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Aftershock

The 112th Congress and Post-Crisis Asia

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Foreword

This much is clear. America's international leadership is entering a pivotal stage. At a time of domestic weakness, challenges are mounting across the globe. While America struggles with economic problems, it incurs the costs of two wars, faces challenges associated with the meteoric rise of China, and deals with the emergence of new power centers in Asia and instability in much of the Arab world. These developments call into question America's capacity and credibility—even its will—to lead. Many Asians and others wonder aloud about what new order will replace Pax Americana. With a more confident and assertive China over the past two years, Asian policymakers are responding. They seek better ties with China, yet at the same time desire continued leadership by the United States. They forge new collaborations with each other and invest more in their militaries. So much is at stake when stability is shaken and the structure and exercise of power are rapidly evolving. To many observers, the central challenge facing the world is one of crafting and exercising leadership in these new circumstances.

As the United States recovers unevenly from the Great Recession, the newly elected 112th Congress confronts the daunting tasks of spurring economic growth and reversing the federal government's bleak financial outlook while supporting successful foreign and national security policies.

Founded on the legacy of Senator Henry "Scoop" Jackson, The National Bureau of Asian Research (NBR) understands the acute role of Congress in crafting U.S. policy toward the Asia-Pacific. We commissioned this study in light of our commitment to and tradition of helping policymakers make informed decisions affecting U.S. interests in the region. This report is our most recent publication for members and their staff with timely and well-informed analysis.

In this *NBR Analysis*, authors Edward Gresser and Daniel Twining examine the incoming 112th Congress and the dynamic security environment in the Asia-Pacific. Drawing on exceptional knowledge of Asia and experience in forming U.S. foreign policy, they appraise the central issues facing the new Congress in the region. Their work builds on analysis of the previous Congress to provide insight into changes in the region since 2009 and how shifts in the House and Senate make-up may affect the direction of policy.

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Richard J. Ellings
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Aftershock: The 112th Congress and Post-Crisis Asia

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Executive Summary

This essay examines the 112th Congress and the key policy issues in Asia that this Congress will face.

Main Argument

Four issues will confront the 112th Congress almost immediately. The Korea-U.S. Free Trade Agreement (KORUS FTA) will likely be Congress's most important Asia policy vote. The risk of war on the Korean Peninsula is higher than in the recent past, and Congress will need to ensure that U.S. forces receive the support and resources necessary to prevail in any conflict against North Korea. Stronger and in a nationalistic mood, China has been testing the resolve of the international community on issues from maritime security to trade, leading senior members of the new Republican House majority to call for changes in policy. Congressional appropriations on funding for Afghanistan will likely proceed, but will also frame the debate on policy toward that country during the 2012 presidential campaign. Additionally, in the long run the question of U.S. finances and their relationship to the U.S. role in regional security will be as important as any other issue.

Policy Implications

- The U.S. should pursue a confident approach to trade through congressional action on KORUS and—if concluded—the Trans-Pacific Partnership as part of a larger strategy to encourage exports and more effectively tap Asia's growth.
- A bold yet thoughtful response is needed to the national fiscal dilemma, which if not wisely managed could lead to unprioritized changes in security funding that undermine Washington's ability to fulfill its treaty commitments in Asia.
- Any decline in U.S. military spending should be structured so as to ensure that the U.S. can perform its role as a guarantor of peace and stability on the Korean Peninsula, in the Taiwan Strait, and in regional maritime disputes.
- An appreciation of America's enduring strengths should be a source of confidence for the 112th Congress. With the right choices, the U.S. will meet the challenges in Asia, draw benefits from Asian growth and peace, and continue to shape the future.

The new Congress takes over as a much-debated transformation of the world economy accelerates. China and India have emerged from the 2008 financial crisis with a rising share of the global economy and growing technological capacity and military capabilities. Within Asia, their growth has sped up the pace of economic integration and bolstered the confidence of Asian governments. However, this trend has also appeared to increase tension and suspicion among most of the major Asian powers.

Meanwhile, Americans grapple at home with a sluggish economic recovery and an unemployment crisis unmatched since the stagflation era from 1974 to 1982. Traditional allies in Japan and Europe are equally troubled. And looking ahead to the years beyond the 112th Congress, the United States faces an unavoidable era of fiscal contraction, as rising health and retirement costs outpace government revenue—raising questions not only about domestic affairs but also about the sustainability of U.S. commitments in the Pacific.

The 112th Congress will be charged with assessing and responding to these profound shifts in the landscape while also considering a vast array of specific Asia policy questions spanning the region and the spectrum of issues, from the Afghan mountains to the sea lanes of the Pacific, and from currency flows to human rights. Four issues will confront Congress almost immediately: the Korea-U.S. Free Trade Agreement (KORUS FTA), North Korea, policy toward China, and policy toward Afghanistan.

- *The KORUS FTA.* This much-delayed agreement, concluded in December 2010, will likely be the 112th Congress's most important Asia policy vote. The response of Congress to KORUS will test U.S. support for a critical alliance relationship, decide the Obama administration's ability to pursue an ambitious trade agenda over the next two years in the Asia-Pacific and in global initiatives, and to some extent foretell the United States' ability to shape the economic and political future of the Pacific region in this new decade.

- *North Korea.* The passage of time and the installation of a 27 year-old heir-apparent to President Kim Jong-il appear to be making North Korea more rather than less aggressive, as demonstrated by the sinking of the *Cheonan* in spring 2010, artillery attacks on civilian territory in South Korea, and the unveiling of a sophisticated new nuclear research program. The risk of war on the peninsula is perhaps higher than at any other time in the past fifteen years. Congress will need to ensure that U.S. forces receive the support and resources necessary to prevail in any conflict against an adversary in Pyongyang that is growing steadily more bellicose and has tested nuclear weapons.

- *China.* Stronger and in a confident, nationalistic mood after responding relatively successfully to the global economic crisis, China in 2010 tested the resolve of Japan and Vietnam on territorial disputes, of the Nobel Peace Prize committee and the Vatican on human rights and church autonomy, and of the United States on macroeconomics, currency policy, and freedom of navigation. As Congress assesses these issues, it will consider calls from some senior members of the new Republican House majority for sharp changes in policy.

- *Afghanistan and Pakistan.* The Obama administration's troop surge in late 2009–10 has stabilized military affairs but so far has neither decisively weakened the Taliban nor created a strong national Afghan political system. Trust remains weak among the three parties most important to the war's success—the Karzai government, the Pakistani military command, and the Obama administration. Congressional appropriations on funding for Afghanistan will likely proceed but will also frame debate on Afghan policy in 2011 and during the next presidential campaign.

America: Republicans Resurgent

To these challenges, the new Congress brings many new faces, a few changes of direction, and more changes of emphasis. Following Democratic advances in the congressional elections of 2006 and 2008, Republicans won on an even larger scale in 2010. Their 62-seat gain in the House of Representatives gives Republicans a larger majority than that lost in 2006; their 6-seat gain in the Senate is smaller only by comparison. The newly elected Republicans arrive focused on domestic policy, proposing sharp budget cuts and staging an early vote on repeal of the Obama administration's health care reform bill. Questions on policy toward Asia, though not the central concern of these new members, will swiftly emerge as major issues for Congress when legislation to implement the KORUS FTA and finance the NATO mission in Afghanistan is introduced in the spring.

On political and diplomatic issues, incoming Foreign Affairs Committee Chairwoman Ileana Ros-Lehtinen of Florida is a sharp critic of China policy. She believes that granting permanent normal trade relations (PNTR) status in 2000—a U.S. obligation to China as a new World Trade Organization (WTO) member—was misguided, and takes a much more hawkish line on China's external assertiveness and internal human rights abuses than either of the previous committee chairpersons or her counterparts on the Senate Foreign Relations Committee. Incoming Asia-Pacific Subcommittee Chairman Donald Manzullo of Illinois has a keen interest in

economic relations with China, having participated for several decades in U.S.-China parliamentary exchanges. More broadly, many freshman Republicans ran campaigns in which the issues of China's unfair trade and currency manipulation were featured in political advertisements and town-hall meetings. They thus bring to Congress a sharper focus on the problems in U.S.-China relations than their predecessors did.

