



AMERICA'S PLACE IN ASIA

Two Paths America believes that forging a bipartisan consensus on America's place in the world, and the future direction of U.S. national economic and security policy, is essential. Despite the gulf between left and right in our politics, there is a path forward that offers benefits to all sides in the debate over national security policy. Two Paths believes that crafting such an approach is essential to producing an effective, coherent policy that will hold up over time, through inevitable changes in philosophical direction on the part of future political leaders.

Nowhere is such an approach more important than in Asia, where major economic and geo-political realignment already is underway, with great potential consequence to U.S. economic and security interests.

Bordering two oceans, as it does, America is both a Pacific and an Atlantic power. Despite our historic focus on Europe, low economic growth rates, an aging population, and post-industrial economies there contrast notably with an Asia-Pacific region that boasts high economic growth rates and a consumer market that by 2020 will become the largest on earth. These facts give reason to believe that the first century of the second millennium of the current era may well be a century dominated by the Asia-Pacific region and that U.S. national security priorities may need to be adjusted accordingly.

Spanning vast swathes of the earth's surface, the Asia-Pacific region encompasses such important U.S. allies as: Australia, Japan, the Philippines and Thailand; countries with which the United States is developing more cooperative relations, such as India, Indonesia and Malaysia; nations that are the objects of strategic rivalry in Central Asia; and countries that currently pose challenges to U.S. national security, such as Pakistan and Afghanistan. Because of the promise that it holds for future cooperation, India is important. Japan and Australia also remain indispensable U.S. allies. However, because of the implications of China's rise for the way in which the Asia-Pacific century may unfold and because of the direct threat that a nuclear-armed North Korea poses to the security of the United States, these two countries are most salient when examining America's place in Asia.

China in Transformation

Over the last century China has undergone a remarkable transformation. Taken together, the civil war, the Great Leap Forward and the Cultural Revolution set China back, claiming as many as 39 million lives, and placing China second only to Russia in terms of people killed under Communist rule. Starting in the late 1970s with the de-collectivization of rural farms, 250 million Chinese moved from the countryside to China's cities. Thanks to China's free access to the global trading system, and the

economic reforms launched under Deng Xiaoping, between 1990 and 2015, the Chinese economy grew 17.5 times to become the world's largest. The standard of living, grew 14.5 times from under \$1,000 per head to over \$14,000 in the same period.

Chinese officially-announced military spending also rose, almost tenfold. The funds were used to purchase missiles with which to intimidate Taiwan and deny the U.S. the ability to access and operate in the Western Pacific. They were also used to begin to construct a "blue water navy," capable of projecting power across the world's oceans. In a move designed to assert Chinese sovereignty and ownership of seabed energy resources, funds were also spent to create a series of militarized outposts within the first chain of major archipelagos out from the East Asian continental mainland coast that could allow China to interdict \$1.3 trillion in annual trade flows to Northeast Asia. To mitigate China's dependency on the flow of exports and raw materials through geographic choke points, China announced a \$1 trillion "One Belt One Road" project to build transport infrastructure giving Beijing access to Indian Ocean ports and extending its influence over Asia. China launched a \$100 billion Asian Infrastructure Investment Bank and a \$40 billion Silk Road Fund in support of this initiative.

China has also used its new-found wealth to extend its soft-power. Between 2000-14, China granted almost \$355 billion in foreign aid, often with fewer strings attached than U.S. aid. China launched a network of 480 Confucius Institutes internationally. They implement global public diplomacy programs that target emerging leaders, and bring them to China to teach them how to monitor and manage media and suppress political opposition as China does. All of these efforts aim to expand China's "comprehensive national power" and to promote China's model of state capitalism internationally, at the expense of the Western, liberal democratic order established by the United States and its allies after WWII.

China is led by autocrats who want, above all, to ensure the survival of their regime. It wants to re-establish a modern-day equivalent of the Ming-era, Sino-centric sphere of influence in Asia. It wants to push the United States out of the Western Pacific, and undermine its alliances. And it wants to adapt the international system to become more reflective of a multi-polar world in which China increasingly is the setter of rules and standards. China sees the U.S. not as an opponent, but as a rival whose ideology of transparency, accountability, Democracy, Human Rights, and Rule of Law poses a long-term threat to survival of China's autocracy.

