistance. However, these states also face an uncomfortable truth that stems from their relative weakness: even if they aligned together, they are no match for China. Regional geography and China's massive size adds to their troubles because they are not conveniently positioned to come to each other's assistance. Depending on the US to do the balancing is also problematic as Washington has its own interests. The weaker states of the Asia Pacific have little choice but to tolerate the vagaries of US strategy, leadership and domestic politics.

The Asian system is itself not homogenous, being made up of several regional sub-systems, making for a three-tiered structure (global, Asian regional and Asian sub-regional). The sub-regional tier – comprising South Asia, Southeast Asia and Northeast Asia – has its own local power imbalances that provide opportunities for China. Southeast Asia is relatively more even in power distribution but South Asia and Northeast Asia include one powerful state (India and Japan respectively), with weaker powers that look to China to help balance the equation. In short, though unipolarity has one effect at the global level, this might not be the same at the regional and sub-regional levels due to the complexities of local power balances and politics. Any structural study of international politics must consider all these different levels rather than just the global level. The next section examines how a bipolar system might affect these three different levels.

### **A bipolar world**

A bipolar order remains quite distant because China needs to develop military capabilities at least equivalent to that of the Soviet Union (which was itself much weaker than the US). At a minimum, China would have to develop the capabilities to project power outside the Asian continent, which would take at least another decade, if not more.

Nevertheless, a bipolar system with China and the US as the two poles is one possibility for the evolution of the international order. Hence, the structural consequences of such a world should be considered. American structural realists, who consider only the global consequences, would suggest that a new bipolarity would broadly reflect the 1945-1990 bipolar order. This might indeed be a valid proposition at the global level, but the consequences for sub-systems, such as the Asian regional system or the South Asian and other Asian sub-regions is likely to be very different.

At the global systemic level, China will be successful in building up alliances and strategic partnerships away from its own neighbourhood, in Europe, Middle East, Africa, and even Latin America. However, the Asian region will witness some changes. If China truly becomes one of the poles in a bipolar order, it will likely lead to alliances between other weaker regional powers and the US for obvious reasons. The difference with other regions should be clear: states in other regions will have the opportunity to play off the US and China against each other to get the best benefits, much as Third World countries did during the Cold War. However, in Asia, as in Europe during the Cold War, local powers will be much more constrained. For them, the US will be a much more attractive partner because China will be the much more immediate threat.

Again, some weaker powers in Asian sub-regions would still find China a much more attractive partner because they will be concerned more with local balance. So Pakistan, North Korea (and potentially, even South Korea) will continue to look to China to balance their regional adversaries. For them too, the choice of playing China against the US is unlikely to arise. Thus, for most Asian countries, the rise of China as a bipolar power will have very different consequences from that experienced by regions removed from the Asian continent.

### **A multipolar order**

A multipolar order is often misunderstood as a non-polar order, as if it indicates the end of power politics. Indeed, a multipolar order will lead to much more intense power competition and engender much greater insecurity than either a unipolar or bipolar order. A multipolar order is the fervent wish of many second- and third-rank powers, including the BRICS nations because they aspire to become poles themselves, with a greater say in global affairs. However, a multipolar order is even more unlikely than a bipolar order. When the likelihood of China growing to rough parity with the US is difficult enough, it will be that much more difficult for much lesser powers to join the high table. Even if it is assumed that not all powers need to be as rich and powerful as the US (there have always been great variations in the relative power of great powers), the barriers to great power status are still formidable. Still, since this is one of the putative future orders, it is relevant to consider its consequences.

Even though a multipolar order will be much more unstable, the presence of nuclear weapons is

likely to avoid the worst consequence of great power competition: a great power war, just as it did in the bipolar order. (Though Realists have followed Kenneth Waltz to assert that bipolarity is more stable, nuclear weapons were probably more responsible than bipolarity for preventing war during the US-Soviet Cold War). However, intense competition, short of an actual great power war, is quite likely in such an order. Moreover, this competition is likely to be much sharper in regions with more than one power. For several centuries prior to World War 2, the great powers were concentrated in Europe, which saw much more intense power competition than other regions. If other regions witnessed similar competition, it was usually a by-product of the European powers carrying out their European fights elsewhere: in the Western Hemisphere, in Asia and finally in Africa. The current expectations suggest that new poles in a multipolar world will be concentrated in Asia, with China, Japan and India as the possible key powers.

In such a multipolar order, power competition and insecurity will be aggravated in Asia because of the concentration of polar powers. The US, as a non-Asian power, will have the luxury of standing aloof as an 'off-shore balancer'. Moreover, although the US will be the chosen strategic partner and ally of many Asian powers in a bipolar or unipolar order, it will no longer command that position in a multipolar order. The geography of the Asian continent, with China at the centre and Japan and India at two corners, might reduce the likelihood of the latter two becoming a threat to each other, making for greater strategic concurrence between them rather than between either of them and China. On the other hand, it also depends on how relative power develops. Japan, in the first half of the 20<sup>th</sup> century, became strong enough to become a threat to both China and India. Though such an imbalance is somewhat unlikely to develop in the future, it cannot be ruled out. If Japan or India were to become far stronger, China would possibly become an alliance choice for the weaker power in the triangle. However, if all three were roughly equal, or if China were the strongest of the three (as current trends suggest), then it would be natural for Japan and India to come together. Notwithstanding the relative power balances between the three, competition between them is likely to be intense, making for insecurity all around.

## Conclusion

Other structural possibilities have not been considered here for lack of space. A more likely outcome than unipolarity, bipolarity or multipolarity, is a non-polar order in which US power declines without any other power taking its place. Such a scenario has unfortunately not received sufficient attention. In such an order, no power will be strong enough to reach beyond their regions to affect politics elsewhere, which could potentially see the decline of global institutions as well as economic and security regimes. Similarly, a fifth possibility is not discussed here, that of China becoming a unipolar power, which is a much more unlikely (though not impossible) scenario.

It may be concluded that a structural approach to international politics cannot remain confined to just the global structure or to politics between the great powers of that order. Though such analysis provides some benefits, it offers no understanding of the structural consequences at the regional and sub-regional level, or indeed between different regions. A bipolar or multipolar order will have very different consequences in Asia than elsewhere – just as bipolarity had different effects in Europe than in other regions of the world. A much more nuanced structural analysis is necessary to understand these complexities.

## China: Regional Hegemony or Peaceful Rise? The 'New Silk Roads' and the Asia-Pacific

*Jabin T. Jacob*

The question often posed about China is whether or not it is engaged in a regional hegemony project in the Asia-Pacific. Such a question is deeply problematic. On the one hand, there is a great deal of ignorance about China and so the basic assumptions are marked either by misinformation or lack of knowledge about China's internal political dynamics, its external concerns and its policy processes. On the other hand, similar questions are not raised about the United States. Is the United States a hegemonic power or one that maintains peace and stability in the Asia-Pacific? Or is it both? Can the responsibility to maintain regional or global peace be separated from the need to also be hegemonic in order to successfully carry out that role? These are big questions but the more interesting one from an Indian perspective is: Why is this question being asked more of China than of the United States today?

Be that as it may, the purpose here is to outline what China is doing in the Asia-Pacific region and it would appear that China's regional ambitions do tend toward hegemony. However, this hegemonic tendency is both similar to and different from the current role of the United States in the region.

### **China's Ambitions**

Even the Chinese acknowledge that they are perceived as a threat by many countries in their neighborhood. This explains the great emphasis on both rhetoric and action in terms of marketing 'win-win' policies as part of their political and economic diplomacy. At the same time, there is certainly an element of competition with the United States, which they see as the leading power that they need to displace in order to become world No.1. However, even as they try to achieve this goal, the Chinese realize that they need to continue to do business with both the United States and the rest of the world in order to maintain their own economic growth and domestic political stability, as well as ensure peace and stability in their neighborhood.

This combination of objectives requires China to follow international law whenever it is favorable but to seek to undermine it whenever it is against Chinese interests. China's assertiveness in recent years in the South China Sea disputes is a case in point. China ostensibly does not obstruct freedom of international navigation in these waters but continues its reclamation activities, and attempts to establish and sustain control over the Spratlys and Paracels, even though many of their features do not lend themselves to sovereignty claims and by extension, exclusive economic zone claims under international maritime law.

Why then is China being so assertive? Besides wishing to undermine the US role in Asia, China also seeks respect, status and a return to past glory. This is part of the nationalist turn that the Communist Party of China (CPC) has encouraged at home to make up for lost credibility and legitimacy. However, it is important to note that today, the Chinese people, whether ordinary or elite, including those opposed to CPC rule increasingly favor the rejuvenation of the Chinese nation – even if

this means suppressing its ethnic minorities, for the time being –in what may be termed a version of Chinese exceptionalism. Of course, this outlook is not unique to China. One needs only to look across the Himalayas from China to witness similar trends in India, even if there are possible remedies in the form of space for dissent, an independent judiciary and regular democratic elections.

One big difference separating China from the United States or the Western world (and from India) is that of political ideology. However, Communist ideology and a Stalinist political system are not the only differences. In its attempt to retain its domestic hold and to challenge the West abroad, the CPC has been paying close attention to China's own rich legacy of political thought and governing ideologies. Thus in foreign affairs, China has moved from the Marxist internationalism of past decades to a version of Confucian idealism at present, expressed in terms such as 'harmonious world' – harmony being a key Confucian precept. The transition of the intervening years was marked by terms such as 'peaceful rise' and 'peaceful development' that sought to sell the differences in China's rise from that of previous global powers in Western terms. Now, China's greater confidence has allowed it to move from engaging with the world on Western terms to projecting its own interpretations of political order, global governance and international law and indeed, history.

That this might ultimately become a hegemonic exercise is evident in the ongoing effort within China by the Xi Jinping regime to police Western ideas in academic and intellectual circles. This effort, recalling Maoist-era efforts against 'spiritual pollution' from the West has practically delegitimized Western thought and concepts as being irrelevant to the international order in the Asia-Pacific and elsewhere. It may be recalled here that 'harmony' in the Confucian tradition is deeply invested with ideas of hierarchy.

### **The 'New Silk Roads'**

It is often difficult to ascertain whether any country has a grand strategic vision which dictates its foreign policy but China's 'new Silk Roads' policy might be the closest to such a strategic blueprint. It is a foreign policy project of a scale and scope unlike any other that China has hitherto undertaken. This policy, announced in 2013 has two major components – the Silk Road Economic Belt (*sichouzhilujingjidai*) connecting China with Europe through Central Asia and the 21<sup>st</sup> Century Maritime Silk Road Initiative (*ershiyishijihaihangsichouzhilu*) connecting China to Southeast Asia, South Asia and Africa. Hence, it is also known as the 'one belt, one road' (OBOR, *yidaiyilu*) policy. Focused on building connectivity between these regions, Chinese interlocutors view the initiative as going much beyond physical infrastructure and commercial links in the form of roads, railways and trade links, to encompassing financial connectivity, extensive cultural exchanges and increased people-to-people ties. It is thus far more ambitious than the American New Silk Road initiative announced in 2011, which focused largely on Afghanistan.

China has been holding a series of conferences on the OBOR since its announcement, aimed at understanding the views and concerns of the various countries along the new Silk Roads and trying to convey an apparently peaceful agenda of 'win-win' development to these countries. This effort culminated in the release of a policy document, 'an action plan' issued by the National Development

and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, under the authority of the State Council. Beijing's OBOR consultations, while considerably different from the more hard power methods of the United States, have nevertheless failed to overcome the unease among its many neighbors about the eventual goals and outcomes of the OBOR policy.

China's rapid economic growth ever since it opened up and launched reforms in the late 1970s, has created both the economic capacity to support and the justification for its global ambitions today. China's internal economic troubles, including huge overcapacity and local government debt as well as its 'new normal' of about 7% annual GDP growth rate do not necessarily limit this capacity. If anything, the 'new normal' is an attempt to correct structural imbalances at home. Indeed, in the light of the OBOR policy and other new initiatives such as the Asian Infrastructure Investment Bank (AIIB), there appears to be no slackening in the pace of China's economic outreach to the world.