On trade, Republicans on the Ways and Means Committee, led by Representative David Camp from Michigan and Trade Subcommittee Chairman Kevin Brady from Texas, will bring more attention to FTAs, including passage of the KORUS agreement. They have also argued, however, that the passage of KORUS should not come at the expense of delays in approving FTAs with Colombia and Panama that are also signed but still not ratified. Regarding China policy, these representatives have indicated that the Republican-led House will be less interested in legislation on currency valuations (and perhaps implicitly, therefore, on macroeconomic and trade-balance questions) than the Democratic House of the 111th Congress, but are likely to be forceful and insistent on intellectual property topics, market access barriers, and other issues. House Democrats, meanwhile, have largely endorsed the KORUS FTA after changes to its automotive sections and appear ready to move ahead with the agreement, although generally they believe it should not be linked to the Colombia and Panama agreements.

Senate approaches to Asia, by contrast, will likely remain stable. Neither party's top leaders have changed. Senators John Kerry and Jim Webb continue to direct the Foreign Relations Committee's Asia strategies, Carl Levin remains as Armed Services Committee Chairman, and Max Baucus—who continues to sharply criticize the beef section of the KORUS agreement—remains the lead of the Finance Committee. Republicans will manage a larger caucus, while retaining senior figures on military and foreign policy issues: John McCain, ranking member of the Senate Armed Services Committee; Richard Lugar, ranking member of the Senate Foreign Relations Committee; and Lindsey Graham, ranking member of the Appropriations Committee's Subcommittee on the Department of State, Foreign Operations, and Related Programs. McCain is expected to be an ally of Secretary of Defense Robert Gates in his efforts to streamline the Pentagon budget while preserving the United States' military edge. For a Republican, Graham has been unusually outspoken about the need to protect foreign assistance and State Department civilian operations from excessive budget cuts, given the importance of both to national security. Republicans will replace Iowa Senator Charles Grassley with Utah Senator Orrin Hatch on the Finance Committee. Several new Republican senators, such as Mark Kirk of Illinois and Rob Portman of Ohio, bring substantial knowledge of and experience in Asia.

Asia Rising…and Dividing?

Across the Pacific, Asia's developing countries have emerged from the financial crisis more powerful and confident—and perhaps more divided.

Economic Dynamism

> The more prosperous and content you were, the more enemies you made.
> —Nguyen Du, *Summons to the Souls*

The 2009 congressional report from the National Bureau of Asian Research highlighted the revival of Asia's two giants, China and India, after generations of economic weakness, technological stasis, and political conflict.[1] Two years later, there is little need for such reminders. China's growth barely fluctuated during the global financial crisis, hovering around 10% and propped up by large doses of infrastructure spending. India's growth flagged only slightly, dipping to 5.7% in 2009 and then reviving to nearly 10% in 2010. With the United States and Japan in recession, and Europe more recently stricken by debt crises, the weight of Asia (excluding Japan) has accordingly grown. As shown in **Table 1**, International Monetary Fund (IMF) estimates give developing Asia (including Hong Kong, Taiwan, Singapore, and Korea) about 26.6% of world GDP on a purchasing power parity (PPP) basis, up from 23.7% at the end of 2008 and 18.7% in 2000. For China alone, the IMF's figures record a jump in share of world GDP from 11.4% to 12.8% on a PPP basis between 2008 and 2010, and a dollar-value increase from $4.4 billion to $5.3 billion. At the same time, the U.S. economy contracted from $14.3 trillion to $14.1 trillion.[2]

Growth rates, of course, can fall as well as rise. The experiences of Japan and the United States after eras of apparently unstoppable growth in the 1980s and the 1990s, respectively, are evidence of this fact. But to look at science and technology is to see that these rising states' growth is not purely a matter of new factories, construction projects, and increasing GDP.

China and India are joining Japan, Korea, and Taiwan as large-scale research players and budding innovators. Statistics from the Organisation of Co-operation and Development (OECD) show Chinese R&D spending doubling in a decade—from $48

[1] Edward Gresser and Daniel Twining, "Shock of the New: Congress and Asia in 2009," National Bureau of Asian Research (NBR), NBR Analysis, February 2009.

[2] International Monetary Fund (IMF), World Economic Outlook database, October 2010, available at http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx.

TABLE 1 Share of World GDP Measured in PPP (%)

	1990	2000	2008	2010
European Union (27)	28.7	25.1	21.9	20.6
United States/Canada	24.5	23.6	20.8	20.2
Japan	9.9	7.7	6.4	6.1
Other Asia	14.0	18.7	23.7	26.6
China	*3.9*	*7.2*	*11.4*	*12.8*
India	*3.1*	*3.6*	*4.6*	*5.1*

SOURCE: IMF, World Economic Outlook, October 2010.

billion in 2000 to $87 billion in 2006 and $102 billion in 2009—and now place China third in the world in research spending, below only the United States' $369 billion and Japan's $149 billion.[3] The U.S. Patent and Trademark Office, having granted 115 patents to Chinese inventors in 2000, granted 661 in 2007 and 1,655 in 2009.[4] The OECD does not yet tabulate Indian research spending, but tentative World Bank estimates show Indian R&D rising steadily and at rates above India's high GDP growth rates. The Patent and Trademark Office finds the number of Indian inventors rising almost as fast as in China, from 131 patents in 2000 to 679 in 2009.[5] India's open political system, entrepreneurial dynamism, young demographics, and giant domestic market put the country in position to be a leader in "frugal innovation."[6]

Combining output and innovation, Asia has new capacity to drive world growth. This is evident even in the United States, where public debate focuses on the stress of import competition yet statistics suggest the value of closer ties. Over the crisis period, Asia—and not only China but also Southeast Asia, Korea, Taiwan, and Japan—gave U.S. businesses new sources of demand in a difficult time, with U.S. exports to Asia rising by 31% in 2010, nearly double their 17% growth in the rest of the world.

Asia also has new influence in global diplomacy, particularly in financial affairs, with the creation of the group of twenty (G-20) and the reshaping of the IMF, which is largely meant to give China, India, and Korea greater power. In WTO trade negotiations

[3] Organisation of Co-operation and Development (OECD), *OECD Science, Technology and Industry Scoreboard 2009* (Paris: OECD, 2010).

[4] "Patents by Country/State and Year: Utility Patents, January 1, 1963—December 1, 2009," U.S. Patent and Trademark Office, April 2010, http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_utl.pdf.

[5] "Patents by Country/State and Year: Utility Patents, January 1, 1963—December 1, 2009."

[6] "The Other Demographic Dividend," *Economist*, October 7, 2010.

and UN climate change talks, China and India now have decisive voices—though both appear to remain more concerned with protecting their own interests than with advancing a particular policy vision. Intra-Asian economic diplomacy often appears to be a contest between hyperactive Chinese policymaking and the efforts of more established powers to keep up.

Nonetheless, growth, technological advance, and regional economic integration have not brought cohesion and harmony. Rather, the opposite has been the case. In 2010 the dominant story in Asia was China's growing assertiveness vis-à-vis its Asian neighbors and the United States.

Political Tension

Asia has become accustomed to peace as well as to growth—and for good reason. The Human Security Report Project, a think tank affiliated with Simon Fraser University, makes an arresting observation:

> Over the past three decades, East Asia has undergone an extraordinary transformation. From 1946 to the end of the 1970s, it was the most war-wracked region in the world. Today it is enjoying "the most broadly peaceful era in its history." It has been free of international conflict for almost two decades and is now one of the least violent regions in the international system.[7]

North Korean challenges to this irenic environment have been regular since the 1970s. All major powers are also aware of the potential for confrontations over the Taiwan Strait. The principal concern in 2011, however, is less the erratic outlier state or the frozen conflict than the possible erosion of a pillar of stability.