China faces challenges and must deal with significant vulnerabilities in this struggle for primacy. Economic growth has been export driven. Yet average monthly wages now exceed those of other Asian competitors. Manufacturers are moving production. China's growth has declined in recent years and has only been sustained by taking on significant debts, at a time when Beijing still needs to create 10-11 million new jobs a year to keep pace with population growth. China produces too much and consumes too little. The economy is highly energy-intensive and energy-inefficient. To position China for the future, its leadership must: implement structural changes; revamp the national energy mix; and keep pace with international technological innovation, either by stealing

foreign technology, purchasing it or by innovating. The gains from Chinese economic reform have not been evenly distributed, benefitting a few larger cities at the expense of China's interior. Authorities must therefore manage continued internal migration that could cause unrest. Demographic developments will put increased strain on China's health care, pension and social security system as well. By 2040, each Chinese worker will be supporting eight pension-age Chinese; the cost of supporting them is expected to rise to well above 50% of GDP. The Chinese Communist Party suffers from a deficit of democratic legitimacy. It is vulnerable to exposure of incompetence, corruption, nepotism and violations of the Human Rights and Rule of Law. To date, the party has legitimized itself through China's rising standard of living. As growth rates decline, that source of legitimation is disappearing. The party is looking to other sources, such as nationalism, for its legitimacy instead. Increased Chinese international assertiveness in pursuit of political legitimacy of this kind is already stoking fear of Chinese regional hegemony on the part of China's neighbors.

The fates of America and China are codependent. The U.S. is China's top export partner, accounting for almost one fifth of its total exports. China is the U.S.'s third largest export market accounting for almost one tenth of total U.S. exports. From 1990-2015, American companies have invested almost \$230 billion dollars in China, creating 1.6 million **Chinese** jobs. Chinese investment in the U.S. over the same period exceeded \$64 billion, generating over 100,000 jobs **in America**. In 2015 Chinese investment in the U.S. exceeded U.S. investment in China for the first time. Chinese government owns over \$1.2 trillion in U.S. Treasury Bonds.

A Fight Serves Neither Side's Interests

For these reasons, although China and the United States see each other as potential adversaries, they do not want a fight. China is not a revolutionary power, as it was under Mao, but has become a highly disruptive one. How then should the U.S. deal with these developments?

The United States' core interests in the Pacific region are: to preserve regional stability - the freedom, territorial integrity, and autonomy of states in the region, maintaining U.S. alliance relationships; and to maintain an open, liberal trading regime that ensures fair economic competition ensures the free movement of goods and raw materials across borders, and open seas and skies.

Any attempt to achieve these U.S. goals must start with the recognition that the U.S. strategy of the last 15 years under which Washington hoped that economic growth would cause China to "peacefully evolve" into a more open, liberal and democratic system has failed. China has successfully grown without democratizing. Relations with China are not a zero-sum game, in which one side's loss is the other's gain. There are ample opportunities for both sides to win. Nor is China a monolith. Like the United States, it is riven by rival factions. Some would have China "bide its time and hide its capabilities." Others would steer a course of confrontation with America. The latter

forces are extending an ideological competition that challenges our values to the economic and military spheres as well. They would like to undermine the institutions of the post-WWII, Western-led world order, in which our values are imbedded, from within.

The answer is not to implement a policy of containment of China. China can be counted on to contain itself through the reactions that its behavior provokes amongst its neighbors. The answer is to acknowledge that a rivalry exists between the U.S. and China and better to prepare our country for that rivalry. This requires a willingness to deter disruptive behavior on the part of Chinese “confrontationists” more actively; it demands a willingness to implement parallel policies that incentivize China to become a “responsible stakeholder” in the international system. Because effective deterrence demands a credible threat of punishment, an effective strategy will require an unapologetic U.S. willingness to exploit Chinese vulnerabilities. This does not necessarily mean embarking on a path of outright confrontation.