The fact that China is generally the largest or one of the largest trading partners of most countries in the Asia-Pacific, has made it easier for Beijing to reformulate its overall global economic outreach policies in the form of the OBOR. No other country comes even close to matching China's geographical spread, numbers and historical influence. These geographical, historical, demographic and trade advantages have underpinned ambitious moves, such as trying to improve the standing of the *renminbi* in the basket of world currencies. The OBOR with its reliance on Chinese money and on Chinese companies to undertake the heavy lifting of infrastructure construction, will also be an opportunity for greater internationalization of the *renminbi*. The OBOR also helps create opportunities for Chinese cities to become major financial centers to rival London, Singapore and Hong Kong.

Speaking of internal dynamics and infrastructure development, it needs to be noted that one of the reasons for the OBOR is overcapacity at home. In other words, the OBOR makes a virtue out of necessity by moving Chinese overcapacity out of the country to meet demand abroad. Infrastructure connectivity has thus become a major, specific feature of the OBOR with Chinese state-owned enterprises in the roadway, railway, telecom and energy sectors ranging far and wide, backed by easy credit and a demanding style of work and implementation, even if the quality of work might raise a few concerns.

Backing all of these changes and initiatives is a straightforward but crucial element, namely, China's increasing diplomatic prowess. This supports the other major prong of the OBOR, namely, cultural and people-to-people exchanges. Tourism and Chinese soft power initiatives such as the Confucius Institutes, all ostensibly independent developments, are being brought under the rubric of the OBOR to feed into the larger strategy of tempering anti-China feelings and suspicions as China increases its regional and global footprint.

The Chinese Ministry of Foreign Affairs plans to increase its strength from about 6,000 at present to 15,000 by 2020 and Chinese leaders currently have one of the busiest calendars of foreign visits and hosting foreign leaders. It helps that the work is spread out among a much longer roster of leaders. Between President Xi Jinping and Premier Li Keqiang on the one hand and State Councillor Yang

Jiechi and Foreign Minister Wang Yi on the other, there are other members of the Standing Committee of the CPC Politburo, Vice-President Li Yuanchao as well as some ranking Politburo members who receive foreign dignitaries and travel abroad representing Chinese interests. All this is further augmented by China's expanding military capacity. While China's military could be used as a threat, it is also being pressed into military diplomacy, humanitarian assistance and disaster relief across Asia.

### **China: Regional Hegemony or Peaceful Rise?**

Returning to the question of whether China is pursuing regional hegemony or peaceful rise, the more relevant approach might be to consider whether the Chinese will follow the United States' path to global domination. This author believes that China's objective vis-à-vis the United States is not primarily to match it in the economic or military realms. Rather, China under the CPC seeks political and moral superiority over the United States and this would be true even if China were under any other political dispensation.

Of course, China needs economic growth and prosperity for its vast population but ensuring this is a political concern as well. Beijing also seeks military strength not merely as a source of power but perhaps, more importantly, as a currency of prestige. Military modernization was ranked fourth in the list of China's four modernizations and if the military were all powerful and important in China's political system, then it would not be subjected to ruthless purges by the civilian leadership as witnessed historically, including the current anti-corruption culling, which has been equally merciless. The Chinese People's Liberation Army might be a crucial player in China's assertiveness in its territorial disputes, but is not as important or decisive perhaps, as the civilian leadership itself.

Many analysts rightfully observe that China has a 'middle kingdom' complex in its foreign policy relations but that complex and Sun Zi's *Art of War*-based military strategy form only part of the story. Other analysts who dig a little deeper into Chinese history note also both Mao Zedong's and currently, Xi Jinping's references to Chinese culture and ancient thinkers (not just Confucius) to explain and justify China's policies as well as to help chart a future course. The reference to ancient Chinese thought and glory are again, only a part of China's political story. Many tend to forget that despite the glass and chrome of economic growth, China remains a Marxist-Leninist state governed by a communist political party. What the CPC and its leaders do currently is to mix their understanding of ancient Chinese thought and statecraft based on 'socialism with Chinese characteristics' in order to negotiate the choppy waters of economic growth buffeted by inequality and environmental pollution.

In other words, the domestic situation remains a heavy influence on China's foreign policy. China is unlikely to follow the United States path to global domination as it cannot and does not want to do so. However, domination is what any country seeks. The United States has not been particularly concerned about gaining dominance in a morally appropriate way – whether this is defined in a Semitic, Chinese or Indian tradition. China seeks to gain domination at least, in a Chinese-structured way. A 'Chinese-structured way' does not necessarily imply that it will be parochial in nature. Rather, there is a great deal of learning from the West, including from its mistakes.

'Peaceful development,' 'harmonious society,' and the 'new Silk Roads' are all part of this mix of power and morality in China's ongoing quest for domination. Xi Jinping's OBOR initiative together with his new neighborhood policy declared in October 2013 at a CPC forum on diplomacy towards China's periphery, and the subsequent creation of institutions such as the AIIB, are indications that China wishes to act as a responsible global leader. However, the term 'responsible' will be defined exclusively by the Chinese. It is for this reason that China's respect for international law and norms or its willingness to be a friendly and respectful partner is not always evident to those countries that adhere to the current international affairs rulebook created and dominated by the West. China has nevertheless, managed to push ahead with new foreign policy initiatives promoting its image as a peaceful power while simultaneously taking a hardline position on territorial disputes and what it considers its 'core interests'. Essentially, the OBOR creates a situation where China can retain its hard line on issues of sovereignty, while slowly, steadily softening or wearing down the resistance of nations by offering them something else in return, namely economic largesse and development. Whether and to what extent China itself, and the nations involved, will change in the process remains to be seen.

### **The Challenge for India**

For India, the real challenge is to match this Chinese discourse. Obviously, economic equivalence and military parity will take time but these are not as important as matching China's political narrative, which must be an immediate and ongoing matter of concern. Centrist political dispensations in New Delhi have not seen the Constitution of India, or more precisely, its Preamble, as a document of national and international political strategy. The current national ruling party, the Bharatiya Janata Party, unlike the CPC, has not begun to blend references to India's past glory and traditions with the realities of the current international situation to present a domestically and globally acceptable (as well as rational) political narrative.

Meanwhile, relying on the soft power of Bollywood, crowing over the United Nations declaring an International Yoga Day or promoting a slow-moving Project Mausam designed to emphasize India's cultural links with the Indian Ocean region, are hardly sufficient or substantive Indian measures to counter the flurry of current Chinese political, economic and diplomatic activity in the Asia-Pacific.



## China's Game Plan: Regional Domination or Peaceful Development?

Vinny Davis

The rise of China to its present international stature is phenomenal. China was able to achieve an impressive GDP growth based on its economic reforms and greater integration into the global trading and financial system since the 1970s. This has made it the only country to possess a robust industrial and manufacturing sector with the capability to surpass the United States in the long run. Speculation is rife in academic and strategic circuits as to whether China is seeking hegemony or a “peaceful rise”.

With the Obama administration turning its focus on Asia through its Asia Pivot policy, explicit indications of an increased diplomatic, economic and military resource re-allocation to the Asia-Pacific is already noticeable. This diplomatic resolve has profound significance, as the Asian giant China is flexing its muscles, becoming not only Asia's largest economy but also the largest globally. However this must not be viewed solely in terms of a military strategy as economic and diplomatic engagements are accorded utmost primacy alongside security initiatives.

US foreign policy decisions have always had strong global reverberations. A survey conducted by the Centre for Strategic and International Studies in Asian countries on the support towards the US Rebalance, revealed that Chinese opposition to the strategy was pegged at 77%. The implications of this strategy for Sino-American relations are yet to be seen. US regional allies, namely Australia, Japan, South Korea, Philippines, Singapore, Taiwan, are supportive of increased engagement; while Indonesia, Thailand and India are categorized as cautious supporters and others such as Brunei, Cambodia, Laos and Myanmar are cautious observers.<sup>1</sup> Despite all these odds, China is seeking to maintain stable relations with the United States.

In a deeply interconnected world of supply chain networks, where no big power can adopt an isolationist position, the “*Rebalancing*” strategy manifests this interdependency. Needless to say, in “*multipolar and bipolar systems, balancing is the primary mechanism to preserve the status quo.*”<sup>2</sup> The skeptical argument on such situations of dependency cannot be discarded. International relations theory posits that any developed country requires a satellite of lesser developed countries around it to sustain its economic pursuits.

### Peaceful Rise: A Deliberate Move

The rise of China does create apprehensions across the globe, especially in Washington. However, it would be inappropriate to characterize its rise only as a bid for hegemony or predominance in world affairs. Chinese foreign policy is unlikely to tread the path for domination in world affairs, as they are aware of the futility of such a strategy when comprehending global power equations. China will seek greater leverage at various bargaining tables so as to garner recognition for its stature. Scholars use the term *strategy of rightful resistance*<sup>3</sup> to explicate such situations. Furthermore, the Chinese may not embark on a free ride along with the United States in terms of global governance. In its ambition to achieve recognition as a key global player, there are growing concerns over the rise of

China, its militaristic interventions in the South China Sea and its assertiveness in the region. This has propelled the United States to undertake such a strategy for the purpose of safeguarding its interests in the region (from freedom in air and maritime navigation, to securing the fears of its trusted allies).

In 2003 Zheng Bijian (an intellectual in the Chinese communist party) brought the idea of China's peaceful rise to international pre-eminence, as a responsible, peaceful and non-threatening global power. This new strategic path of China's peaceful rise is through independently building socialism with Chinese characteristics, and by participation rather than detachment from economic globalization. China's only choice is to strive for rise, more importantly – to strive for a peaceful rise.<sup>4</sup> Thus Beijing envisions a new model of industrialization, by constructing a harmonious socialist society and by abstaining from ideological conflicts and hegemony, as pursued by the traditional powers. Conversely, the Chinese rhetoric of peaceful rise co-exists with its militarized territorial and maritime disputes in its neighborhood. The model of China's peaceful rise is the result of pursuing economic globalization along with domestic reforms. Scholarly terminology equates this with the rise of trading states in the international order.<sup>5</sup>

The strategic outlook of China was molded over time from the revolutionist stance of Mao to the gradually transformative and reformative policies of opening up itself during the time of Deng. The term 'peaceful rise' was later replaced by the phrase 'peaceful development' on the grounds that 'rise' sounded too provocative. It was a way of synthesizing the linkage between peace and development implicit in Deng's original formulation of reform and opening up, as well as a way of reassuring the neighbors.<sup>6</sup>

### **Are the Chinese Proactive or Assertive?**

China's initiatives, such as the New Maritime Silk Road, intended to seal its position as a key regional and global player are important. By initiating the Maritime Silk Road, China seeks to have infrastructural and financial connectivity across Asia, Africa and Europe in continental and maritime domains. It could also serve as means for trans-continental cultural exchanges and as an effective tool for fostering people-to-people ties. This strategy recognizes its position as an economy competent enough to influence the world, besides being the largest trading partner to over 100 countries across the world. It is also symbolic of the rigor with which China is concocting its soft power strategies.

However, the maritime expansion of China in the Asia-Pacific and its assertive nature is a cause worry among the East Asian states. China has ongoing disputes with Vietnam over control of the Paracel Islands and with Brunei, Malaysia, the Philippines, Taiwan, and Vietnam over the Spratly Islands, located in the South China Sea. China maintains that it has sovereignty over almost all of the South China Sea, a claim disputed not only by its neighbors but also by the United States. Farther to the north in the East China Sea, China harbors animosity with Japan over the Senkaku or Diaoyu Islands. The Chinese are pressing hard to build a blue-water navy, which would allow them to project power around the world and control its main sea lines of communication. The United States is apparently wary of this predicament as it will affect its interests in the Asia-Pacific. Countries like India, Japan, and Russia, as well as smaller powers like Singapore, South Korea, and Vietnam, are also equally uneasy about China's ascendancy and its increasing military capabilities.