The Human Security Report suggests that two structural changes are responsible for Asia's era of peace: the end of the Cold War and the region's high volume of trade and cross-border foreign investment. This stability is also a function of China's decision to abandon revolutionary diplomacy after the passing of Mao Zedong in 1976 and instead reintegrate into the mainstream of Asian trade and investment. However, the year 2010 brought a perceptible change of tone in China.

Since the 1970s, Chinese diplomatic and security policy has followed Deng Xiaoping's maxim of "hide your capacities, bide your time"; the era of rapid growth

[7] "Human Security Report 2009/2010: The Causes of Peace and the Shrinking Costs of War," Human Security Report Project, December 2, 2010, http://www.hsrgroup.org/docs/Publications/HSR20092010/20092010HumanSecurityReport-Part1-CausesOfPeace.pdf.

from the late 1990s to the present coincided with a "smile diplomacy" toward Southeast Asia and Korea and pledges that China's "peaceful development" would threaten no country. Since the economic crisis, however, this strategy and the tactics it implied have shifted. Looking west, China has not challenged the NATO role in Afghanistan and accepted a UN Security Council resolution imposing sanctions on Iran. But looking east, China's policy has changed dramatically: newly pugnacious attitudes toward contested maritime claims in the South China Sea and land-border disputes with India have raised alarm all over Asia. Beijing not only declined to condemn North Korean aggression after the spring 2010 sinking of a South Korean naval vessel and autumn shelling of South Korean territory but also shielded Pyongyang from international repercussions by blocking UN Security Council condemnation of the attacks and rejecting new international sanctions. China's relationship with South Korea—which had warmed considerably as China replaced the United States as South Korea's largest trading partner—deteriorated, leading South Korea to intensify military cooperation with both the United States and Japan.

The Obama Administration's Evolution

The combination of China's rise and newfound assertiveness has had an important impact on President Obama's Asia policy. Early in his administration, U.S. policies sought to cultivate a close partnership with China, leading to questions about a potential elevation of China over the United States' other Asian allies in a "G-2" condominium relationship. Similar concerns were expressed in Europe over the future of the Western alliance.

These trends, however, were reversed as China's new assertiveness reinforced the primacy of U.S. relationships with both traditional allies and new partners in Asia. An intractable dispute over the realignment of U.S. forces in Okinawa that had threatened the U.S.-Japan alliance was shelved in 2010 following North Korea's sinking of the *Cheonan* and China's maritime probes into Japanese waters. Washington's stern response to Beijing's claims to suzerainty in the South China Sea won hearty endorsement from East and Southeast Asian partners, including nontraditional ones such as Vietnam. Obama enjoyed successful visits to Indonesia and India, where his pledges for closer relations were warmly embraced.

The Obama administration also earned credit from Japan and South Korea for refusing to respond to North Korean military provocations with concessions or meaningless talks that would only reward Pyongyang's misbehavior. Washington's robust response to new dangers underlined for many Asian states its vital role in

upholding regional stability and security. The United States thus entered 2011 as an increasingly valued partner for Japan, South Korea, Australia, Southeast Asian states, and India.

Four Decision-Points in 2011

In light of the evolution of the Obama administration's strategy in 2009 and 2010, this section outlines the major decisions Congress faces in 2011.

South Korea and KORUS

A legislature's basic task is to vote, and the 112th Congress's single most important vote on Asia policy is likely to occur this spring on the KORUS FTA. Presidents Obama and Lee surprised their trade negotiators last June by declaring a joint goal of concluding the agreement by the Seoul G-20 summit in November 2010; and although they missed this deadline, the negotiators soon after settled their differences and announced a completed agreement ready for ratification by the two countries' legislators. The agreement has not been universally endorsed—Senate Finance Committee Chairman Max Baucus in particular remains unsatisfied with its treatment of the beef trade—but it has won support from the American automotive industry and seems to have the backing of a strong majority of legislators in both the House and Senate.

The agreement would be the United States' third FTA in Asia, following the earlier ratification of agreements with Singapore and Australia, and would cover more U.S. trade than any FTA since the North American Free Trade Agreement (NAFTA) in 1993. Thus, important in its own right as an economic agreement and a likely new pillar of the U.S.–South Korea alliance, KORUS is also a barometer of the Obama administration's trade policy. Failure to ratify KORUS would likely stalemate trade policy for the remainder of Obama's term. Governments in Asia and elsewhere would view the United States as unable to deliver on agreements endorsed by the president, which would considerably damage the prestige of the United States in Korea and Asia more generally.

North Korea

> It is indeed a poor policy to take up arms blindly, to provoke one's neighbors, and to make enemies thoughtlessly.
>
> —Nakae Chomin, *Discourse of Three Drinkers on Politics*

Pyongyang steadily grew bolder and more violent in 2010, with rhetorical belligerence and clandestine weapons development matched by a series of open attacks on South Korean military and civilian sites. This behavior may be rooted in the leadership transition underway from ruler Kim Jong-il to his son Kim Jong-un. In this reading, securing the support of military commanders for a dynastic succession to a young and untested ruler is prompting (or requires) the Kims to secure military "victories" against South Korea to legitimize the transition. Pyongyang has also pressured Washington to make concessions in the form of talks on the normalization of diplomatic relations, international recognition of North Korea's status as a nuclear weapons state, and economic assistance, all of which can be presented to the North Korean elite as tribute to it from the world's superpower and an inferior regime in South Korea. As this series of challenges grows, North Korea is also still believed to be actively proliferating nuclear weapons components to rogue states such as Iran and Burma—demonstrating how Pyongyang not only destabilizes Northeast Asia but also undermines international peace and security.[8]

Congress will be a partner in framing a U.S. response that punishes rather than rewards Pyongyang for aggression and that shores up the regional and international security environment that North Korea hopes to erode. Options include legislation expanding aid to Radio Free Asia for broadcasting into North Korea, building on the U.S. commitment in the North Korea Human Rights Act of 2004 to more actively support international resettlement of North Korean refugees, and increasing appropriations for the U.S. deterrent posture in Northeast Asia, including the deployment of missile defenses and air and naval assets in South Korea and Japan. Congress could also support tighter sanctions on third parties that do business with North Korea in an effort to choke off Pyongyang's gains from weapons sales to rogue regimes.

[8] Larry Niksch, "North Korea's Nuclear Weapons Development and Diplomacy," Congressional Research Service, CRS Report for Congress, RL33590, January 5, 2010, http://www.fas.org/sgp/crs/nuke/RL33590.pdf.

Afghanistan and Pakistan

> He who helps a friend promotes his own interests. He who helps one less friendly reaps losses and expenses, and is all the more hated for being a benefactor.
>
> —Kautilya, *Arthasastra*

More complex but equally dangerous challenges play out in Afghanistan and Pakistan. Congress will be asked this year to oversee the progress of the Obama administration's troop surge, assess the reliability of U.S. partners in both countries, appropriate funds to support U.S. forces in Afghanistan, and support the civilian government of a fragile Pakistan—in short, to provide resources for policy in the part of the world that poses the greatest danger of terrorist attacks on the United States. This array of issues involves military conflict and violent jihadist conspiracies, as well as economic and governance dysfunction and deeply rooted anti-American public attitudes. As such, the region requires both firm commitment and a multi-faceted program of political reform and economic development.