Use Diplomacy to Shape Chinese Behavior

This means a willingness to act diplomatically in concert with U.S. allies to punish disruptive Chinese behavior while demonstrating a willingness to induce good behavior by means both of conciliation and of accommodating reasonable changes to international institutions that China might propose. A credible threat of punishment entails a willingness to work to establish closer ties with countries (such as India, Indonesia, Malaysia, Vietnam and Mongolia) that may look to the U.S. to counterbalance the growing influence of China. It involves being much more forthright in advocating for the values that we hold dear and a willingness to expose and criticize Chinese shortcomings in transparency, accountability, Democracy, Human Rights and the Rule of law. A credible threat of punishment means having the ability to amplify such criticism by building a capacity to penetrate Chinese controls over its national information space. In times of impending military conflict, it also means having the means at hand by which to destroy that system of information control.

Effective deterrence also requires an ability to deny a rival the benefits that the adversary seeks by exploiting our vulnerabilities. One obvious strategy of denial is Congressional action to remove ambiguities and executive discretion that opponents have successfully exploited in the past, especially in trade. The U.S. academy can develop and the U.S. Congress can pass into legislation clear criteria that establish when currency manipulation and the dumping of products is taking place. Fixing such criteria into legislation would permit timelier implementation of countermeasures against such activities, thereby reducing any gains currently available to rivals from delay, not to mention accompanying job losses. Similarly, multilateral diplomatic pressure can be used to reduce the time required for World Trade Organization dispute settlement activities significantly. Our strong ideological affinity for free and open markets does not have to mean that rival state-owned economic vehicles are granted automatic unfettered access to U.S. markets when private Western companies are not granted equal, reciprocal terms of trade in their markets. We can implement stringent, case-by-

case review of such vehicles' strategic investments in the West and their listings on Western financial exchanges—on both a unilateral and a multilateral basis. Controls over strategic technologies can be tightened in a similar fashion, in order to prevent them from being acquired or stolen. Companies of rivals can be deterred from attempting to sell products that use stolen technology by threatening to deny them the benefits they seek (profits). Collective action can ban such companies' access to U.S. and Western raw material, wholesale, consumer and financial markets for any number of years. A similar series of escalating collective political and diplomatic counter-measures can be used to punish cyber-attacks on and cyber-intrusion into allied government computer networks as well.

Militarily, China can be deterred from disruptive activity both by strategies that deny Beijing the advantages that it seeks and by strategies that punish such behavior. Aircraft and ground forces can be deployed forward to bases in the Western Pacific that have been hardened as those in Europe were during the Cold War. Ballistic missile and air defenses can be deployed to protect such bases. These steps would deny China the ability to prevent U.S. access to the region. Regular allied freedom of navigation and amphibious landing exercises can demonstrate to China the allies' determination that no single nation will be allowed unilaterally to assert control over the 14-trillion-acre area within the Western Pacific first island chain) through which \$1.3 trillion in international trade flows. By not recognizing and regularly challenging Air Defense Identification Zones asserted by China, the U.S. and its allies can deny China the benefits sought by such unilateral behavior as well. Regular military exercises under which allied forces continue to conduct operations with degraded space-based communications are another way of demonstrating an ability to deny the benefits of a prospective preemptive first strike against U.S. satellites in space to rivals. A collective defense treaty, whereby attacks on one party's assets in space are regarded as an attack on all, is a means both of denial and of punishment. Threatening a rival's system of information control in response to an attack in space is another means of deterrence through the threat of punishment. Seabed acoustic sensor systems, shore-based anti-ship cruise missiles, rocket launched torpedoes and mines can all be deployed to riparian nations to deter unilateral Chinese assertions of sovereignty and control over areas within the first island chain through the threat of punishment.

Ample opportunity exists to work in cooperation with China to fashion win-win diplomatic solutions to many of the problems and challenges just outlined. The principal goal of U.S. policy should be to achieve such cooperation, adapting to China's rise within the international system, without compromising the core values that we imbedded in that system, together with our allies, after the end of the Second World War. Accentuating the positive by promoting and defending our liberal values, by strengthening existing alliances and building new ones and by offering instruments of international cooperation that treat all equally and do not nakedly favor one of the great powers—these are all ways by which to achieve this goal.

North Korea: The Most Immediate Challenge

The Democratic People's Republic of Korea ("DPRK" or "North Korea") currently poses a much more direct threat to the security of the United States than China does. It is rapidly approaching the point at which it will be able to strike any target in the United States with nuclear-armed missiles and has threatened to do so. The DPRK poses a menace to the Northeast Asian region as well; it has threatened to target U.S. forces stationed on Guam, has fired missiles over Japan, and has launched missiles into waters adjacent to South Korea (the "Republic of Korea" or "ROK"). The DPRK is a proliferation risk; Pyongyang has shared missile technology with Iran and nuclear weapons technology with Syria, a practice it may extend to other countries. There is also a significant risk of regime collapse that might unleash conflict. The DPRK is literally starving its population in order to divert resources to nuclear and missile programs designed to ensure regime survival.