Cynicism regarding the AIIB (Asian Infrastructure Investment Bank) is high in the region. At the moment 57 nations including the BRICS (Brazil, Russia, India, China, South Africa), and several other European, African and Latin American countries have vouched support. Although India is a signatory along with other Asian countries, the ambiguity over the devolution of power-sharing mechanisms in infrastructural pursuits places China in a perilous position. Unless China takes steps to bridge this trust deficit, it would be difficult to break the “*monopoly of the triad*” (United States, Japan and Western Europe) in international monetary institutions. These efforts ought to be analyzed as attempts by Beijing to project its political and diplomatic prowess in international institutions of governance.

“Peace and development’, not war and revolution” these words by Deng were highly instrumental in reorienting Chinese foreign and security policy. It still testifies to the fact that China will not undertake any futile endeavors to disrupt the international order in its ambition to become a potential global power. China wants to salvage its position as a regional hegemon, but not at the cost of maligning its reputation for “peaceful rise.” It desires to secure regional leverage in the same way that the United States and Europe established primacy in the Caribbean and the Mediterranean respectively.

Chinese President Xi Jinping even outlined the need for a regional security framework in Asia to counter the meddlesome nature of the United States.<sup>7</sup> This would mean strengthening cooperation on non-traditional security issues and this further reiterates the determination of Chinese diplomats to respond to the US presence in the region. Even during the 2014 conference on Interaction and Confidence Building Measures in the Asia-Pacific, the Chinese premier gave a thrust towards establishing an *Asia for Asians* regional architecture.<sup>8</sup> Consequently, the Chinese skepticism about the US strategy in its Trans-Pacific Partnership (TPP) in the region, is not altogether inappropriate. The exclusion of China from the TPP is indeed dubious. The United States is also not a party to the Regional Comprehensive Economic Partnership of which China is a member. Ironically, this leads to a precarious scenario wherein the countries of the region are forced to join the bandwagon of either the United States or China. Thus a trust deficit materializes in the long run, affecting the prospective stakeholders in the region, since the strategy envisions the creation of an economic architecture.

Bilateral exchanges in energy security between the United States and China (the largest global investors in clean energy) are a promising sign. The consensus achieved at the Global Climate negotiations in Paris 2015 and the Bilateral Investment Treaty (2013) could serve as means to instill confidence in Sino-US relations. The Chinese have already identified the twenty first century as a “period of important strategic opportunities,”<sup>9</sup> for which cooperation with the United States is vital.

However a heightened US military presence, amidst tensions between China and East Asian nations in the South China Sea can become a bone of contention. Experts contend that China will prefer to maintain “*a benign external environment that allow it to focus on its internal development*”<sup>10</sup>. The *Rebalancing* must not exclude the largest economy in the region and the world (China surpassed the United States by fall of last year). The continuing Chinese ambivalence towards the *Rebalance* is evident in its positions. The strategy can become a double-edged sword as it can hasten both economic integration and regional conflicts if not employed tactically<sup>11</sup>. China would prefer to align itself along “peaceful co-existence among differences”<sup>12</sup> and if the United States envisages a stable and economically peaceful Asia-Pacific region, it must employ constructive strategies to engage China, rather than contain it.

## Notes

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## Understanding China's Rise: Chinese Perspectives

*Pramod C.R*

The tremendous growth of the People's Republic of China (PRC) over the last three decades has been an absorbing story. Although there are indications regarding its slowdown, the impact of this phenomenal growth has left a deep imprint on the global scenario. Consequently, the way in which international relations (IR) has been discussed has undergone a change in the recent past. The post-Cold War IR narrative has Asia occupying the centre stage, with the PRC as the most influential actor. Feeling the stones while crossing the river is the way in which internal changes were understood and managed by China. These internal experiences seem to have influenced its external actions as well. For example, the discussions within China on its rise seem to point towards this guarded approach. The ideological formulations on a very long 'transition' phase points to the Beijing's pragmatic approach as a system maintainer rather than a system challenger. The demand for China to take up leadership and assume greater responsibility seems to be based on the role it could play in line with the ideological shift it has internalised. Again the demand for a norm-setting and stake-holder role has also arisen from various quarters. Nevertheless, China is apparently unwilling to shed its creative, pragmatic but highly cautious image. Again, China's incremental upward scaling of its capacity, reflected its growing global presence is based on its own realistic assessments. Internal debates on China's rise reveal that self-assessment could serve as a platform on which others could engage, and China has truly created such a circumstance. This paper attempts to document some of the Chinese perspectives about its own rise.

The debates on China's peaceful rise are internally generated as well as a response to external concerns about China's increasing global presence. Analysing the East Asian experience historically as a response to external challenges cannot exclusively explain the transformations East Asia has undergone. For example, the earlier period of interaction with the West included both the traditional tribute system as well as the then existing new treaty system. "Ultimately, it was Japan, not Westerners that rejected this hybrid treaty-tribute order when it intervened to force Korea, Okinawa and Taiwan exclusively into its sphere as prefectures and colonies and out of their accustomed dual roles. In this perspective, the main dynamics of change come from within East Asia; the western impact is mediated by interactions of East Asian states with each other. Asians gain much more agency than the victimization, or modernization perspective permitted and East Asian region as a whole acts as an autonomous force. This perspective also presumes that a political centre existed in Beijing."<sup>1</sup>

The framework of external challenge-and response would limit one's understanding of the specificities and the highly autonomous character of China's rise. Chinese exceptionalism as debated within China could be understood as inventiveness in this regard. Domestically the idea of "socialism with Chinese characteristics" points to the ideological formulation explaining the China-specific

transformation. Similarly, as any other nation may assert in international affairs, China also subscribes to its distinctive history and culture, while the unique economic miracle of China is well and truly debated and discussed in the recent past. 'Peaceful rise' is an idea developed to explain Chinese exceptionalism.

The pace of attaining economic growth targets doubling the total GDP during 2000-2010, in the recent past, then doubling it again by the end of 2020 and maintaining a similar pace in 2020-2050 is explained as the process of achieving a peaceful rise. Evidently, China's peaceful rise is explained in terms of its ability to sustain prominently the economic logic of rise rather than its military logic. Xi Jing Ping's idea of the Silk Road Economic Belt and the Maritime Silk Route could be considered examples in this regard; hence the discussion on peaceful rise. Thomas L. Friedman, in comparing China and United States, reveals an obvious distinction. Weiwei Zhang in his writing, highlights Friedman's views on how military logic dominates the United States while economic logic governs the PRC. Attending the summer Olympics of 2008 in Beijing, Friedman observes, "I couldn't help but reflect on how China and America have spent the last seven years. China has been preparing for the Olympics; we have been preparing for Al Qaeda. They have been building better stadiums, subways, airports, roads and parks. And we've been building better metal detectors, armoured Humvees and pilotless drones."<sup>2</sup>

The most influential exponent of China's peaceful rise is Zheng Bijian, former vice president of the central party school. The exceptionalism of China's rise is explained in his views: "China's rise differs profoundly from the conventional pattern of the rise and fall of great powers, he argues, and will not result in a hegemonic conflict for many major reasons. (a) In contrast to Western powers which established military bases, China will not seek a similarly military-oriented foreign policy and (b) China will not engage in large-scale emigration to other countries"<sup>3</sup> (c) new and advanced model of industrialization where the current phase is a transitional phase; the foundation for which is built on 'industrious revolution' rather than 'industrial revolution', which is labour-intensive and household-focused (d) China intends not to follow the traditional ways of great powers to emerge by seeking hegemony, and by avoiding conflicts in international relations along ideological lines and finally (e) to construct a harmonious socialist society<sup>4</sup>. Hu Angang mentions yet another factor in China's peaceful and exceptional rise. It pertains to the development of a knowledge-open nation with the assistance of advanced human resources. He mentions that China's superpower status ultimately depends on a "transition from a knowledge-closed nation into a country spearheading global innovation. The Director General of the World Intellectual Property Organisation (WIPO) mentions the rapid rise in the PRC's international patent applications, which is considered indicative of the steady growth of China's innovative capacity."<sup>5</sup> The age of the knowledge economy, as Hu characterizes it, should be "defined less by competition than by cooperation." Hence, Hu mentions that "China's rise represents an opportunity for the rest of the world rather than a threat."<sup>6</sup> China's rise linked to its global contributions has been portrayed as a characteristic of peaceful rise. Hu Angang mentions that "beyond enormous economic and trade contributions, as well as poverty reduction contributions, China could contribute in some other areas like human development, science and technology, green movement, and culture."<sup>7</sup>

In entirety, what is argued is that the character of China's rise is peaceful and this peaceful rise is exceptional, differing from previous global experience of the rise of world powers.

Chinese exceptionalism and rise is also argued in terms of fine balancing between a civilizational state and nation-state. Weiwei Zhang explains China's rise through the idea of civilizational state. "A civilizational state has exceedingly strong historical and cultural traditions. It does not easily imitate or follow other models, be they Western or otherwise. It has its own intrinsic logic of evolution and development. It is bound to encounter all kinds of challenges in the future, but its rise is seemingly unstoppable and irreversible. The civilizational state has a strong capability to draw on the strengths of other nations while maintaining its own identity. As an endogenous civilization capable of generating its own standards and values, it makes unique contributions to the world civilizations. A civilizational state can exist and evolve independently of the endorsement or acknowledgment from others. Its political and economic models are different from others in many aspects."<sup>8</sup> The problem with invoking the exclusive civilizational aspects is that it could be a reminder of the tribute-vassal system that existed in the past. The other alternate dimension is that of nation-state and nationalism. Here the issue regarding extreme nationalism could emerge, bringing to mind the East Asian experience in imperialism. The East Asian memories in these two respects seem to have assisted China in developing a pragmatic approach towards these two perspectives. Chinese nationalism is used as a defence against the past memories of aggressive imperialism, where the Korean sentiments have also been incorporated to an extent. Also, the discussion on national unification of Hong Kong, Macau and Taiwan has been the platform on which Chinese nationalism is being invoked. This could be understood as an inward-looking notion. The civilizational state becomes prominent for discussions on exceptionalism, for combining the right mix of commerce with military, where the economy dominates. Again, the idea of "oriental wisdom" was raised by China at appropriate times for its own benefit by referring to "unequal treaties" in resolving contemporary border disputes. Evidently China's rise is characterized by fine balancing between the aspects of 'civilizational state' and that of a nation-state.

Another debate is related to explaining China's transition in terms of "rise" as critically observed by Chinese scholars. Many opposed the term 'rise' since the theory of 'transition' has well and truly mentioned the 'long transition' from the enormous social and economic problems faced by China. Again, the critical perspective is projected since the term 'rise' connotes China-led "power transition" in the region and possibly the emergence of a new power centre in Asia. Taiwanese scholar Steve Chan has critically evaluated the power transition theory and has argued for avoiding the balancing or rebalancing idea in relation to China.<sup>9</sup>

A critical look at 'rise' led to its substitution with the word 'development'. Hence China's "peaceful development" is used instead of China's "peaceful rise" when the official White Paper was published in 2005 December by the State Council titled "China's Peaceful Development Road". The idea is characterized by peace, opening-up, cooperation, harmony and mutually beneficial common development. The document mentions that "to take the road of peaceful development is to unify domestic development with opening to the outside world, linking China's development with that of the

rest of the world, and combining the fundamental interests of the Chinese people with the common interests of all peoples throughout the world. China persists in its pursuit of harmony and development internally while pursuing peace and development externally. These two aspects, closely linked and organically united, are an integrated whole, and will help to build a harmonious world of sustained peace and common prosperity. It is an inevitable choice based on China's historical and cultural tradition that China persists unswervingly in taking the road of peaceful development."<sup>10</sup> Beijing's attempts to address the concerns on China's 'rise' through the ideas of 'common interests' & 'harmony' are evident here.

