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US-China: Shifting sands

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The satellite images of bright strips of sand rising from turquoise waters and surrounded by an intricate network of support ships struck a nerve around the globe. The man-made islands vividly showed China's slow-motion efforts to assert more control in the South China Sea but, more than that, they represented a direct challenge to the US which has long policed a waterway crucial to the global economy.

The images, released in April by the Washington-based think-tank the Center for Strategic and International Studies, have contributed to a distinctive shift in the American debate about China. Washington is starting to sound rattled. Not only is the US alarmed at Beijing's ambitious foreign policy, whether in the South China Sea or the launch of its own international banks, but there is also a creeping fear that America is no longer sure about how to cope with Beijing's growing influence.

“The consensus of 35 years and five administrations about how to deal with China is fraying so severely that we have lost confidence in the fundamental underpinnings of US-China policy,” says Frank Jannuzi, former Asia adviser to John Kerry and now head of the Mansfield Foundation, a Washington think-tank. “So people are beginning to look for a new approach.”

A decade ago Robert Zoellick, then the deputy secretary of state, summed up the relaxed confidence with which the US viewed China's rise when he urged Beijing to become a “responsible stakeholder” in a US-led world. Instead of a “responsible stakeholder”, however, many in Washington now see a rival with increasingly sharp elbows and a plan to squeeze the US out of Asia.

The White House is still committed to an approach that involves engaging China and hedging against its increasing military power. It will emphasise the potential for co-operation when the two governments meet in Washington this week for an annual summit, known as the strategic and economic dialogue.

But among the former officials, analysts and think-tanks who set the tone for the broader Washington debate, there is an urgent search for a plan B. The proposals range from major military spending to cutting a grand bargain with Beijing but they are all rooted in a fear that the status quo cannot hold.

Mr Zoellick, an adviser to Jeb Bush's presidential campaign, thinks the extent of the Chinese challenge to the US-led system is sometimes overstated, noting Beijing's constructive role during the financial crisis. But he acknowledges that “it is one of these fluid periods and the United States has lost the initiative on a lot of these issues”.

Great wall of sand

Washington has complained for years about aspects of China's military spending and its behaviour in cyberspace but in recent months the irritants have been magnified. Perhaps more

than any other subject, it is the South China Sea that has shifted US views about what a rising China will portend. The Pentagon has looked on in alarm since the start of the year as China has accelerated its audacious transformation of reefs and sandbanks into islands that can host ports, airfields and other potential military facilities, creating a great wall of sand, as Pacific commander Harry Harris calls it.



The frenzy of island-building followed China's declaration in 2013 that it was establishing an air defence zone in the East China Sea. The Obama administration's pivot to Asia, which was unveiled in 2011, was partly designed to restrain China. But Beijing's ambitions have if anything expanded, especially since Xi Jinping took power in late 2012.

China's approach in maritime disputes is sometimes described as a "cabbage strategy", a slow, deliberate accumulation of new island facilities and naval presence that gradually shifts the military balance in the South China Sea. The US is taking seriously the prospect of being squeezed out of a crucial maritime artery that is used for up to 50 per cent of global commerce.

"They are peeling back the cabbage, one leaf at a time," says Michael Green, former Asia director at the White House national security council now at CSIS. "There is now a consensus over China's trajectory, but not over what should be done."

The anxiety about a more abrasive Beijing has been amplified by reports of Chinese cyber attacks on US companies and government agencies. In his speech a decade ago, Mr Zoellick warned that the US would not tolerate "rampant theft of intellectual property". Rather than back off, however, US officials believe China, which denies the accusations, has stepped up its use of hacking to secure trade secrets.

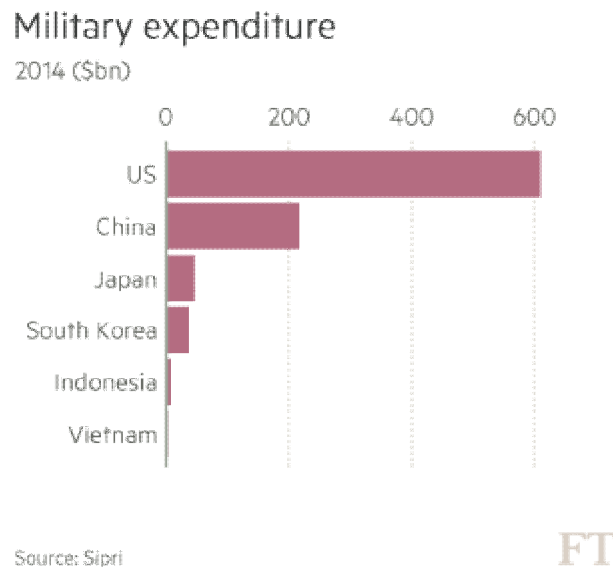
The paranoia about the Chinese cyber threat can at times obscure the reality that the US does some of the very same things to China. Speaking about the recent hack of US government

personnel files, former NSA director Michael Hayden described the incident as “honourable espionage work”. He added: “To grab the equivalent in the Chinese system, I would not have thought twice.”