Afghanistan. 2010 was the bloodiest year for U.S. forces in Afghanistan since the 2001 invasion. Obama's surge to add resources to General David Petraeus' counterinsurgency strategy ran up against a Taliban opposition emboldened by Western debates over withdrawal and governance challenges within Afghanistan. Despite U.S. and NATO successes in capturing or killing Taliban fighters and local commanders, continued sanctuary in Pakistan and financial support from further abroad allowed the Taliban leadership to sustain the insurgency. Pakistan's determination to play a pivotal role in any Afghan political settlement further challenged the ability of Western and Afghan forces to weaken the Taliban and associated militant groups enough to enable negotiations to proceed from a position of strength. Nonetheless, in late 2010, General Petraeus reported signs of progress, including a rapidly expanding Afghan National Army with greater capacity, counterinsurgency successes in the south and east filling a vacuum of security and governance that had been previously exploited by the Taliban, and continued popular disapproval of the Taliban and its aims in Afghanistan. However, President Hamid Karzai's growing alienation from the West and the deep corruption of Afghan governing institutions posed serious challenges to the effort to build loyalty to the Afghan state and undermine the Taliban's shadow government.

As NATO force contingents from Canada and the Netherlands prepare to withdraw from Afghanistan in 2011 and plans for a transition to Afghan leadership on security in 2014 move forward, the support of the 112th Congress for U.S. forces and assistance programs will be critical. A clear commitment to see the conflict through to a stage when U.S. forces can begin to leave behind an Afghan state that can govern itself and secure its

territory will help offset Taliban hopes to wait out the West and again take power by force. Backed by a sustained U.S. political-military commitment, the changing internal balance of power in Afghanistan—as areas of security expand and governance reaches a greater share of the population, helping to fuel more inclusive economic growth—should also lay the foundation for negotiations on a political settlement between the Taliban and the Afghan government. As part of that process, Congress should consider the parameters of a strategic framework agreement between the United States and Afghanistan to define the terms of the U.S. commitment after 2014.

Pakistan. The 111th Congress passed important legislation balancing the United States' ongoing program of substantial military assistance to Pakistan with a five-year, $7.5 billion aid program meant to strengthen Pakistan's judicial, educational, and civic institutions. The 112th Congress will need to oversee its implementation. This is a generational project whose goal of bolstering the civilian foundations of the Pakistani state will contribute to American national security. Low public regard for the United States in Pakistan and continued misgovernance raise questions among some congressional members about this commitment. Nonetheless, the program is a necessary counterpart to U.S. military aid, and ending or reducing it would undermine a long-term hope to reconstitute the internal balance of forces in Pakistan in ways that enhance the country's security, stability, and prosperity.

Islamabad's civilian government can assuage congressional concerns by improving governance, expanding tax collection, and taking other steps to demonstrate responsibility to its citizens. The Pakistani military should also understand that U.S. defense assistance is not a permanent blank check. If a long-term U.S. partnership is to prove viable, members of Congress must see tangible action against extremist groups operating out of Pakistan and killing Americans in Afghanistan. It is also clear that a terrorist attack in the United States emanating from Pakistan would upend every assumption held about the bilateral relationship since 2001, and perhaps reshape U.S. policy.

The aid package's prospects for success should not be dismissed. But it remains unmatched by a trade policy capable of accelerating job creation in Pakistan. To the contrary, U.S. tariff policy continues to disadvantage Pakistan (as well as Bangladesh, Sri Lanka, Cambodia, and Laos), which faces tariff rates on textile goods about twenty times the overall U.S. average while being excluded from special tariff preference programs that would ease the burden. In 2010, Pakistan's $3.4 billion in exports faced a $350 million tariff penalty—larger than the $280 million penalty imposed on Britain's $50 billion in exports of airplanes, medicines, and liqueurs. Though willing to provide a large increase in foreign aid, Congress has not waived tariffs on Pakistani goods, and a smaller

Reconstruction Opportunity Zones (ROZ) bill to give duty-free treatment to clothes made in the border area, Baluchistan, and Afghanistan sank in a dispute about labor-monitoring provisions. The new Congress could usefully complete this bit of unfinished business in 2011 by approving a consensus version of the ROZ program. But a broader program giving Pakistan a nationwide tariff waiver or—better still—waiving tariffs on light-industry goods for low-income Asian states such as Cambodia, Bangladesh, Sri Lanka, Laos, and Mongolia as well as Pakistan would be the best option.

The Long-Term Question: Fiscal Crisis and the United States' Asia-Pacific Commitments

Least immediate, but in the long term as important as any particular issue, is the question of the United States' own finances and their relationship to the country's role in Asia-Pacific security. In this decade, nearly 35 million elderly men and women will retire. The cost of their health care and pensions, borne in large part by federal Medicare and Social Security programs, will rapidly outpace the growth of the workforce and government revenues, creating a structural fiscal deficit now estimated at 5% of GDP.[9] Such a figure, nearly as high as the peak peacetime budgets of the 1930s and 1980s, raises the threat of both a financial crisis and the long-term erosion of the United States' growth prospects.

To head off either calamity will likely require controversial decisions on taxation, discretionary spending, entitlements, and defense. A likely decline in military spending should be structured so that the United States can continue to fulfill its treaty commitments and basic role as a guarantor of peace and stability in the Asia-Pacific, thereby ensuring that the region's disputes over maritime rights, the division of Korea, and Taiwan remain handled through peaceful means.

… and Two Potential Flash-Points

Taiwan

While the Korean Peninsula and the Afghanistan/Pakistan nexus continue to pose the most immediate threats, the "frozen conflict" in the Taiwan Strait and its implicit risk of great-power confrontation still raise the gravest questions about Asian stability and U.S. security. On this issue, the year 2010 offered a paradox, as China mixed an imaginative and creative economic policy with a counterproductive political strategy.

[9] National Fiscal Commission, "Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform," December 1, 2010, 63, fig. 15.

On the economic side, China and Taiwan launched an experiment in economic integration, concluding and implementing an Economic Cooperation Framework Agreement (ECFA) that scrapped Chinese tariffs on several hundred Taiwanese exports. The ECFA has encouraged Taiwan's government to seek similar trade-liberalizing agreements with other Asian countries, and traditionally strong bipartisan support for Taiwan may revive interest in a U.S.-Taiwan FTA in Congress or perhaps in the upcoming presidential campaign. On the security side of China's Taiwan policy, however, rapid deployment of ballistic missiles targeting Taiwan, which now total over 1,400, as well as China's development of military capabilities designed to deny U.S. forces access to the Taiwan Strait and Western Pacific, has reduced Taiwanese public confidence in China and raised hard questions about the United States' capability to sustain a credible deterrent to Chinese military action.

Because Congress has traditionally played the leading role in defining the terms of U.S. Taiwan policy, this is a particularly important issue for members determined not to allow China to overturn existing arrangements by force. In light of a military balance across the Taiwan Strait that increasingly favors China, some Republicans believe it is time for a new U.S. policy that specifically commits to the defense of Taiwan and ends the "strategic ambiguity" that has guided U.S. policy since the 1970s. China's growing military assertiveness in Asia raises the question of whether such a new U.S. posture would reinforce or undermine strategic stability. Even if Congress does not push the Obama administration to change Washington's declaratory policy, the Armed Services and Appropriations committees could usefully consider resourcing U.S. deterrent capabilities in East Asia in ways that make China think twice about military action against Taiwan, while giving the Taiwan government the confidence to engage China constructively.

Maritime Tensions

> Those that tamper with the Way, harm it; those that grab for it, lose it.
> —Tao Te Ching

Finally, the most striking aspect of Asian security affairs in 2010 was the revival of the oldest of security threats: disputes among sovereign nations over borders and territory, in particular regarding Chinese maritime and land claims. Over the course of 2010, China dispensed with previous agreements, notably the 2002 Declaration of the Conduct of Parties in the South China Sea, to assert suzerainty over the entire South China Sea. China also vigorously objected to U.S.-led military exercises in the Yellow and East China seas on the grounds that these are China's home waters. These

actions represent an expanded definition of territorial waters as encompassing China's exclusive economic zone (EEZ) out to 200 nautical miles from its shoreline, rather than the accepted definition (under customary international law and the UN Convention on the Law of the Sea) of territorial waters as distinct from the economic zone and extending only 12 nautical miles beyond a nation's coastline.