Again, China's rise is discussed in terms of engaging in common international means to protect its geographical frontiers to the Northwest and South on one hand and to the Southeast on the other. China's attempt to shift from the practice of predominantly employing bilateral security dialogue for resolving disputes, including border disputes, to that of employing a multilateral security co-operation mechanism in the Asia-Pacific region needs to be discussed in this regard. The first of these is that of the North East Asia Cooperation Dialogue (NEACD). The Shanghai Co-operation Organization (SCO) and ASEAN Regional Forum (ARF) are two other important multilateral organizations where China has a strong influence thus enabling it to protect its interests. The Council for Security Co-operation in the Asia-Pacific (CSCAP), a non-governmental initiative for developing security co-operation, is yet another platform where China is active.

Another Chinese generated view regarding its rise is the idea of 'Comprehensive National Power' (CNP). China's rise explained in terms of CNP enumerates its power capabilities. These indices developed by Chin-Lung Chang take into account both hard power and soft power components. It uses economy, military capacity, science & technology as well as human resources as the basic criteria. According to this calculation, it is likely that China will match or overtake the United States in the 21st century. It is stated that the main aim of the Chinese state is to maximize its CNP. Such a perspective sidelines the 'threat' perception of 'rise' which focuses solely on the security and military perspective along with that of current economic strength.

Yet another way of understanding the nature of China's rise is through the theory of the "dilemma of rising power." This consists of two aspects: a) In order to protect the national interest, rising powers have to translate their recently acquired capabilities into better national influence. b) Increasing national influence could lead to the containment and balancing by the dominant power and neighbouring states, which creates hindrances for the rising powers. That means that rising powers always face dilemmas in maintaining their rise with respect to the external environment. Accordingly, some view China as being locked in the dilemma of rising powers. Thus, China must manage to enhance its capabilities to protect its expanding interests while preventing the balancing measures of the United States and major Asian powers and avoiding unnecessary tensions and conflicts with them through the implementation of 'integration strategy'.<sup>11</sup>

Another internal view of China's rise is that of Yan Xuetong. As a realist thinker he is a critique of China's non-alignment strategy. He contends that the non-alignment policy has been serving China's



objectives of domestic economic development over the past few decades, but has become a major flaw in its foreign policy. China's non-alignment policy would not only fail to reduce its regional neighbours' strategic concerns over China's rise, but also become an obstacle to winning their support when China faces maritime disputes in East Asia. Moreover, he points out that China's lack of allies would have weakened its moral authority and strategic credibility.<sup>12</sup>

However, other Chinese scholars like Zhu Feng emphasize that it would be extremely hard for China to persuade other countries to ally with China. He mentions that it will be a strategic stupidity if the goal of an alliance strategy is to seek a Sino-US confrontation. Wang Jisi believes that there is almost no country in the world willing to construct a long-term, anti-US alliance with China. In his opinion, a good relationship with the United States should remain China's primary policy objective.<sup>13</sup> The later arguments resonate in the Chinese government's stance of continuing with its non-alignment policy. The 2011 White Paper reaffirmed that China would not align with any country or group of countries.

Yang Zewei urges that China should rethink and modify the principle of non-interference in internal affairs. Protective intervention will be China's new and smart strategy to tackle the challenges to the principle of non-interference in internal affairs. The Chinese official view is that China's development needs call for adherence to the principle of non-interference. China opposes what is perceived as an attempt by some countries to interfere in other countries' internal affairs and impose their model of development on others in the name of democracy and good governance. The PRC's critical position on the concept of the 'Responsibility to Protect' is explicitly known. It is argued that by observing the principle of non-interference in others' internal affairs, China respected and supported the efforts of West Asian and North African countries to handle their internal affairs on their own.

## **Conclusion**

The current concern over 'China's rise' in the West, especially in the United States is well and truly evident. It is the 'threat' perception which is 'the favourite' among all other alternatives. In such a context the US Pivot to Asia is projected as a creative policy of the United States for Asia. The predominance of military logic in this policy is evident. Lagging behind in developing an economic logic to lead the world is also obvious. The US economic initiative like that of Trans-Pacific Partnership (TPP) does not have many takers in Asia. China's response is through the creative and wide array of views on China's rise. The Silk Road Economic Belt and Maritime Silk Route are ideas floated to reassert the creative economic logic that had assisted the PRC since the early 1980s. Shared interests, mutual benefits and co-operation form the basis for such a linkage between Asia and Europe. The Realist framework, among various other imaginative discussions, along with the official governmental perspective of "peaceful development" rather than "peaceful rise" points to the existing diversity of influential thinking in contemporary China. Persisting with the policies of non-alignment and non-interference as part of China's changed stature, points to the significance of historical experiences in its cautious approach in addressing concerns over the growth of the PRC. It is also evident that maintaining this guarded approach is strenuous for the PRC in the contemporary period.

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## **Will the US-India economic partnership flourish in spite of the Trans-Pacific Partnership?**

*Ingrid Henick*

The fifth element of the US 'rebalance' to the Asia Pacific focuses on creating an economic architecture that will enable the people of the United States and the Asia Pacific region to benefit from increased trade and growth. Its centerpiece is the Trans-Pacific Partnership (TPP), intended to address new 21st century trade issues. The TPP is by far one of the most ambitious trade agreements – currently under negotiation by five countries from the eastern side of the Pacific (America, Canada, Chile, Mexico and Peru) and seven from the western side (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam). It tackles issues ranging from intellectual property rights, foreign direct investment, state-owned enterprises and other trade-related issues to eliminating tariff and non-tariff barriers to trade in goods, services and agriculture. Agreements such as the TPP create incentives for countries to increase trade with each other, collaborate and work together, and avoid conflict. As such, it is not merely an economic agreement, but rather a strategic proposition.

Over the past few decades, the global trading system has witnessed dramatic change, particularly the rise of 'Factory Asia,' with cross-border supply chains dispersed across the Asian continent. A single good involves inputs that travel through multiple countries during assembly, a situation in which tariff barriers are generally not the only or most significant barrier to trade, and in which trade in goods is only part of the overall trade picture. As such, both the Doha Round and the overwhelming majority of free trade agreements (FTAs), which focus on reducing tariff barriers, do not necessarily reflect 21st century trade issues. In fact, they still apply a dated view of one country manufacturing or processing an entire product from beginning to end for export to another country.

A successful conclusion to the TPP remains elusive even after 5 years of negotiations. Divisions persist among some TPP members on issues relating to tariffs and intellectual property. Further, free-trade skeptics in the US House of Representatives and Senate -- including most Democrats and some House Republicans -- are hoping to vote down the Trade Promotion Authority, which would give the Administration the ability to freely negotiate trade agreements, such as the TPP. Whether with or without the success of the TPP, the US economic partnership with India must prosper. During Prime Minister Modi's successful visit to the United States in September, much to the interest of the US investor community, he proclaimed 'India is open for business!' Prime Minister Modi's commitment to advance long-delayed reforms will serve as a catalyst for new investment and growth. Further, Indian industries that are boosting their investments in the United States have created opportunities for US citizens while showcasing India's ability to innovate and produce high-quality products. In a world undergoing considerable change, new opportunities and threats confront both nations. Through their governments, scientists, academics and businesses, India and the United States can tackle these issues together and bring greater stability not only to the Asia Pacific region, but to the world.

In the United States, the TPP and the Trade Promotion Authority (TPA) need to move forward, as this legislation would allow Congress to set basic guidelines for the administration to negotiate trade

deals, including TPP. Once approved, the TPA would only allow Congress an up or down vote – no negotiations, no changes. However, there is a very politically charged atmosphere in Washington. The race for the 2016 US Presidential election is already underway and members of Obama's Democratic Party, along with environmental and labor groups have ratcheted up the public debate against the TPP in recent weeks – they argue that the TPP would take jobs out of the United States, increase income inequality, allow multinational corporations to sidestep US regulations and reward countries with poor human rights records. Supporters, including many Republicans who now control Congress, have signaled that they will grant Obama fast-track authority. They believe that an effective TPP will result in growth through trade gains, efficiency benefits, improved standards of living for participating economies, as well as closer relations with the TPP member countries. Moreover, the success of the TPA and the TPP is important, as conveyed by President Obama in a television interview, “to make sure China is not writing the rules. 'Moving TPA, and ultimately the TPP, across the finish line, will require a daily, full-court press by the Administration to garner wider support and advance this important trade agenda.

Certainly the United States has strategic reasons and a desire to establish closer relations with member countries, but it also boils down to pure trade. US business, agriculture and the economy need new trade agreements to remain economically relevant. So do other member countries and they are likely to sign on for the very same reasons.

At present, the United States has only 14 free trade agreements with 20 countries, but in 2014, 47% of US goods exports went to FTA partners. According to the Business Roundtable, more than 30% of the US GDP is tied to international trade and investment and one in five US jobs came from international trade. Moreover, with 95% of the global population and 80% of the purchasing power located outside the United States, the successful completion of new trade agreements is imperative.

For all TPP member countries, the lure is access to a market of 800 million people with a combined GDP of US\$27.5 trillion – and they do not want to miss the opportunity to write the rules.

It has been almost 25 years since India launched its first significant post-independence economic reforms in 1991. Foreign investors came with great optimism, based on India's rich talent pool and resources, its rule of law and the anticipation that India would continue its economic reform path. Companies bet on the positive India growth story but were disappointed when India ultimately failed to keep pace with other developing markets, most notably China.

It is fair to say that investors did not appreciate that India's bureaucracy is second to none in complexity, and this was only compounded by a fractured coalition government which lacked the will and vision to keep India on a positive economic reform path. As a result, foreign investors stepped back and were unwilling to commit new capital, resources and energy to the Indian market. US-India trade in goods and services grew from \$15 billion to nearly \$100 billion over the past fifteen years, and two-way investment has increased rapidly. However, that figure could have been significantly higher, had India implemented a second generation of reforms, combated corruption, and provided more education & skills training to its massive, young population; enabled efficient and transparent decision-

making and established better infrastructure, which would have made India an attractive manufacturing base. Failure to tackle these challenges will not only impact foreign investors, but also hamper Indian industry's ability to compete globally.

Today, Prime Minister Modi and his cabinet have reignited interest among the foreign investor community. When Modi traveled to the United States in September, he proclaimed "India is open for business!" He assured US business that they "will find environment that is not only open, but also welcoming." "We will guide you and walk with you in your projects. You will find a climate that encourages investment and rewards enterprise; it will nurture innovation and protect your intellectual property," Modi said. "It will make it easy to do business; our immediate target is to bring us from the rear ranks of the world into the top 50. You will find a tax regime that is predictable and competitive. We have removed some of the excesses of the past. We will now soon address the remaining uncertainties. Our goal is an economy where skills, infrastructure and resources will not be constraints to growth." Such statements are music to the ears of the foreign business community. However, this time round, the positive rhetoric must be transformed into real, enduring reform.

As India charts a positive course for the future, and as the United States seeks to strengthen its ties in Asia, it is essential that Washington does not neglect its important, strategic partnership with New Delhi on the economic front. There are several areas that come to mind.

**APEC:** The joint statement issued during President Obama's recent visit to India "welcoming India's interest in joining" APEC, must now be followed up with diligent US advocacy with APEC members to support India ahead of the next annual summit in November. This would enable India, whose absence in APEC is notable, given the size of its market and population, to join member countries, including the United States and China, in developing plans to reduce trade barriers.

**Expanding the existing relationship:** Technology has empowered the United States and India to break down barriers of distance and time. It has also enabled scientists, academics, researchers and businesses in both countries to collaborate and tackle some of the most challenging global issues as well as to make discoveries with a far-reaching impact on people's lives. Through their values of fostering innovation, entrepreneurship and economic growth, both India and the United States are looked upon worldwide as entrepreneurial and innovative societies. These two countries have changed the world through their scientific and technological discoveries. From the miracle of the green revolution to the growing frontiers of space exploration, the results of Indo-US collaboration have yielded tangible benefits to not only to both countries, but also to the world at large.