The US has also been caught flat-footed by China’s efforts to build institutions that might challenge its role at the heart of the international financial system. After Beijing last year launched the Asian Infrastructure Investment Bank, seen by many as a potential rival to the World Bank, the Obama administration tried to convince allies to stay out – at least until China’s role in the bank was clearly defined. However, it was left isolated after Britain and other allies joined the Beijing-based institution.

Some in Washington are also watching closely to see whether the International Monetary Fund will label the renminbi an official reserve currency, fearing that it would give the Chinese currency an important stamp of legitimacy in its challenge to the dollar.

Moreover, the administration’s ability to present a coherent economic strategy in Asia has encountered considerable resistance in Congress. One reason for the creation of the AIIB is the failure of Congress to approve a 2010 reform that would have given Beijing a bigger say in the IMF. More recently, the administration has struggled to win support from Congress for a 12-country Asia-Pacific trade pact, although the White House still hopes to get the backing it needs over the next fortnight.



Some of America’s closest friends in the region warn that the trade votes will be crucial for its Asia strategy. K. Shanmugam, Singapore’s foreign minister, says that, if Congress blocks the Pacific trade deal, “how will people view America as reliable, how will people see America as a country that can still get things done?”

Search for plan B

Amid the mounting unease, **three approaches to retool US-China policy are being proposed.**

Traditionally the lobby pushing the administration to get tougher on China has been driven by hawkish Pentagon officials. But now that group is drawing support from members of the foreign policy establishment. The most eye-catching example is a report from the Council on Foreign Relations written by Robert Blackwill, a former ambassador to India who once worked closely with Henry Kissinger, and Ashley Tellis, a former state department official.



In addition to calling for the US to maintain military predominance over China, one of the most striking features of their report is the way it flirts with some of the economic tools of the containment strategy used against the Soviet Union during the cold war. They call for much stricter controls on exports of technology to China, especially those with potential military uses, and for trade arrangements in the region that deliberately exclude China.

Thanks to it being embedded in the liberal economic order for the last 30 years, China has grown dramatically, says Mr Tellis. But China's growth, he says, has now moved into fundamental military capabilities. China's official military budget of \$145bn – some put it higher – is about a quarter of that of the US but, while America has global responsibilities, China is focused solely on its Asian backyard.

Such an approach, however, could encourage a cycle of retaliatory trade measures by Beijing, likely damaging US companies in China. It could also run foul of the World Trade Organisation.

Others call for the US to move in the opposite direction and find new ways to accommodate Beijing. The argument goes that the US still enjoys military superiority over China, so better to try to establish a new status quo from a position of strength rather than from weakness in a decade's time.

Michael Swaine at the Carnegie Endowment in Washington has suggested the outlines of a geopolitical bargain in Asia that would remove the potency from some of the most dangerous potential flashpoints. It would mean more stringent restrictions on US arms sales to Taiwan, for instance, in return for a Chinese commitment not to use force against the island, while he believes the two countries should work together to engineer a united and nonaligned Korea.

Such proposals generate strong objections. There is the political difficulty of seeking a bargain when leaders in Washington and Beijing would be vulnerable to charges of "selling out". Many US observers believe China would view such an effort as a sign of American weakness, encouraging them to push harder rather than seek an agreement. Then there is the reaction in the region. If the US were to strike a deal with China, countries such as Japan and Vietnam might be tempted to invest more heavily in their own security to prevent eventual domination by Beijing.

A third group argues that the US and China need to develop common projects to help build trust between them, "inch by inch". Yet, while such an approach might create some stability, it would not resolve issues such as the South China Sea where tension has the potential to poison other aspects of the relationship.

US officials acknowledge that China has become tougher to deal with in recent years. But they also tend to roll their eyes at the countless suggestions they receive for ways to hit back at Beijing. They insist that even amid major disputes the two governments have been able to work together on key issues, whether it is the Iran nuclear talks or a climate change deal. Even sceptics know the US has no choice but to keep trying to engage Beijing.

The administration has used the anxiety to boost its relationships around the region. Military co-operation with countries ranging from Japan to Vietnam has been expanded. Even with China's growing military reach, the US still has a formidable position in Asia.

Mr Zoellick says that the US will need to respond firmly on the security and cyber disputes between the countries but argues that the administration could find other ways to work with China. Rather than seeing the renminbi as a threat to the dollar, the US could use Beijing's aspiration for its currency to play a greater role as a lever to encourage the sort of reform to the Chinese financial system that Washington has long wanted to see.

"Working with China's economic reformers could actually strengthen our national interest," he argues.

Rock and a hard place

The thorny subject that the administration cannot avoid, however, is the South China Sea. For the past year, the Pentagon has been preparing options to push back against Beijing that would include deploying ships and aeroplanes into areas around the disputed territories. The message would be clear: the US does not recognise the reclaimed land as islands with their own territorial waters.

But such proposals are not universally supported within the administration. Some officials worry about Chinese retaliation, while others are wary of a confrontation while the US is fighting fires in the Middle East and Europe.

"The big question is whether you can have a significant increase in tension in somewhere like the South China Sea and not have it affect all the other areas where the two governments work together," says Elbridge Colby at the Center for a New American Security, a Washington think-tank. "That is the part that we just do not know."