This new assertiveness was not simply rhetorical: last year Chinese naval flotillas for the first time transited Japan's home waters to project naval power beyond the "first island chain"[10] into the Western Pacific; Chinese naval helicopters aggressively buzzed Japanese naval vessels; and a Chinese fishing vessel rammed a Japanese destroyer in contested waters within the Senkaku/Diaoyutai island chain, precipitating a major crisis in Sino-Japanese relations. In response, U.S. security cooperation with Japan, South Korea, Indonesia, Vietnam, and other states increased, and Secretary of State Hillary Clinton for the first time declared maritime freedom in the South China Sea to be a core U.S. national interest.[11]

In light of China's expanding naval footprint and rejection of widely accepted principles of freedom of navigation, Congress will want to carefully consider how to support U.S. military operations, diplomacy, and deterrence commitments that keep open sea lines of communication and trade in the Indo-Pacific region. Flows of commerce and energy resources are vital to the prosperity of the United States, U.S. allies in Asia, and China itself. The prospect of a contested maritime commons in this region raises the real possibility of conflict between China, on the one hand, and Japan, South Korea, India, the United States, Australia, and Southeast Asian states, on the other.

To facilitate greater regional cooperation to uphold universal access to the maritime commons, Congress may want to support the Obama administration's efforts to develop a new joint concept of maritime operations with India in the Indian Ocean, as well as support expanding security ties with and among states that possess capable naval assets including India, Japan, Australia, and South Korea. Strengthening trade relations with nations across the Indo-Pacific rimland—for instance, through a bilateral investment treaty with India, an enacted KORUS agreement, and the Trans-Pacific Partnership (TPP)—would increase these and other economies' stakes in shaping a more durable regional security architecture within which maritime trade and the prosperity it engenders could flow freely.

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[10] The "first island chain" comprises the Kurile Islands, Japan, the Ryukyu Islands, Taiwan, the Philippines, and Indonesia; the "second island chain" extends into the Western Pacific, some 1,800 nautical miles from China's coast, and encompasses the Bonin, Mariana, and Caroline Islands.

[11] See Hilary Rodham Clinton, "Remarks at Press Availability," U.S. Department of State, July 23, 2010, available at http://www.state.gov/secretary/rm/2010/07/145095.htm.

America's Major Allies

He whose ranks are united will be victorious.
—Sun Tzu, *Art of War*

In managing these tensions, the United States possesses an asset too often taken for granted: alliances with all the Pacific's major developed democracies. The potential for flashpoints to erupt into conflict, and cooling relations between China and other Asian powers, re-emphasizes the importance of these alliances, whose strength makes confrontation less likely. The 112th Congress can play an important role in bolstering these relationships.

Japan

Japan, now an economy slightly smaller than China but still easily Asia's most powerful financial and technological state, remains at the core of the U.S. Pacific strategy. A new security environment in Northeast Asia produced by Chinese and North Korean assertiveness creates possibilities for a strengthened U.S.-Japan alliance. The relocation of U.S. forces on Okinawa remains a point of stress, but Tokyo and Washington should be able to manage the issue in light of broader strategic trends in the region that focus minds in both capitals on the continuing centrality of this alliance.

Congress could encourage the executive branch to expand cooperation with Japan in missile defense, extra-regional bilateral and multilateral naval exercises and patrol operations, intelligence-sharing, and planning for conflict scenarios—both between the United States and Japan and between Japan and like-minded governments such as South Korea, Taiwan, Australia, and India. Japan will also figure in broader defense assessments of U.S. forward-deployed and deterrent capabilities in East Asia as forces realign and adapt to a wider theater of potential conflict.

This is all the more promising as trade and financial tensions have grown rare. Not only have policy disputes become less common, but the American public's view of Japan as an economic partner has sharply improved: polling by the Chicago Council on Global Affairs finds the public rating of Japan at 60% for "practicing fair trade," comparable to the ratings given the European Union. Congressional hearings have sparked only occasional controversy over automobile trade and currency issues, though agricultural trade policy could reignite conflicts if the administration attempts to finish the Doha Round and Tokyo resists over agricultural sensitivity. On the other hand, U.S.-Japan trade relations could further improve as the Kan administration considers joining the TPP talks with the United States, Australia, New Zealand, Chile, Peru, and Vietnam.

South Korea

Apart from the progress on KORUS, the U.S.-Korean alliance has strengthened as North Korean military provocations have grown more violent and frequent, and as China's support for the North has not wavered. Enactment of KORUS will combine with the urgent task of deterring—and possibly punishing—further North Korean military provocations in order to further tighten U.S.–South Korean military cooperation. Both Democrat and Republican leaders of the Armed Services, Foreign Affairs, and Foreign Relations committees are likely to support such initiatives, though not without a cost in some cases. Sustaining a military posture on the Korean Peninsula that deters, and if necessary decisively defeats, North Korean aggression is vital to U.S. national interests not only in Korea but across Asia. U.S. forces on the front lines of a situation that increasingly resembles an impending military conflict deserve, and will surely receive, the full and bipartisan support of the U.S. Congress.

Australia and New Zealand

Australia remains a vital U.S. ally in Asia, and globally, as attested to by the Australian armed forces' important contributions in Afghanistan and Iraq. Fueled by a long-term commodity boom, Australia's growing economic dependence on China raises some questions for the Australian government and could hypothetically complicate a rock-solid security relationship with the United States. However, this is unlikely. The U.S.-Australia FTA of 2005 marked an important consolidation of the economic relationship, and Australia is undertaking a sustained defense build-up with an eye on the long-term challenge to Asian security posed by China's ascendance.

In fact, rather than edging away, Australia has moved closer to the United States, boding well for the continued health of the alliance. Growing Australian defense ties to Japan, Indonesia, and India also help create an infrastructure of democratic security cooperation in the Asia-Pacific that, combined with U.S. leadership and security partnerships, could shape a new security framework for the region that builds on U.S. bilateral alliances, reinforcing Asian stability and security.

U.S. relations with New Zealand have also strengthened steadily. The two governments have cooperated closely as economic partners in the TPP talks, while rebuilding a strong relationship in security affairs and on Pacific island issues after a long period of estrangement over the nuclear policies New Zealand adopted in the 1980s.

The Awakened Giants

Strong alliances with Asia's developed democracies reinforce U.S. policy toward the two Asian giants and create special synergies with democratic India. Moreover, relations between India and China have deteriorated in ways that present opportunities to strengthen relations with New Delhi while suggesting to Beijing that the assertive nationalism of the last two years does not serve China's interests and goals.

India

The United States has a deep interest in India's success as a democratic superpower—one that can shape a non-Western modernity that is peaceful, pluralistic, prosperous, and attractive to the wider world. Over the past decade, successive U.S. and Indian administrations of different political persuasions have set aside old conflicts in favor of cooperation on defense, energy, diplomacy, and development.

The affinities between the United States and India are striking. Both countries are threatened by terrorism, state weakness in Pakistan and Afghanistan, the less-than-peaceful rise of China, and economic protectionism. Both countries want to live in a world safe for the values and interests of open societies. India's rapid and inclusive economic growth under democracy undercuts the myth that China's model of authoritarian development is the wave of the future. New Delhi's bottom-up, domestically driven development is a welcome antidote to Beijing's state-directed mercantilism, which has so destabilized the global economy. That is why the leaders of the World Bank and the IMF have praised the emergence of a "New Delhi consensus" on development.