The foundation of technology is education. Currently, there are over 100,000 Indian students studying in 4,000 colleges and universities across America. The United States saw a 37 percent increase in the number of Indian students during 2013-14. As one of the oldest facets of the Indo-US relationship, education exchange will continue to produce cross-collaborations leading to real-world, commercial solutions that are transforming our societies. This has enabled the US and Indian industrial sectors to be in the vanguard of developing products and solutions to drive growth in both societies.

The most exciting development over the last decade is that the Indo-US economic relationship is

no longer one-sided. In reality, there is a robust flow of investments to India by US companies and from Indian firms into the United States. The premise that India is purely a cost-arbitrage, off-shoring hub, reflects neither the realities of the Indian market nor the nature of the bilateral relationship.

Not only are US companies seeing India as a core part of their global efforts in research and development, but they are increasingly considering manufacturing footprints in India. Companies such as Tata and Mahindra have turned the tables and perceive the United States as their 'emerging market', bringing new products and job opportunities to the US market.

The US private sector is excited by the new momentum in India, and looks forward to seeing policy enactments that will advance Prime Minister Modi's "*Make in India*" campaign. This will not only enhance the global competitiveness of the Indian manufacturing sector, but will also generate greater skill acquisition to build more inclusive growth. If New Delhi continues to follow this path, investments will grow in India and this will create a natural conduit for the country to be part of key trade agreements such as TPP.

Recognizing this two-way flow of investment, a **Bilateral Investment Treaty (BIT)** would be another important step. Prime Minister Narendra Modi and President Barack Obama affirmed through their joint statement in January a 'shared commitment to facilitating increased bilateral investment flows and fostering an open and predictable climate for investment.' A BIT would help build investment by supporting openness, transparency, predictability and respect for property rights.

If New Delhi decides to enter the TPP negotiations, the United States and India should begin developing a road map for its membership. In the meantime, as Commerce Secretary Rajeev Khurana indicated last summer, "I don't think we (India) should be overly anxious in not joining TPP, but we should be anxious in taking TPP standards as an objective over a period of time." He stressed the importance of India adopting gold standards and being globally competitive. This was further amplified in the recently released Economic Survey (See: <http://indiabudget.nic.in/es2014-15/echapter-vol1.pdf>).

Although the United States and India have charted separate courses on trade agreements, their commonalities, national diversity and spirit of innovation will enable these two nations to jointly achieve greater opportunity and prosperity. This is what constitutes a true partnership.

## India Manufacturing, Value Chain and Domestic Distortions

*Nilanjan Banik*

A value chain is a string of activities that a business undertakes to produce and sell products and services. Typically, a value chain starts with front-end research which results in product design development, further leading to the purchase, processing and assembly of raw materials and inputs, followed by the marketing, sale, distribution, and after-sales service of the product. In a globalized world, instead of all these activities occurring within the home country, some activities are moved overseas multinationals (MNCs) in order to take advantage of the cost differential. Typically, research and development, design and marketing are done in developed countries, whereas mass scale production takes place in developing nations. When Ford and Nokia choose to shift their production base to India, it is because of the country's lower input cost.

In recent times, thanks to the spread of information technology, the global value chain has become more integrated and relevant. Enterprises and workers in geographically separated locations affect one another more frequently than they have done in the past. Some of these effects are quite straightforward, as when an enterprise from one country establishes a new factory or engineering center in another country. Some effects are more complex, as when an enterprise in one country contracts with an enterprise in another country to coordinate production in plants owned by yet another enterprise in a third country.

There are also instances of countries moving up the value chain of the global production network. For instance, General Motors initially used Brazil for assembling car parts imported from the United States. Over a period of time, Brazil started to produce its own cars and now has become one of the largest manufacturers of automobiles in the world. This means there can be some new markets, in Latin America and elsewhere, where General Motors can consider building its assembly line. It is important to recognize that although many countries would welcome foreign direct investment, MNCs would prefer to invest in countries where it is easy to do business.

### **Myths about the Global Value Chain**

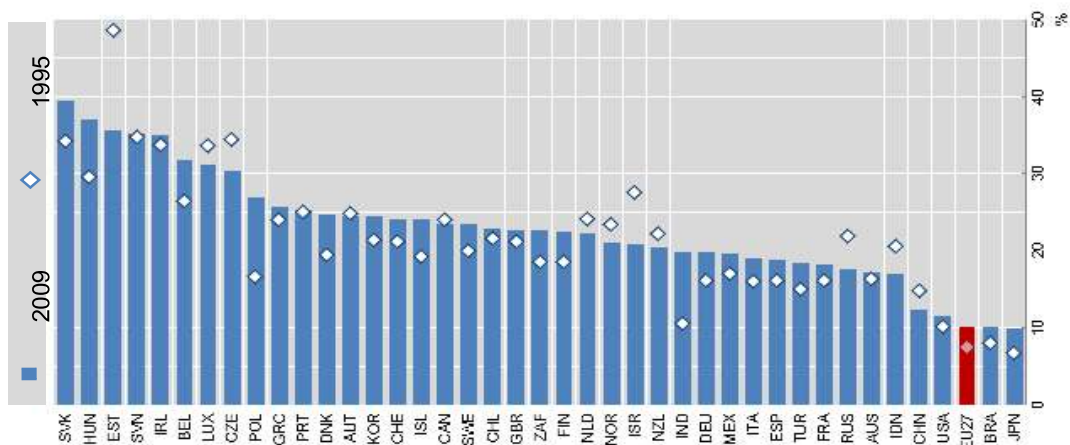
#### *1. Job Loss*

One popular myth about the global value chain is that the developed countries are likely to lose jobs to the developing countries because of MNCs shifting their production bases to the latter. Empirical evidence suggests otherwise. Moran and Oldenski (2013) find that foreign multinational firms that invest in the United States are, alongside US-headquartered American multinationals, the most productive and highest-paying segment of the US economy.<sup>1</sup> These findings disprove the often expressed claim that overseas investments by American companies come at the expense of economic growth and job creation in the United States. The authors show that in reality US-based companies investing abroad are also the biggest job creators, investors and exporters at home. These firms conduct more research and development, provide greater value added to US domestic inputs, and export more goods and services than other firms in the US economy. Their superior technology and

management techniques spill over horizontally and vertically to improve the performance of local enterprises and workers.

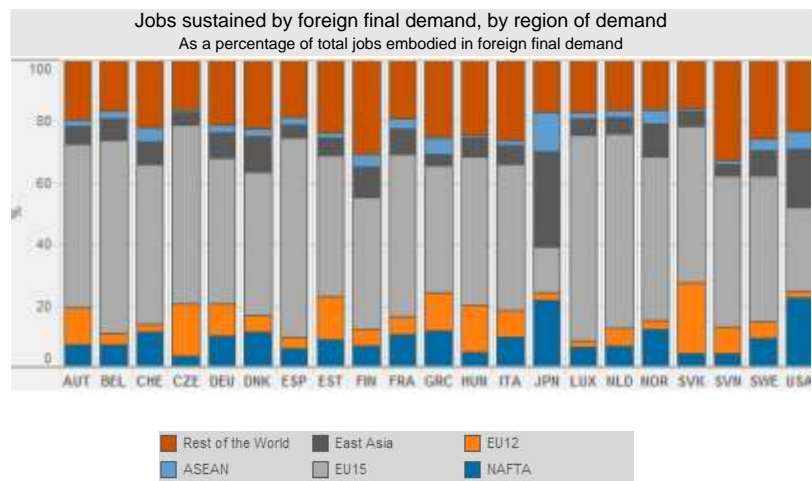
Preliminary estimates suggest that over 10 million US jobs were sustained by foreign consumers, with East Asian consumers sustaining 2 million American jobs.<sup>2</sup> Consumers in one country sustain jobs in countries further up the value chain. In 2008, in Europe, between 20 and 40 per cent of the business sector jobs were sustained by foreign demand (See Figure 1).

**Figure 1: Foreign value added embodied in domestic final demand for European countries, 1995 and 2009 (as % of GDP)**



Source: OECD-WTO, Trade in Value Added (TiVA) Database, <http://oe.cd/tiva>, May 2013.

In fact, the higher a country in the value chain, the greater its dependence on foreign demand for sustaining jobs in the domestic economy (See Figure 2).



Source: OECD-WTO, Trade in Value Added (TiVA) Database.



## 2 Re-examining Trade Data

Countries often restrict market access to countries with which they have a trade deficit. For instance, the United States historically had a trade deficit with China. In September 2009, the US administration imposed additional duties for a three-year period against imports of tires from China based on the theory that they were disrupting the US tire market. This action not only harmed US consumers and Chinese producers while attempting to provide some benefit to the relatively small number of workers in the US tire industry, but it also did nothing to advance the cause of trade liberalization.<sup>3</sup> Therefore, the whole idea of protecting the domestic economy using non-tariff barriers (NTBs) does not make sense. Since raising tariff barriers is not feasible under the World Trade Organization (WTO) framework, individual governments attempt to protect their respective economies by raising NTBs such as antidumping measures, sanitary and phytosanitary sanctions and import licenses. It must be noted that due to WTO commitments, it is not easy for a country to increase tariffs without substantive negotiations with, and compensation to, the affected parties, and many countries are therefore using NTBs to protect their economy.

The famous i-phone example makes things clear. Although the i-phone is designed and marketed by Apple in the United States, a large chunk of it is manufactured outside the country with components coming from many other nations (See Table 1). So, when China finally sells the i-phone to the United States and the latter has trade deficits with the former, it is not correct to attribute the entire US-China trade deficit to China alone. For there are other countries that have contributed to the production of the i-phone, and hence the value addition of these other countries must be taken into account while calculating the US-China trade deficit. It is certainly incorrect to target one country on the premise that it may be the cause of trade deficit. There is a need to review the gross trade data.

**Table 1: Apple i-phone (3G) major components and cost drivers**

| Manufacturer       | Component             | Cost    |
|--------------------|-----------------------|---------|
| Toshiba (Japan)    | Flash Memory          | \$24    |
|                    | Display Module        | \$19.25 |
|                    | Touch Screen          | \$16.00 |
| Samsung (Korea)    | Application Processor | \$14.46 |
|                    | SDRAM-Mobile DDR      | \$8.50  |
| Infineon (Germany) | Baseband              | \$13.00 |
|                    | Camera Module         | \$9.55  |
|                    | RF Transceiver        | \$2.80  |
|                    | GPS Receiver          | \$2.25  |
|                    | Power IC RF Function  | \$1.25  |
| Broadcom (USA)     | Bluetooth/FM/WLAN     | \$5.95  |
| Numonyx (USA)      | Memory MCP            | \$3.65  |

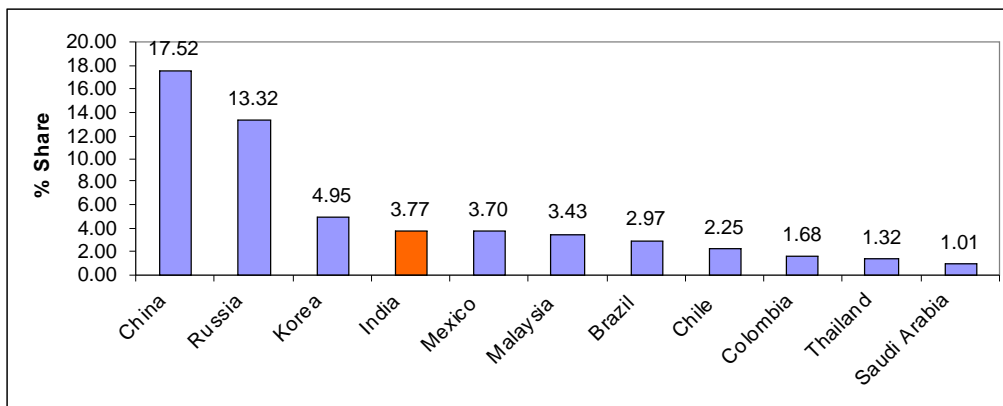
|                                |   |          |
|--------------------------------|---|----------|
| Murata (Japan)                 | FEM                                     | \$1.35   |
| Dialog Semiconductor (Germany) | Power IC Application Processor Function | \$1.30   |
| Cirrus Logic (USA)             | Audio Codec                             | \$1.15   |
| Rest of Bill of Materials      |   | \$48.00  |
| Total Bill of Materials        |   | \$172.46 |
| Manufacturing costs            |   | \$6.50   |
| Grand Total                    |   | \$178.96 |