In addition to the security threats that it poses, the DPRK is one of the world's worst abusers of human rights. The DPRK *Songbun* system that classifies, promotes and relegates entire groups of the DPRK population of 25 million according to political reliability amounts to a modern form of serfdom. As many as 120,000 workers are sent overseas to earn up to \$500 million in hard currency for the regime. They amount to a modern-day form of slave laborers. Up to 120,000 men, women and children are imprisoned in the DPRK's *kwanliso* equivalent of the Soviet *Gulag* prison camp system. There they are subjected to forced labor, torture, starvation, forced abortions, rape and, as the Otto Warmbier case has shown, brutal murder.

North Korea says it will not reverse its aggressive military posture until the United States ceases its "hostile policy" towards the DPRK. The only reason that the U.S. has 37,500 troops stationed in the ROK is to deter a repeat attempt of the North's 1951 invasion of the South. The DPRK has provided continuing justification for a U.S. presence by assaulting the ROK repeatedly since the 1953 armistice that halted that conflict. We should not be deceived, for Pyongyang, an end to "hostile U.S. policy" means the U.S. should abandon its allies in the ROK and Japan, remove its troops from both countries, and thus allow the DPRK to use nuclear coercion to force reunification with the South on the North's terms. This demand is clearly unacceptable.

With a less duplicitous, desperate and hostile regime, any number of Confidence- and Stability-Building Measures might be conceivable: restoring North-South rail and electric links; extending natural gas and rail links from Russia through the DPRK to the ROK's Eastern coast, thereby providing intermodal rail transport from Japan to Europe; providing formal notification of military exercises, permitting observers, reducing the exercises' scale, and frequency, and relocating them further south; reinstating the North-South military hotline to provide a crisis communications link; moving U.S. bases further South in the ROK; relocating U.S. aircraft to Japan or Hawaii; drawing U.S. troops in the ROK down further; closing U.S. bases in the ROK; and even agreeing to a DPRK freeze of its nuclear and missile programs in exchange for the opening of

negotiations on a peace treaty to end the Korean war, normalize relations, and grant the DPRK formal diplomatic recognition by the United States.

U.S. policy cannot change until North Korea embarks on a fundamental change in its political direction. By reneging on two previous agreements with the U.S. (the 1994 Agreed Framework, and the 2007 Joint Statement), Pyongyang demonstrated that it cannot be relied on to negotiate in good faith. In all probability, any attempt to negotiate with the DPRK will just lull the U.S. public into a false sense of security. The U.S. is now implementing a policy of “maximum pressure” on the DPRK. However, out of fear of provoking a Chinese reaction, U.S. policy has only involved half measures. There is much more that can be done to discourage DPRK aggression. North Korea is far from “sanctioned out.” Nothing like the sanctions that successfully brought Iran to the negotiating table has been deployed against the DPRK. The DPRK remains fourth after Russia, Syria and Iran in terms of the number of U.S. sanctions imposed on it. Significant extra pressure is possible, all still falling short of the threat of war.

Coordinate sanctions with allies. The principal reason why sanctions brought Iran to the negotiating table was that they were multilateral. In addition to UN sanctions on Iran, a “like-minded group” of the U.S. and Europe imposed additional sanctions that devastated the Iranian economy. Target a greater number of larger Chinese banks that deal with the DPRK. Fine their U.S. subsidiaries. Freeze their U.S. assets. Prevent them from using the U.S. dollar for financial transactions. Increasingly force China to choose between economic access to the dollar system and continued political support for the current DPRK regime. Sanction and seize the assets of DPRK facilitators in China, Russia, Malaysia and beyond who enable financial sanctions evasion and cyber warfare activities against the U.S. and its allies. Exclude Chinese banks that transact with the DPRK banks from the SWIFT financial communications system. It took the threat of legislation banning SWIFT from the U.S. to get Belgium to exclude Iran. Target more vigorously the illicit activities through which the DPRK earns hard currency, including arms and drug sales and the counterfeiting of pharmaceuticals and U.S. currency. Expose and interdict those, such as Kuwait, Qatar and Russia, who use DPRK slave labor. Outlaw participation in events held at facilities created with labor (e.g. World Cup 2018 in Qatar and World Cup 2022 in Russia). Block payments for slave labor to the DPRK. Deny maritime insurance to and stop and inspect DPRK vessels. 300 vessels have been identified as transporting DPRK cargo. Legislate an automatic cut off of all forms of U.S. assistance to countries doing business with the DPRK and legislate to ban tourist travel by U.S. citizens to the DPRK permanently.