During his November 2010 visit to India, Obama made a strong case for the exceptionalism of Indo-U.S. ties and for a far-reaching partnership that would help chart the course of the 21st century:

> Now, India is not the only emerging power in the world. But the relationship between our countries is unique….We are two great republics dedicated to the liberty and justice and equality of all people. And we are two free market economies where people have the freedom to pursue ideas and innovation that can change the world. And that's why I believe that India and America are indispensable partners in meeting the challenges

> of our time….The United States not only welcomes India as a rising global power, we fervently support it, and we have worked to help make it a reality.[12]

Obama's successful visit lays the groundwork for the next stage in the construction of an enduring strategic and economic partnership with India. Defense and economic ties are particular areas of focus following the conclusion of the civilian-nuclear agreement in 2008. India's passage of legacy agreements on defense logistics and communications will create a framework to significantly expand military sales, technology-sharing, and joint operations to a partner whose security interests converge with those of the United States. India's potential purchase of U.S. fifth-generation fighter jets in one of the biggest defense tenders in history will, if consummated, further integrate the armed forces of the two countries in mutually beneficial cooperation on training, supply, and logistics. The 112th Congress will consider comprehensive revisions to U.S. export control laws that, on top of recently lifted restrictions on technology trade with India's space and defense organizations, could expand the defense trade relationship with New Delhi.

Economic ties continue to grow, as well. Exports of U.S. goods to India rose by nearly 500% over the last decade, compared to 350% for China and 64% for the world at large; services trade has doubled since 2006 to $10 billion in exports and $12 billion in imports.[13] American investment stock in India likewise doubled from $9.7 billion in 2005 to $18.7 billion by the end of 2009, and Indian investment in the United States rose rapidly, too, from $1.5 to $4.4 billion, well above China's reported $0.8 billion.[14]

Secretary of State Clinton's April 2011 visit to India may see the signing of an Indo-U.S. bilateral investment treaty, thereby strengthening U.S. economic relations with what will soon become the world's third-largest economy. After years of a membership freeze, the Asia-Pacific Economic Cooperation (APEC) forum will consider new membership applications from 2011, raising the possibility that the United States will choose to support Indian membership in this grouping. Periodic proposals in Congress to restrict government purchases of Internet-enabled services from India to date have not been accepted and would likely bring significant backlash. Congress could channel

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[12] Barack Obama, "Remarks by the President to the Joint Session of the Indian Parliament in New Delhi, India," White House, Office of the Press Secretary, November 8, 2010, http://www.whitehouse.gov/the-press-office/2010/11/08/remarks-president-joint-session-indian-parliament-new-delhi-india.

[13] See Bureau of Economic Analysis, "Detailed Statistics for Cross-Border Services Trade," Table 2, available at http://www.bea.gov/international/international_services.htm.

[14] For cross-border investment, see Bureau of Economic Analysis, "Foreign Direct Investment in the U.S.: Balance of Payments and Direct Investment Position Data," available at http://www.bea.gov/international/di1fdibal.htm.

worry over these issues into a better economic relationship through seeking greater U.S. access to Indian procurement.

China

China poses uniquely difficult policy challenges as the world's most populous nation and fastest-growing major economy, a crucial player in all Asian security challenges from Afghanistan to Korea, and a government whose attitudes toward its neighbors and the United States remain uncertain and perhaps undecided. These challenges have increased over the past year, yet the principles for dealing with them remain clear: commitment to the United States' role in the Pacific, alliances with the developed democracies, a growing relationship with India, and a refusal to be intimidated combined with a willingness to work with China on common interests.

Security. Many decisions Congress can make to manage China's rise relate to preserving U.S. commitments and strengthening relationships with China's neighbors—particularly Japan, South Korea, and India, as well as Indonesia, Vietnam, and other Southeast Asian nations. In this context, the impending debate over U.S. defense spending in a tight budgetary climate will pit fiscal hawks against those who argue that a heightened deterrent posture in the Asia-Pacific, and the additional expense that accompanies it, are essential for meeting U.S. defense commitments in a security environment that could erode rapidly. Two decades of double-digit increases in military spending have given China the world's second-largest defense budget, behind only the United States. Asymmetric capabilities designed to exploit unique U.S. vulnerabilities, particularly in the maritime, cyber, and space domains, will test U.S. deterrence in Asia, thus raising hard questions for members of Congress determined to sustain U.S. leadership in Asia while simultaneously tackling growing budget deficits at home.

Human rights. The Chinese government's fierce opposition to the awarding of the Nobel Peace Prize to democracy activist Liu Xiaobo underlined how political repression damages China's international standing and complicates its diplomacy. The rhetorical violence of the reaction may illuminate a tense internal debate: in remarkable comments in August 2010, Chinese Premier Wen Jiabao argued that without "reform of the political system, it will be impossible for the goal of economic reform and modernization to be realized." To succeed, China must reverse "the excessive concentration of unrestrained power" and "create conditions for the people to criticize and supervise the government….People's democratic rights and legitimate rights must

be guaranteed."[15] Wen's remarks may be viewed as an effort both to shape his legacy and to throw his weight behind the reform agenda in the face of resistance from regime hard-liners, including President Hu Jintao. But the premier's comments reflect broader leadership concerns about how to manage growing social inequality, rising citizen demands for rule of law, and an end to corruption.

Economics: active and successful regional diplomacy. Chinese economic policy remains closest to the "smile diplomacy" of the last decade. By design or natural evolution, China has developed a comprehensive economic policy toward its smaller neighbors, combining FTAs with aid and infrastructure projects. Beijing has completed FTAs with the Association of Southeast Asian Nations (ASEAN), Pakistan, Singapore, and New Zealand and is working toward agreements with Australia, Pakistan, Korea, India, and Japan. The Congressional Research Service estimates that China gives nearly $8 billion in aid to Southeast Asia, ten times the roughly $600 million in annual U.S. aid to ASEAN members.[16] Chinese businesses, meanwhile, are building infrastructure projects throughout Asia—from a railway through Laos and Thailand to Singapore, to energy facilities, telecommunications networks, and seaports across Southeast Asia, Siberia, Bangladesh, and Pakistan. This is a large-scale and comprehensive approach to economic diplomacy that, if not countered, will place China at the center of the Asian economy.

Most U.S. policy initiatives have focused on bilateral issues. The Strategic and Economic Dialogue, led by the State and Treasury departments, has worked to reach accords on currency policy, while the Treasury Department has attempted to use the G-20 meetings to seek an international consensus on rebalancing trade and capital flows. The tangible results of these discussions, however, have been minimal. By the end of 2010, the Democratic-led Congress was losing patience, with the House (though not the Senate) passing a bill allowing petitions for tariff imposition through the trade remedy laws for currency undervaluation. An ambitious trade bill or a deteriorating U.S. economy might easily revive Congress's effort in 2011.

Resource issues. China's apparent embargo of rare-earth exports to Japan and briefly the United States in autumn 2010 introduced a new dimension to its relationships. The embargo, imposed after the clash with Japan over the Senkaku/Diaoyutai islands, would not mark the first use of coercive measures by Beijing—who has long leveraged large

[15] "Talking About Reform in China," *Economist*, August 26, 2010; and Daniel Twining, "Political Reform: China's Next Modernization?" *Washington Post*, January 13, 2011.

[16] Thomas Lum, Hannah Fischer, Julissa Gomez-Granger, and Anne Leland, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia," Congressional Research Service, CRS Report for Congress, R40361, February 25, 2009, http://www.fas.org/sgp/crs/row/R40361.pdf.

contracts for grains, airplanes, and other goods to influence foreign governments—but could reasonably be defined as China's first trade sanction. This raises a profound question for U.S. firms relying on Chinese goods, especially if China has now become an unreliable monopoly supplier of raw materials or components. The episode also highlights the potential competition between the United States and China over access to minerals and energy. Although no immediate clash over the issue seems likely, sharp divergences could arise in the future, especially over energy trade with Iran. Congress may wish to seek information and policy guidance through hearings on this topic.