Source: Rassweiler (2009)<sup>4</sup>

**India and the Global Value Chain**

Attracting foreign investment may not always be easy for developing countries, such as India, despite having the advantages of cheaper labour and land. Developed countries such as the United States and other Western European countries obtain more MNC funding because of transparency in business rules and the low cost of doing business. Moreover, flexible labour laws and mechanization of production allow labourers in developed countries to become more productive, although labour costs in these countries are generally higher. State-of-the-art infrastructure, such as roads, ports, electric grids, telecommunication and banks, is also essential for corporations to run business effectively. Equally important is the tax regime, which should be business-friendly for foreign companies. It is not advisable for the host countries to change tax rules retrospectively, and/or too frequently. From the policy side, it is important for India to build on these aforementioned attributes to take advantage of the global value chain. The present National Democratic Alliance (NDA) government at the Centre is considering a stronger trade tie-up with China. As Figure 3 shows, there is the possibility of India getting investment from China. However, to attract Chinese funding, India needs to work on certain domestic issues. When it comes to outward investment flow from developing countries, China has the largest percentage share. In 2013, China accounted for roughly 18 per cent of the total outward investment flow from developing countries.

**Figure 3: FDI Outflow from Developing Economies**



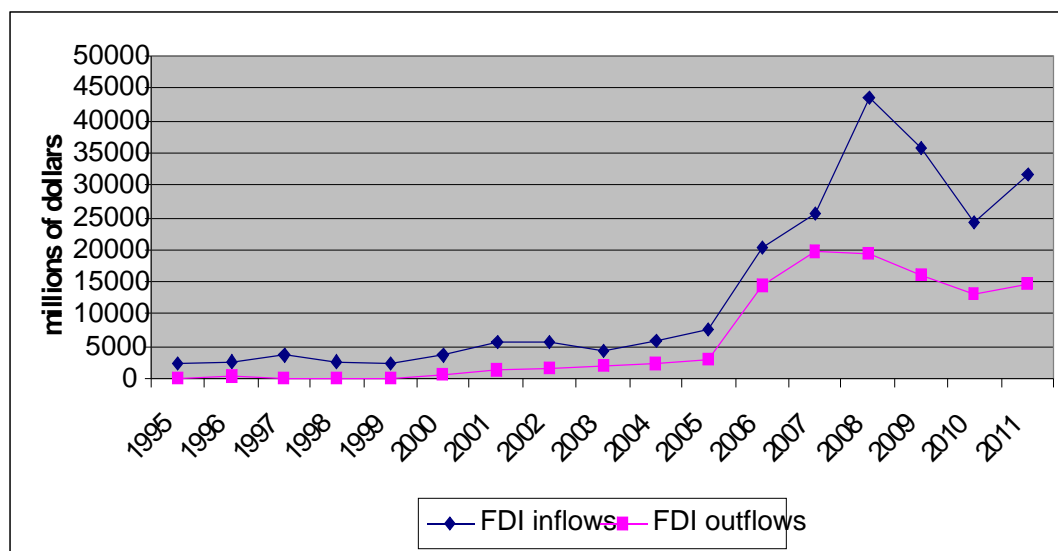
Source: UNCTAD (2014).

## Problems of India participating in Global Value Chain

### 1. High cost of doing business

Although reforms are taking place in India, they are far from complete. Companies face a maze of government orders, regulations, rules and procedures, which raise the cost of production and hence affect exports. In its *Doing Business Report-2012*, the World Bank, places India in the 132<sup>nd</sup> position out of 185 countries, far worse than China (91<sup>st</sup>), Sri Lanka (81<sup>st</sup>), Bangladesh (129<sup>th</sup>) or Pakistan (107<sup>th</sup>), when it comes to the convenience of doing business. Enforcing a contract in India takes an average of 1,420 days and involves 46 different procedures. Importing goods takes an average of 20 days and 11 documents. Tax payments have to be made on average 33 times per year and the process takes 243 hours (World Bank, 2012).<sup>5</sup> Figure 4 suggests there has been more FDI outflow from India than FDI inflow. One reason is because of high cost of doing business in India.

**Figure 4: India's FDI flows: Inflow vis-à-vis Outflow**



Source: UNCTAD (2014).

### 2. Frequent change in policy

Private investment, including foreign direct investment, has slowed down. This is primarily because the government changes policy rules too often. A few events since March 2012 have seriously dented India's image as a favorable investment destination. First, the much-talked-about Vodafone case where the Union Government in 2012 has retrospectively changed the tax laws to penalize the UK-based telephone giant. Second, the cancellation of 2G mobile licenses that sent a clear signal to the international business community about the uncertain policy environment in India. Third, the General Anti-Avoidance Rules (GAAR) introduced in the 2012 Budget, which has spooked foreign investors. Fourth, cases such as that of South Korea's steel major Posco, which secured approval a decade earlier for setting up a US \$12 billion steel plant in Orissa, but which has not yet become operational. Fifth, in 2013, the move by the Delhi state government under the

Aam Aadmi Party rule to reverse the previous Congress government's decision to allow foreign direct investment in multi-brand retail.

### 3. *Poor Infrastructure*

To be part of the global value chain, it is imperative to have a well-functioning infrastructure, including electric power, road and rail connectivity, telecommunications, air transport and efficient ports. India lags behind East and South-East Asia in these areas. In 2012-13 the World Economic Forum in its Global Competitiveness Index Report placed India in 84<sup>th</sup> position (out of a total sample of 144 countries) when competitiveness is measured in terms of infrastructure development (World Economic Forum, 2013).<sup>6</sup> India, however, performed relatively better in terms of overall competitiveness (59<sup>th</sup> position), which takes into account other factors, such as a country's institutions, infrastructure, macro-economy, health, primary education, higher education and training, market efficiency and technological readiness.

India needs to invest over US\$320 billion in infrastructure. This figure includes US\$130 billion for power, US\$66 billion for railways, US\$49 billion for national highways, US\$11 billion for seaports and US\$9 billion for civil aviation. India invests only 36 per cent of GDP in infrastructure in comparison to China's 48 per cent. This is notwithstanding the fact that China's GDP is almost four times that of India – US\$8.3 trillion for China and US\$2 trillion for India in 2012.<sup>7</sup> However, this level of investment requires resources unavailable to the public sector and hence, there is a need for private participation. Unfortunately, private participation has fallen in recent times due to problems associated with regulatory constraints. Except for telecommunications, sectors such as power, ports, aviation, railways and roads are witnessing slow rates of growth.

Economic reforms are still to reach the infrastructure sector. The only exception is telecommunications. Without privatisation or commercialisation of infrastructure (power and ports), the full potential of the industrial sector cannot be realised. At present private sector participation is constrained by the red tape in the infrastructure sector. The basic problem is lack of coordination among various stakeholders. One reason for cost and time overruns in infrastructure projects has to do with delays in land acquisition, inter-ministerial coordination and clearance, shortage of funds and contractual disputes.

For instance, a power sector project requires clearances from 56 different authorities and ministries. These authorities span all three level of constitutional devolution – federal, state, and local bodies such as village panchayats and municipalities. Some of the ministries involved are coal, railways, environment, state environment committees, state pollution control boards, forest departments, central electricity authority, power grid corporation, central electricity regulatory commission, state electricity regulatory commission, state transmission commission, irrigation department, civil aviation, power ministry, port authorities, chief controller of explosives, custom department, and in some cases, clearances on account of the potential impact on wildlife, coastal zone and archaeology. It must be noted that each of these ministries operate independently of one another and therefore, any obstacle in getting clearances from any one of these departments can delay the process of setting up a power plant. The present NDA government is contemplating the merger of various ministries to ensure faster policy decision-making.

As to how a better infrastructure can provide impetus to growth, the stark example is that of Golden Quadrilateral. Started by the Vajpayee-led National Democratic Alliance government in 2001, this project aimed at building four-and six-lane highways to connect four metros: Kolkata, Chennai, Mumbai and Delhi. Major cities that also got connected were Bangalore, Pune, Ahmedabad, Surat and Kanpur. According to the National Highway Authority of India, 99.71 per cent of the project work was finished during January 2013. The impact of this road completion was telling. Travel time by road between Kanpur and Kolkata has fallen from 48 to 36 hours.<sup>8</sup> In addition to easy movement of goods and people, there are other economic benefits such as more choice of locations for initiating industry activity, and reduced wastage in the agricultural sector.

#### 4. *Lack of labour market reforms*

Lack of labour market reforms is preventing India from effectively using its demographic dividend and from attracting foreign investment in the labour-intensive mode of production. Labour relations have to be rationalized and made more flexible. India has a vast pool of young workers, which also explains why the labour cost is cheaper in India. According to the National Sample Survey estimate, between 1983-84 and 1993-1994, the workforce in India grew at the rate of 2.09 per cent per year. Between 1999-2000 and 2009-2010, this figure was 2.48 per cent. However, existing rigidities in the labour market are creating disincentives for hiring in the Indian manufacturing sector.

Legislative authority over labour issues lies with both the Central and the State governments. The *concurrent* nature of the labour laws causes problems. The state governments have the authority to amend central legislations or to introduce subsidiary legislations. In addition, the enforcement of many labour regulations, even those enacted by the central government, lies with the State government. Labour laws across various states suffer from lack of unification and harmonization. Even the definitions of key terms: wages, workman, employee, factory, and contract labour vary from one state to the other.<sup>9</sup> The variability in labour laws across states leaves room for a high degree of discretion in interpreting these laws, and thereby encourages corruption and rent-seeking activities. Thus enterprise owners become an easy target for labour inspectors.

#### 5. *Judicial delays & backlog*

Investors would not be willing to invest if there is weak governance and delay in dispute settlement. In 2008, over 50,000 cases in the Supreme Court, over 4 million cases in the high courts, and over 27.5 million cases in subordinate courts were awaiting disposal. Considering the staggering number of outstanding cases, every judge in the country will have an average load of about 2147 cases. India has 14,576 judges as against the sanctioned strength of 17,641 including 630 High Court Judges. This works out to a ratio of 10.5 judges per million population.<sup>10</sup> This ratio is set to go up as more people become literate. For example, in a relatively more literate state such as Kerala, there are 28 new cases per 1000 population per annum, as against 3 new cases per 1000 population per annum in the case of Bihar.<sup>11</sup> The limited number of judges is certainly one reason but another factor is the greater acceptance of appeals. Between 2005 and 2008 around 12 per cent of cases (6,900 out of 57,000) were accepted for hearing in the Supreme Court of India. In the United States, the corresponding figure is only around 1 per cent. The ease in appealing from a

lower to a higher court in India, even to the Supreme Court, coupled with the high acceptance rate of appeals adds to the massive judicial backlog.