China is a Major Enabler of the DPRK Regime

China bears a special responsibility for the situation in the DPRK. In addition to sheltering the regime from the full effects of sanctions by continuing to trade with it, Beijing has, at a minimum, looked the other way while Chinese-owned banks and front companies enable the North to do business with the rest of the world. In the last few years, Chinese companies have sold North Korea trucks that can be used as platforms

for mobile missile launchers and electronic components, some of which have been recovered from missile parts that splashed down in the Pacific after test flights. North Korean scientists and engineers have also been trained at Chinese universities and research institutes. It is an illusion to believe that China will cooperate with the U.S. to change the *status quo* in the DPRK unless Beijing believes that its economic and military interests will suffer a severe adverse impact if it does not do so. Otherwise, China will continue to prefer the fragile *status quo* to the unknowns of an alternative future.

In addition to implementing stricter economic sanctions and giving them time to take effect, a number of “flexible deterrent options,” short of full-blown war or a preemptive strike against the DPRK’s nuclear capabilities, are available for use against the DPRK. While a preemptive strike would be extremely risky and costly and unlikely to enjoy ROK support, “flexible deterrent options” can avoid such costs, while making the price of continued confrontation very clear to Pyongyang. A non-military decapitation of the top layers of the DPRK regime, described below, is also conceivable.

Boosting Ballistic Missile Defenses in Northeast Asia, Hawaii and the continental United States can achieve two goals: (i) provide some protection against potential DPRK missile attacks; (ii) degrade the potential effectiveness of Chinese nuclear forces targeting the U.S. This latter move would increase the cost to China of continuing political support to the DPRK. Boosting efforts to build a U.S. Air Force capacity for “Prompt Global Strikes” using hypersonic long-range standoff missiles might also help. By threatening further to tilt the strategic nuclear balance against China and Russia in favor of the United States, this action might serve as another reason for China to consider exerting greater pressure on North Korea.

A U.S. “grand bargain” with China over Korea would be very difficult, if not impossible, to achieve. A high level of trust between the U.S. and Chinese leadership concerning each side’s broader strategic goals would be required even to initiate such talks. And it is not clear that the United States could convince or restrain its ROK ally exploiting any moves that China might make against the current DPRK regime or from sabotaging the talks.

How Will America Exercise Its Leadership?

While China and North Korea pose the most salient challenges to U.S. national security policy in the Asia-Pacific region, there are many other important regional players beyond just these two. A number of policies, that have been described above, can be used to incentivize constructive behavior on China’s part and to tighten further the screws of sanctions on the DPRK. None of these policies can be implemented without U.S. international engagement and principled moral leadership. Such leadership is not possible if we violate the very principles that we promote; nor is it possible if continuing internal U.S. dissension shows that the U.S. is incapable of reaching political compromise at home, let alone internationally. If Americans cannot come together to

reach compromise and observe the rights that they espouse, they will never be able to occupy the moral high-ground in the manner required to be an international exemplar and leader. And if we are unable to fulfill that role, we will lack the political legitimacy required to defend and promote the traditional values that we hold dear. It is for this reason, as Senator Arthur Vandenburg once said, that “we must stop partisan politics at the water’s edge.”

Two Paths believes that United State foreign policy success since World War II (huge economic growth accompanied by relative peace) has been the result not of policies of realists or idealists, but rather policies of realists *and* idealists together exerting influence on the American foreign policy establishment. For the most part, holders of differing views have managed a productive coexistence and partnership because each was able to see its most treasured principles honored.

Two Paths believes that herein lies America’s strength, and its best opportunity to successfully resolve new trade and military assertiveness by Asian players and establishing a security and defense order that serves our national interest.