Southeast Asia and Asian Regionalism

> Manila has an extremely temperate climate and is exceptionally beautiful. The inhabitants are continually giving parties and enjoying themselves. They are always cheerful and are all rich. As Manila is so close to China and Japan, every year ships from all over the world visit for trade and take away good profits.
>
> —Muhammad Rabi ibn Muhammad Ibrahim, *Ship of Sulaiman*

Southeast Asia has been the cockpit for great-power rivalry, the source of these rivalries, and the bridge between suspicious powers. Well-aware of this history, ASEAN remains committed to good relations with the United States and collective approaches to policy issues in which the region's 500 million people and sophisticated trade links and supply chains carry weight. U.S. political ties to ASEAN are strong, and congressional decisions—from the renewal of the executive branch's ability to conduct training and military exchange programs with the Indonesian military to trade normalization with Vietnam—contribute to their strength. U.S. relations with Thailand, the Philippines, Malaysia, and Singapore may feature enhanced discussions for U.S. military access agreements and pre-positioning of defense supplies as the United States seeks to diversify its forward-deployed capabilities beyond Japan, South Korea, and Guam. With respect to Asian institutions, U.S. accession to the East Asia Summit will create valuable new opportunities to more closely engage with ASEAN as a group.

Indonesia. Though U.S. concerns about past human rights abuses committed by particular Indonesian military units and individuals persist, cooperation has been increasing between the countries' defense establishments. This is a healthy development in light of Indonesia's size and stature as the world's largest majority-Muslim democracy and largest Asian state after India and China. Relations were further bolstered by a successful, if much-delayed, visit by Obama to Jakarta in November 2010.

Vietnam. U.S.-Vietnam defense relations continue to grow stronger as well, as a result of mutual concerns over China's rise. Vietnam's progress on human rights, however, has not kept pace with Washington's expectations, thus raising the prospect that the House Foreign Affairs Committee will consider linking additional steps forward in bilateral relations to Vietnam's progress on freedom of information, association, and other universal principles.

Burma. In Burma, by contrast, early efforts by the Obama administration and Senator Webb to engage the military regime on a road map for reform and diplomatic normalization were not reciprocated. The country thus remains a humanitarian disaster and poses important security questions. The new Congress will, however, consider several new developments: "elections" supervised by the country's military junta put a civilian face on military rule, opposition leader and Nobel Peace Prize winner Aung San Suu Kyi has been freed from long-standing house arrest, and political opposition groups are debating how to use the new political space that may now exist.

Congressional action will likely be guided by Suu Kyi's recommendations on whether to lift some sanctions on the regime and engage more fully with a government still widely viewed in the West as illegitimate, as well as on whether a new program of U.S. assistance could target Burma's hollowed-out civic sector in ways that strengthen democratic forces and development prospects. U.S. assistance policy will also be guided by the actions of the Burmese government, including its questionable willingness to allow Suu Kyi and opposition groups to organize and operate freely. These decisions will be shaped by the experience of engagement in 2009.

Reports of North Korean collaboration with Burma's nascent and secretive nuclear program add a new dimension to Burma policy. Although having long supported engagement with the Burmese regime, ASEAN and Indian leaders will look with grave concern on Burmese efforts to develop nuclear weapons in violation of ASEAN's treaty against nuclear proliferation in Southeast Asia. This issue could create new openings for collaboration among ASEAN, India, and the United States on Burma policy.

Global Issues and International Institutions

A truly successful Asian revival would transform global institutions as well as Asian regional security and diplomacy. Ultimately, China and India would join in the slow and difficult work carried on since World War II by the United States, Europe, and Japan to build international structures of security, finance, trade, and environmental law. At present, the two giants carry the weight to influence major decisions, but they

have not yet defined goals beyond protecting their own perceived interests. For the moment, this leaves international institutions deadlocked.

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP), which connects Southeast Asia to wider Pacific powers, is possibly the most significant pan-regional initiative Congress will oversee in coming years. The initiative was first launched in the waning months of the Bush administration and then taken up by the Obama team. Though its credibility depends on passage of the KORUS FTA, the TPP offers the United States the opportunity to remain deeply involved in regional trade policy as China's networks of aid and FTAs grow deeper and more elaborate. Linking the United States, Chile, Peru, Australia, New Zealand, Brunei, Singapore, Malaysia, and Vietnam, this would be the third regional FTA the United States has joined (after NAFTA and CAFTA); Malaysia and Vietnam would be large new FTA partners in their own right.

U.S. trade negotiators describe their vision for the TPP as a "21st-century agreement" that goes beyond traditional trade issues to include supply-chain management and regulatory coherence.[17] This proposal has attracted interest from countries outside the current TPP negotiating participants, raising the prospect of a genuine regional trade architecture. Although Japan had expressed interest in joining, which would make the TPP truly significant in regional terms, Tokyo then decided simply to "study" the agreement, which would require the agricultural liberalization that previous Japanese governments have avoided. Additional ASEAN countries have been interested as well, but have deferred decisions pending Congress's decision on the KORUS FTA. Should KORUS pass, however, attention could swiftly move to TPP as the signature U.S. trade initiative for the Pacific region, and its scale could grow rapidly.

Climate Change

The 2009 climate change negotiations pitted the United States, in an uneasy coalition with Europe and Japan to reduce global emissions, against Indian and Chinese opposition to mandatory reductions by developing countries. Large developing countries are the fastest-growing source of carbon emissions, and China is the largest source of carbon at over 8 billion tons annually. Linked with India, China has nonetheless continued to argue that developed countries are responsible for most historic emissions and that China, along with other developing countries, should not

[17] See a letter by Ambassador Ronald Kirk to Speaker of the House Nancy Pelosi notifying Congress of U.S. participation in TPP negotiations, December 14, 2009, http://www.ustr.gov/webfm_send/1559.

be required to accept emission-reduction obligations. Deadlock on this issue blocked agreement at a fractious meeting in Copenhagen in 2009, and a scaled-back agenda for the follow-on in Cancun in December 2010 reduced rancor but did not produce significant new policies. Without an international accord, Congress refused to pass a domestic bill on climate change in the 111th Congress, and Republican control of the House makes this deadlock likely to continue.

Doha Round of WTO Negotiations

The Doha Round has deadlocked for similar reasons, though perhaps not as intractably. China and India (joined by Indonesia in 2008) insist that in a "development round" wealthy countries must make the principal concessions, that they and other fast-growing developing countries should not be required to make extensive agricultural commitments, and that intensive negotiations on manufacturing and services policies will not begin before there is agreement on reducing agricultural subsidies in rich countries. Like the Bush administration, the Obama administration has argued that China, India, and Brazil will need to make extensive commitments to reduce barriers to agricultural imports, manufactured goods, and services if the round is to be completed. To date, congressional attitudes have supported this approach. Recently, however, administration negotiators have hinted at a willingness to revise the United States' own offers as well—reflecting perhaps the fact that farm spending is likely to drop as the United States scales back spending on entitlements, military, and domestic programs. U.S. commodity groups may thus consider a Doha agreement more urgent, signaling a possible interest on the U.S. side in testing developing countries' interest in finding a path out of the deadlock.

IMF Reform

In contrast to financial diplomacy aimed at imbalances and currency rates, as well as to climate and trade negotiations, reform of the IMF has moved ahead swiftly since 2007. The new financial power and large dollar reserves in China, Taiwan, Korea, and to a lesser extent India and the ASEAN members led the IMF to reshape its executive board to give greater representation to developing countries, with an especially large increase in China's quota. China now holds the third-largest IMF voting share after the United States and Japan.[18] Congress has observed more than it has shaped these shifts and largely appears to agree with (or perhaps be indifferent to) the IMF's evolution.