#### 6. *Higher trade costs*

Trade costs account for all other additional costs incurred in moving a good to the final consumer, other than the marginal cost of producing that good. All types of cost such as freight and time costs, information costs, contract enforcement costs, use of different currencies, language barriers, and lack of trade facilitation measures such as inadequate logistics of moving goods through ports, inefficient handling of custom documentation and lack of harmonization of regulation standards will be counted as part of trade costs. For example, of the US\$2 export value for the Barbie dolls, when they leave Hong Kong for the United States, about 35 cents covers Chinese labor, 65 cents covers the cost of materials, and the remainder covers transportation and overheads, including profits earned in Hong Kong. The dolls sell for about US\$10 in the United States, of which Mattel (the US retailer of Barbie dolls) earns at least US\$1, and the rest covers transportation, marketing, wholesaling and retailing in the United States (Anderson and van Wincoop, 2004).<sup>12</sup>

Trade costs arise largely from lack of trade facilitation and inadequacy of physical infrastructure in South Asia. For instance, in 2012, the logistics costs in India were among the highest in the world (at 13 percent of GDP), and inadequate infrastructure is responsible for holding back GDP growth by roughly 2 percent, or an annual hit of approximately US\$20 billion to economic progress. Other trade cost elements abound. At the Indo-Bangladesh border, a consignment needs at least 22 documentations, over 55 signatures and a minimum of 116 copies for the final approval. Paying bribes is a common phenomenon. Across South Asia, the size of bribes was reportedly between 2.2 percent and 2.5 percent of firm sales. Within South Asia, the size of bribe payments are relatively less in India, Sri Lanka and Bhutan compared to Bangladesh, Pakistan and Nepal. If South Asian nations raise capacity building in trade facilitation halfway to that of East Asia's capacity, average trade is estimated to increase by US\$2.6 billion. This is approximately 60 percent of the regional trade in South Asia. The areas with the greatest gains will be service-sector infrastructure and efficiency in airtime and maritime ports.<sup>13</sup>

#### **Conclusion**

MNCs are increasingly using the global value chain network to make up for the cost differential that exists in a spatially differentiated market segment. Countries participating in the global value chain have sustained steady growth in their economies. For an emerging market such as India, it is also essential to participate actively in the global value chain network. However, as this paper suggests, there is much room for improvement. This includes building better infrastructure, reforming labour laws, reducing trade costs, formulating a uniform tax policy, and ensuring an effective judiciary and more efficient institutions to reduce the cost of doing business.<sup>8</sup>

### Notes

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## Concluding Observations

The two-day international conference on US Rebalance and the Asia Pacific Region was conceptualized and organized by the CPPR Centre for Strategic Studies, Kochi with the support of the US Consulate-General, Chennai Region. The conference was attended by eminent academicians and experts in the field of security, strategic studies, trade and commerce. The speakers discussed the US move to “rebalance” its strategy in the Asia-Pacific and its potential implications for the region. The forum underscored the importance of understanding the pivotal role the United States sought to play in a continent where the history of the 21<sup>st</sup> century is being scripted.

The initial presentations and discussions highlighted the following points:

- The US strategy of Rebalance to the Asia-Pacific stems from a recognition that this region has become and will remain a major economic centre of gravity in the 21<sup>st</sup> century.
- The goals of the US Rebalance are primarily to bolster ties with emerging Asian powers; strengthen alliances with trusted allies, notably Japan, South Korea, Australia, Thailand and the Philippines; empower multilateral regional institutions and secure economic engagement in the region.
- The deeply integrated international system and global supply chain networks reveal the need to analyze the dependency and interdependency of countries in the changing world order.
- Due to the expansion of its interests, the United States is a dependent country in the world. The sustenance of the US economy in the future is dependent on Asia to a large extent. Therefore, re-aligning US relationships with the countries of Asia-Pacific would be a decisive step in boosting the US economy. The United States is also expected to play a long term role in the Asian region in the aftermath of its military withdrawal from Iraq and Afghanistan.

The CPPR conference delved into four main themes: the context and geopolitics of the US Rebalance; trade & commerce as a rebalancing tool; China's strategic rise & its implications; the Trans Pacific Partnership (TPP) and its prospects. The salient conclusions that were drawn during each of these sessions are summarized below.

### **The Contexts and Geopolitics of the US Rebalance in Asia**

The Rebalance is emblematic of the reincarnation of balance of power politics, with regional “cold wars” unfolding in Eurasia. Conflicting US signals in the maritime and territorial disputes between China and East Asian countries are a source of grave concern to countries in the region.

The Asia-Pacific is vulnerable as it grapples with a series of internal challenges. The geopolitical implications of the US Rebalance strategy would be crucial as it is bound to have a huge impact on regional peace and security. Rebalance will only work partially without China. Economic cooperation and integration of countries within the region was identified as imperative in furthering this strategy.



It is important for the United States to rebalance its “rebalancing” strategy rather than focus overly on China. The United States ought to reorient its strategies for constructive engagement with China. The exclusion of China, the largest economy in Asia, from the Trans Pacific Partnership (TPP) would signal that this is only meant to be a containment strategy.

The US Rebalance strategy could have a two-fold impact. It can hasten the creation of an Asia marked by “economic integration” or one marked by “political conflicts.” If the US Rebalance favors economic integration, the gains could be positive. If it gets embroiled in political conflicts, the strategy would become a lost cause with bleak prospects.

### **Trade and Commerce: A Rebalancing Tool In the Asia-Pacific**

The policy of Rebalance envisages the creation of an economic architecture that would generate dividends for both the Asia-Pacific and the United States in terms of trade and growth leading to shared, sustained prosperity. It would be difficult for the United States to contain China's rise as an economic engine, therefore, the “Rebalancing” must rebalance its economic aspects to include China.

Regional multilateral institutions such as APEC, ASEAN and TPP can be constructively inclusive to boost all-round trade benefits. AUS-India-Japan trilateral would be very fruitful in this regard.

The interpretation of the US Rebalance as a response to China's military expansion persists. Yet, the US shift from constraint to rebalance in Asia indicates its determination to integrate China into the global rules-based system.

A concerted effort is needed by governments, scientists, academicians, social institutions and business houses on both sides, to enhance cooperation on many fronts for a better realization of the goals of the US Rebalance strategy.

### **China's Strategic Rise: Regional Hegemony or Peaceful Rise?**

China aspires to be recognized as a global superpower. The Chinese are seeking political and moral superiority over the United States. Beijing has embarked on a policy of revivalism in the economic, political and military spheres. Against this backdrop, a convergence of Chinese hard and soft power credentials is imminent.

China's New Silk Road strategy (2013) includes the Silk Road Economic Belt connecting China with Europe through Central Asia and the 21<sup>st</sup> century Maritime Silk Road Initiative connecting China to Southeast Asia, South Asia and Africa. The policy envisages trans-continental cultural exchanges and people-to-people ties, besides infrastructural and physical connectivity.

Whether the strategic rise of China amounts to “regional hegemony” or “peaceful rise” as debated by scholars, its structural consequences upon the Asia-Pacific region would be pivotal. The internal factors that bolstered China's phenomenal rise were adjudged to be its ideological and technological underpinnings as well as its marketing and institutional innovations. It was suggested that Beijing would not adopt an overtly aggressive strategy at present because it is embroiled in many internal

challenges.

China's rise is “exceptional” as it has pursued a novel path of coalescing military and commercial power with a focus on national unification. Thus, without developing military bases or seeking military alliances, China was able to gain leverage in the region. The Silk Route policy is a prime example of an economic initiative taking precedence over military dominance. Scholars also noted that Beijing's interventionist stance in the Asia-Pacific maritime sphere does negatively affect its non-alignment policy.

### **Trans-Pacific Partnership (TPP) and the Asia Pacific**

The United States and China ought to rebalance their economic engagement, paving the way for new permutations of trade and investment linkages. The Trans Pacific Partnership should become much more than a strategic proposition.

India is attempting to secure strategic autonomy in its engagement vis-à-vis China and the United States. A convergence of India's Act East policy and the US Rebalance would be pertinent. However, India needs to participate proactively in the global value chain network to sustain its growth trajectory and enhance its trade facilitation measures to reap the benefits of economic partnerships in Asia-Pacific. New Delhi could work in unison with Washington for a framework on TPP, besides enhancing its standards as well. Though India fatigue seems to affect investors globally, it would be improper to generalize about India, as commendable efforts made by different Indian states to enhance the business climate cannot be ignored. Deliberations on India acceding to the TPP without restructuring its economy invited skepticism as well as encouraging comments.

India also ought to engage itself more constructively in the economic partnership. The country's administrative bottlenecks were enumerated by the speakers. India is currently in the 142<sup>nd</sup> position globally with regard to the ease of doing business. Indian trade costs constitute 13% of Its GDP and the logistics costs are the highest comparatively. The Indian power sector mandates clearances from 56 authorities at the central, state and municipal levels. It is imperative for India to re-align its economic edifices not only to benefit from the economic rebalancing but also to sustain its economic momentum.

Despite the competing and contradictory priorities of China and India in the Asia-Pacific region, the diversification of economic bonds can help to thaw the cold ties currently prevailing between these two Asian giants. In the economic domain, the Chinese model of market socialism may be worthy of emulation by countries such as India. However this transition in economic relations has not progressed to the next level in the sphere of political relations.

## Author Profiles

### **D. Dhanuraj**

Dr. D. Dhanuraj serves as Chairman of the Centre for Public Policy Research and as Managing Director of Civitas Consultancies Pvt. Ltd. He holds a PhD in Science and Humanities from Anna University, Chennai, postgraduate degrees in Physics, Political Science and a postgraduate Executive Diploma in International Business. A social entrepreneur by profession, Dhanuraj is also a seasoned policy researcher. He has worked with several national and international organizations as well as government bodies in the development sector. He has been trained by Friedrich Neumann Stiftung (FNSt) at the International Academy for Leadership (IAF), Theodore Heuss Akademie, Germany. He has also undergone training for Startup Think Tanks by Atlas USA, and in Austrian Economics by the Foundation for Economic Education (FEE), New York. His areas of interest include urbanization, retail markets, education, health and non-traditional security themes. He writes regular columns and presents his findings on websites and blogs.

### **M.K. Narayanan**

In a career spanning nearly six decades, M.K. Narayanan has held several prestigious assignments, the most recent being Governor of West Bengal (2010-2014). Prior to this, Mr. Narayanan was Special Advisor to the Prime Minister of India and served as National Security Advisor from 2004–2010, holding the rank of Minister and functioning from the Prime Minister's Office in New Delhi. Earlier, Mr. Narayanan was Director of the Intelligence Bureau (1987-1992) and worked with four Prime Ministers in this capacity. As Special Advisor and National Security Advisor, Mr. Narayanan's responsibilities included advising the Prime Minister and the Cabinet on foreign and defence policies, national security and all strategic and governance issues. During this period, Mr. Narayanan also led India in institutionalized strategic and security dialogues with several countries viz, the United States, the United Kingdom, France, Germany, China, Russia, Japan and Brazil. He was the Prime Minister's Special Representative for Boundary Talks with China. Mr. Narayanan has been a regular speaker at international and national conferences. These include the Munich Security Conference (Germany); the World Policy Conference; and the International Institute of Strategic Studies (UK). He has also addressed gatherings at Stanford and Harvard Universities, Melbourne University and the Australia-India Institute (Australia).

### **Phillip Min**

A three-time recipient of the State Department's Superior Honor Award, Phillip Min was appointed US Consul General in Chennai on September 18, 2014. His prior foreign assignments with the US Department of State included stints in Rio de Janeiro, Warsaw, Seoul, Tokyo, Bogota and Karachi. His Washington experience included service in the Office of the Executive Director in the Bureau of Consular Affairs and in the Office of Japanese Affairs. Min earned a Bachelor of Arts degree in art history from Haverford College in Pennsylvania and did graduate work in East Asian Studies at the University of Washington in Seattle. He received a Master of Science degree in National Security

Policy from the National War College in Washington D.C. Hailing from the Washington D.C. area, he joined the US Department of State in 1987 and became a career member of the Senior Foreign Service in 2012.