[18] International Monetary Fund, "Illustration of Proposed Quota and Voting Shares," 2010, http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf.

UN Security Council

Obama's expressed support for India's permanent membership on the UN Security Council complements George W. Bush's support for Japan's permanent membership, reflecting both Asia's growing international weight and the need to adapt international institutions to modern realities of power distribution. Every current permanent member but China now endorses a UN Security Council seat for India, although China's opposition to Japan's membership suggests Beijing will take the same tack with New Delhi in an effort to remain the sole Asian state with veto power in the world's highest body. The council's legitimacy will erode, however, if its membership continues to reflect the balance of world power in 1945 rather than today. Keeping important rising powers such as India off the council will also make it harder to encourage New Delhi to embrace global responsibilities in ways that strengthen and enlarge the liberal international order.

Proliferation

The extraregional issue most likely to impinge on Asia policy—and Congress insists upon a central role in it—is enforcement of sanctions on Iran. A bill imposing sanctions on Iran passed Congress last year with overwhelming bipartisan support, while an accompanying, though weaker, sanctions resolution focused on trade in nuclear and missile technologies was approved by the UN Security Council. Efforts to enforce these sanctions, strongly backed by both Democrats and Republicans in Congress, may create new tensions in U.S. relations with Asian partners. Both Japan and South Korea acquiesced to the sanctions under considerable U.S. diplomatic pressure and against opposition from large companies. India, which does not want another nuclear power in its neighborhood and has voted repeatedly to sanction Iran at the International Atomic Energy Agency, risks being caught itself by tightening sanctions unless New Delhi reduces oil imports from its near neighbor. Most problematic is China, whose energy and economic ties to Tehran are extensive. The 112th Congress will carefully monitor China's trade and financial relations with Iran and may consider additional third-country sanctions targeting particular Chinese industries and firms that continue to trade with and invest in Iran.

Members of Congress will also play close attention to China's assistance to Pakistan's nuclear program. Beijing insists it will proceed with construction of additional nuclear reactors in Pakistan, which Islamabad portrays as a Sino-Pakistani civilian nuclear program like that between the United States and India, despite the absence of approval from the Nuclear Suppliers Group, the international body governing transfer

of civil nuclear technology that endorsed normalizing nuclear trade with India in 2008. The Sino-Pakistani nuclear nexus in the past has caused grave damage to the international nonproliferation regime: China transferred nuclear weapons blueprints and components to Pakistan in the 1990s that the A.Q. Khan network proliferated shortly afterward to Iran, Libya, and North Korea. Although China's designs to provide Pakistan with additional nuclear reactors are civilian in scope, their transfer should be seen in the context of a wider proliferation problem, compounded by international concerns over the stability and integrity of the Pakistani state.

Conclusion: Congress and U.S. Leadership in the Asia-Pacific

> Plan, strengthen and guard yourself; and your foe's hopes will collapse.
> —Tiruvalluvar, *Kural*

As the 112th Congress begins its work, it faces an array of complex and sometimes dangerous Asian challenges, including wars and confrontations among mutually suspicious powers, disputes over trade and finance, and questions of regional security and economic architecture. An agenda that combines a debate on KORUS with the appropriation of money for the conflict in Afghanistan and aid to Pakistan, approaches to North Korea and the Taiwan Strait conflicts, the design of a new relationship with India, and the management of a confident and nationalistic China is by definition one that is difficult, intellectually challenging, and of central importance to the nation.

In responding to these challenges, Congress has the great advantage of a strategy, designed by U.S. presidents and Congresses in the early 1970s and maintained with appropriate updates ever since, that remains relevant, effective, and either welcome or acceptable to almost all Asian actors. This strategy combines a forward security presence in the Pacific; treaty alliances with Japan, Korea, Australia, Thailand, and the Philippines, along with very close security relations with Singapore and a growing relationship with Vietnam; close unofficial relations with Taiwan and cooperation with China on common interests; and a rapidly developing relationship with India. As a way to protect U.S. security, foster growth, and bolster the long Asian peace, this strategy has enduring value and can meet the challenges of 2011.

The question for Congress to ponder as it steps back from individual challenges is simple: how to ensure that the United States in five or ten years has the resources necessary to implement such a strategy as Asia's awakened giants grow more powerful, more confident, and perhaps more nationalistic.

One element of the answer is a confident approach to trade. Congress must take action on the KORUS FTA and then, once concluded, the TPP as part of a larger strategy—one that includes macroeconomic rebalancing—to encourage exports and help Americans tap Asia's growth more effectively.

Another element is resolving the national fiscal dilemma. If not wisely managed, this could lead either to a fiscal crisis, with spending obligations outstripping revenue, or to unprioritized changes in security budgets that leave the United States less able to fulfill the security commitments that helped create the long peace in Asia.

A third element of ensuring a successful strategy in Asia is appreciation of the United States' own strengths, even in a period of economic stress: a stable democratic system; an open society that continues to attract high-skilled immigrants; the world's leading universities and research laboratories; a demographically young population; a vast, innovative, and dynamic economy; and a public whose instinctive internationalism has remained vital throughout the financial crisis. These should be a source of confidence for the 112th Congress as it takes up its work. With the right choices, the United States will meet challenges in Asia, draw benefits from enduring Asian growth and peace in the Pacific, and continue to shape the Asia-Pacific future as the region's leading, most trusted power.

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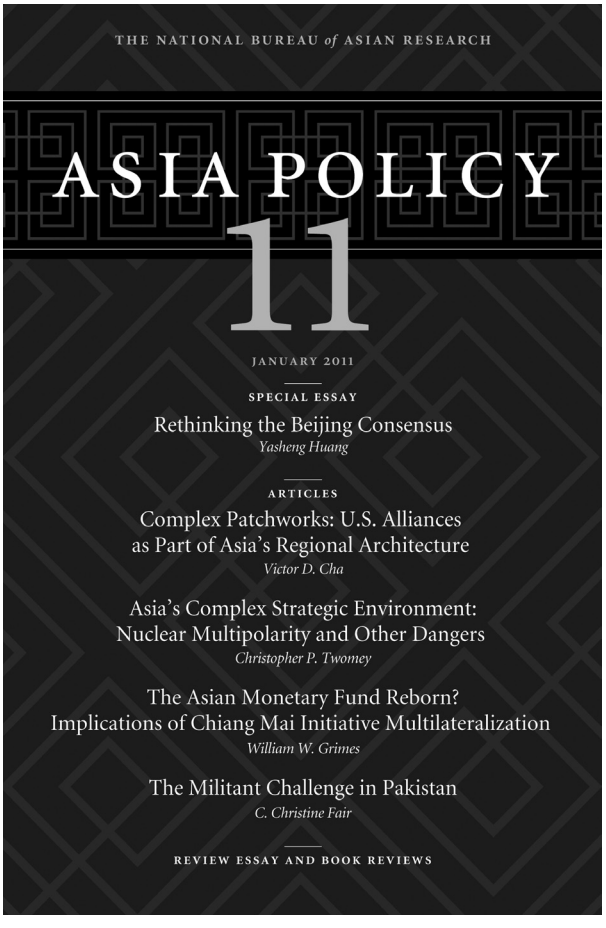

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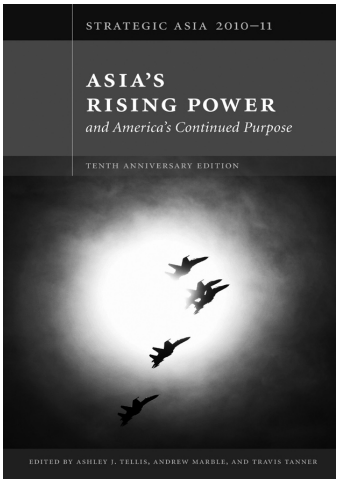

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