### **Murray Hiebert**

Murray Hiebert serves as Senior Fellow and Deputy Director of the Sumitro Chair for Southeast Asia Studies at the Center for Strategic and International Studies (CSIS) in Washington, D.C. and regularly visits the countries of Southeast Asia. Prior to joining CSIS, he was Senior Director for Southeast Asia at the US Chamber of Commerce, where he worked to promote trade and investment opportunities between the United States and Asia. Hiebert joined the US Chamber in 2006 from the *Wall Street Journal's* China bureau, where he covered trade issues. Earlier he worked for the *Wall Street Journal Asia* and the *Far Eastern Economic Review* in Washington, reporting on US-Asia relations. He joined the *Review's* Bangkok bureau in 1986, covering political and economic developments in Vietnam, Cambodia and Laos. In the early 1990s, he moved to Hanoi, reporting for the *Review* on Vietnam's economic reforms. From 1995 to 1999, he was stationed in Kuala Lumpur for the *Review*. Hiebert has authored two books on Vietnam: *Chasing the Tigers* (Kodansha, 1996) and *Vietnam Notebook* (Review Publishing, 1993).

### **Chintamani Mahapatra**

Professor Chintamani Mahapatra is currently Professor, Centre for Canadian, US & Latin American Studies at the School of International Studies of Jawaharlal Nehru University (JNU). He is also Member, UGC Review Committee, Area Studies Programme; Member, Fellowship Expert Committee, Indian Council of Social Science Research (ICSSR); Editor, Indian Foreign Affairs Journal; Member, Editorial Board, Strategic Analysis, Institute for Defence Studies & Analyses (IDSA); Member, Editorial Board, Diaspora Studies; and Member, Committee on Studies, Academy of International Studies, Jamia Millia Islamia. Recently, he was Tagore Chair Professor at Yunnan University of China. He has conducted research in several US Presidential Libraries, the US National Archives and the British Public Record Office in London. Prof. Mahapatra has authored four books, one edited volume, and has contributed chapters to over 30 edited books. He has published more than 70 research articles in reputed journals. He has been awarded a number of international fellowships, such as the Fulbright Fellowship, the Commonwealth Fellowship, and Visiting Fellowships to undertake research in the United States, United Kingdom, Austria, Australia and many other countries. He has been a visiting faculty member in several UGC-run Academic Staff Colleges, the Foreign Service Institute of the Ministry of External Affairs, National Defense College, Army War College, Naval War College and the College of Air Warfare. He is also a regular commentator in newspapers and on audio-visual media on international affairs.

### **Amrita Banerjee**

Amrita Banerjee has graduated with Honours in Political Science from Lady Shriram College for Women, New Delhi. She followed it up with a postgraduate degree in Politics (with specialization in

International Relations) and M.Phil from the US Studies Division of Jawaharlal Nehru University, New Delhi. Her dissertation topic was 'President George W. Bush's Policy towards Russia, 2001-8.' Presently, she is a doctoral candidate in the Centre for Canadian, US and Latin American Studies at the School of International Studies, Jawaharlal Nehru University.

### **W. Lawrence S. Prabhakar**

Dr. Lawrence Prabhakar is Associate Professor, International Relations and Strategic Studies, Department of Political Science, Madras Christian College, Chennai. He specializes in academic and policy research in the following areas: nuclear missile issues in Southern Asia; maritime security issues in the Indian Ocean and the Asia-Pacific Region, Grand Strategy of China; India-United States Strategic Relations and the Grand Strategy of India. He has published: *The Maritime Balance of Power in the Asia-Pacific: Maritime Doctrines and Nuclear Weapons at Sea (2006)*; *Maritime Security in the Indian Ocean Region: Critical Issues in Debate (2008)*. Dr. Prabhakar is Media Commentator on Asia-Pacific Strategic Issues, at the BBC World Service, London. He has been consulted on several projects by the Net Assessment Directorate, Chiefs of Staff Committee, Ministry of Defence, Government of India. His research fellowships have been with the Center for Political Studies, Institute of Social Research, University of Michigan Ann Arbor (Fulbright Fellowship); Henry Stimson Center, Center for Naval Analysis, Center for Strategic and International Studies, Washington DC, Asia-Pacific Center for Security Studies, Hawaii, USA; Research School of Pacific and Asian Studies, Australian National University, Canberra, Australia; Institute of Defence and Strategic Studies and S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore. His publications have appeared in reputed international and national journals and edited volumes.

### **Joe Thomas Karackattu**

Dr. Joe Karackattu is Assistant Professor at the Department of Humanities and Social Sciences, Indian Institute of Technology, Madras. He is trained in International Relations (holding MA, MPhil and PhD degrees from Jawaharlal Nehru University, Delhi) and an Economics BA (Hons) degree from St. Stephen's College, Delhi. Dr. Karackattu was Fox Fellow (2008-09) at Yale University, USA, a recipient of the President's Award for 2010-11 at the Institute for Defence Studies and Analyses (IDSA) in India, and of the Taiwan Fellowship in 2012. He was the inaugural Centenary Visiting Fellow (nominated award) at SOAS, University of London (in residence from October 2013-January 2014). Most recently, the India China Institute at The New School, New York has selected him as one of the "emerging scholars" for 2015.

### **Rajesh Rajagopalan**

Rajesh Rajagopalan is Professor of International Politics, School of International Studies, Jawaharlal Nehru University, New Delhi. He was Senior Fellow at the Observer Research Foundation, New Delhi and Research Fellow at the Institute for Defence Studies and Analyses, New Delhi. He also

served as Deputy Secretary at the National Security Council Secretariat (NSCS) of the Government of India and was also the ICCR Visiting India Chair at Victoria University, Wellington in 2011. His books include: *Nuclear South Asia: Keywords and Concepts* co-authored with Atul Mishra (New Delhi, India and Abingdon, UK: Routledge, 2014); *Fighting Like A Guerrilla: The Indian Army and Counterinsurgency* (New Delhi, India and Abingdon, UK: Routledge, 2008); and *Second Strike: Arguments about Nuclear War in South Asia* (New Delhi: Penguin/Viking, 2005). His articles (some co-authored) have appeared in several academic and policy journals: *The Washington Quarterly*, *Contemporary Security Policy*, *India Review*, *Contemporary South Asia*, *Small Wars and Insurgencies*, *South Asia*, *South Asian Survey*, and *Strategic Analysis* as well as in Indian newspapers such as the *Economic Times*, *The Hindu*, *Indian Express*, *Financial Express*, *Times of India* and *Hindustan Times*.

### **Jabin T. Jacob**

Jabin T. Jacob is Assistant Director and Fellow at the Institute of Chinese Studies (ICS), Delhi. He holds a Ph.D in Chinese Studies from the School of International Studies, Jawaharlal Nehru University, New Delhi and has been a visiting scholar at universities in France and Singapore. Dr. Jacob's areas of interest include China-South Asia relations, the Sino-Indian border areas, centre-province relations in China, and Chinese and Indian worldviews. At the ICS, he is associated with the BCIM (Bangladesh-China-India-Myanmar) Forum and the Track-II Russia-India-China Trilateral and has helped create new initiatives such as the ICS Border Studies Programme and the ICS Scholar-in-Residence Programme. Dr. Jacob has co-edited two books: *India's Foreign Policy: Old Problems, New Challenges* (2011) and *Military Confidence-Building and India-China Relations: Fighting Distrust* (2013). He writes regularly for the Indian media on Chinese foreign policy and India-China relations and is also Assistant Editor of the academic journal, *China Report*, published by the ICS. He is currently working on a new book, *Journey to the East: Defining India's China Challenge*.

### **Vinny Davis**

Ms. Vinny Davis is currently a Research Associate at the Centre for Strategic Studies at the Centre for Public Policy Research (CPPR). She is a key member of the CPPR team and presently leads the Centre for Strategic Studies wing of the organization. She is pursuing her Master of Philosophy degree in Politics and International Relations from Mahatma Gandhi University. She has presented papers at national and international conferences and has several publications to her credit.

### **Pramod C.R.**

Dr. Pramod is Assistant Professor, Department of Political Science, Sree Kerala Varma College, Thrissur. He gained his Ph.D from the Centre for East Asian Studies, Jawaharlal Nehru University, New Delhi, with his thesis titled "Contemporary Chinese State: Negotiating the Domestic and the Global". He was a Post-doctoral Fellow at the Taiwan Foundation for Democracy, Taipei and worked on

“Process Sequencing the Institutionalization of Human Rights in Taiwan”. Currently he is conducting research on second-tier cities in China and on the comparative study of environmental governance in China and India. He has published articles focusing on Falun Gong, Spectacle of Beijing Olympics, among others, in the journal *China Report*.

### **Ingrid Henick**

Ms. Ingrid Henick, Vice President of The Cohen Group, draws on more than 20 years of experience in South Asia to provide due diligence, business and political risk assessment services, and general support to corporations with business interests in the region. Ms. Henick's extensive experience and relationships with the government, private sector and media groups in India can be leveraged on behalf of clients. She is a multi-industry professional who has assisted clients in the areas of transportation, biotechnology, defense, financial services, metals & mining, retail, pharmaceutical, power and telecommunication. Prior to joining The Cohen Group, Ms. Henick was vice president at Barbour Griffith & Rogers International, where she helped to lead that firm's India practice. Before that, she served as Senior Vice President for Business Development at Mphasis Corporation, a leading Indian business process outsourcing and information technology company. From 2001-2004, she was the Deputy Executive Director for the US-India Business Council at the US Chamber of Commerce. As the principal point of contact for issue advocacy she worked with over 100 companies to develop and implement policies for US legislative or administrative change, with a particular focus on trade, defense, retail and biotechnology issues. This included addressing intellectual property rights, tariff barriers, economic sanctions, market access issues and WTO-related matters. She was actively involved in contributing private sector input to the US-India Economic Dialogue and the US-India High Technology Cooperation Group. From 1993 to 1998, Ms. Henick worked with International Equity Partners (IEP) to provide consulting services to clients in India and Southeast Asia, and served as a key staff member on the India Direct Fund, one of the first private equity funds investing in unlisted medium-sized Indian companies. Besides India, Ms. Henick has worked in other Asian countries, Europe and Russia.

### **Nilanjan Banik**

Dr. Nilanjan Banik is Associate Professor, Mahindra Ecole Centrale, and Fellow, Consumer Unity & Trust Society (CUTS) International. He has gained teaching experience with Utah State University; University of Durham, UK; University of Greenland, Nuuk; Institute for Financial Management and Research, Chennai; Indian Institute of Management (Indore, Rohtak and Ranchi); Madras School of Economics; and Reserve Bank Staff College, Chennai. He has also provided training for lateral recruits for the Union Public Service Commission and the ICICI Bank. Dr. Banik's work focuses on the application of time series econometrics in issues relating to international trade, market structure and development economics. His other area of work focuses on WTO rules, particularly the non-tariff barriers aspect of GATT/WTO agreements. Presently, he is analyzing the nexus between India's growth and spatial development. Dr. Banik acquired project experience with the Australian Department of Foreign Affairs and Trade; Laffer Associates, USA; Ministry of Commerce, Government

of India; Research and Information System for Developing Countries (RIS), New Delhi; Indian Council for Research on International Economic Relations (ICRIER), New Delhi; Center for Economic Policy Research, UK; Asian Development Bank Institute, Tokyo; Asian Development Bank, Manila; South Asia Network of Economic Research Institutes (SANEI); UNESCAP-ARTNeT, Thailand; the Australia India Institute, University of Melbourne; and World Trade Organization, Geneva. Prior to joining the Graduate Program in the Department of Economics, Utah State University, Professor Banik worked as a Research Officer with the Rajiv Gandhi Foundation, New Delhi and as Senior Business Analyst with DTA Consultancy Firm, New Delhi. He has published his work in the *International Review of Economics and Finance*, *Review of Development Economics*, *Development Policy Review*, *Journal of World Trade*, *Asia Pacific Trade and Investment Review*, *Asian Development Bank Working Paper*, *Economic and Political Weekly* and the *Foreign Trade Review*. He has contributed towards edited volumes published by Elsevier, Springer Verlag and Routledge. His book on the Indian macro economy was published by Sage. He also has the distinction of writing over 150 editorials for all the major English dailies in India.



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