



2014 Asia Update What's at Stake for America

Walter Lohman, Olivia Enos, and John W. Fleming

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The Asian Studies Center

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This paper, in its entirety, can be found at:
<http://report.heritage.org/sr158>

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America's Commitment to the Pacific

Often overlooked in the tumult of Washington's foreign policy debates is the remarkable consistency of U.S. foreign and trade policies over time. This is due to one immutable factor: American national interests. When U.S. policy moves away from our national interest, not only does it cease to serve its primary purpose, but it becomes unstable and threatening to peace, security, and prosperity.

It is in the cause of furthering American interests that The Heritage Foundation's Asian Studies Center once again offers a snapshot of America's stake in the Pacific and the environment in which our foreign policy, defense, and commercial establishments operate.

Our stake is material. The following charts illustrate the well-known story of Pacific economic dynamism and integration from investment to trade to finance. They illustrate the magnitude of Asia's investments in the U.S. and how they relate to one another. Today's headlines may be about China's investments in the U.S., and in fact, they are growing rapidly, but those investments are still dwarfed by those of our ally Japan. The charts speak to China's outward investment, with original research taken from a product Heritage developed and manages with the American Enterprise Institute, the China Investment Tracker. And for the first time, the charts present a fuller picture of regional value chains by capturing the services trade.

Our stake is value-based. It is the nature of American foreign policy, deeply imbedded in our history and tradition, that our commitment to freedom does not stop at the borders. The U.S. has a fundamental interest in human liberty. We cannot but act on it, prudently, but for its own sake and for the sake of all of our interests, because over the long term all our interests are most secure in a world that shares our values. The charts look at the state of political freedom, economic freedom, instability, and for the first time, the specific issues of human trafficking and religious freedom.

Nothing about our stake can be taken for granted. For this reason, there are again representations of several threats in the region, including proliferation of arms, size of the armed forces in the region, territorial disputes, and disposition of the U.S. forces that have kept the peace for the past 70 years.

Long before Secretary of State Hillary Clinton declared America's "pivot" to the Pacific, the U.S. was deeply involved in the affairs of the region. Not just its foreign affairs, but its "internal affairs." We are so deeply engaged because we are a Pacific nation, connected to Asia by the sea. Americans know that it is in the long-term interest of liberty and our material interests that we remain principally and vigorously committed to Asia. This year's chart book once again seeks to demonstrate the substance and rationale for that time-honored, bi-partisan commitment.

Defining the Region

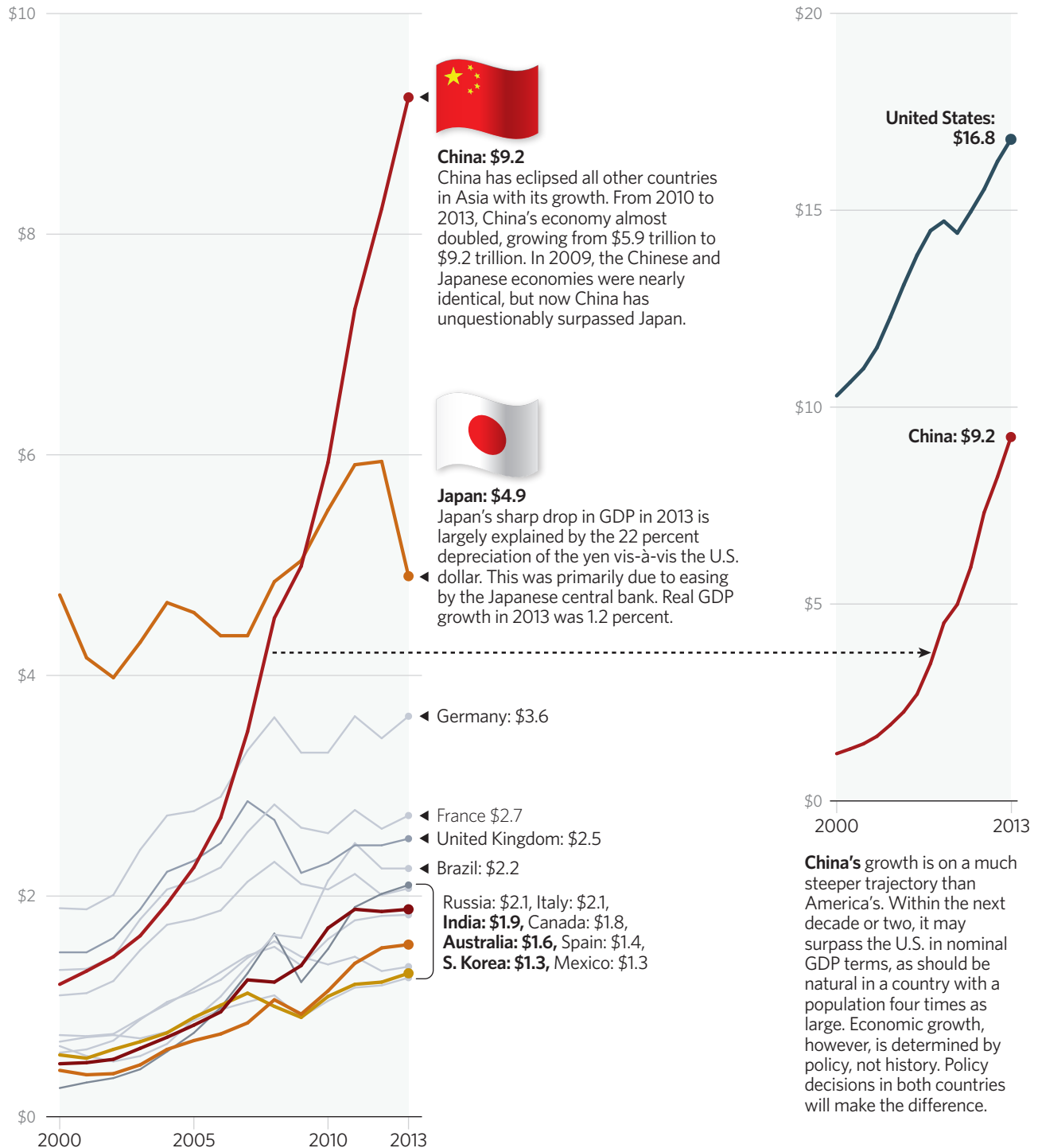
For our purposes, "Asia" is defined geographically as bordering Iran to the west, Russia to the north, the Pacific to the east, and includes Australia and New Zealand, as well as the Pacific islands. This definition captures several critical geo-economic and geopolitical features: East Asian dynamism; the emergence of India; relationships between China and the nations of South Asia; America's presence in the Western Pacific; and America's network of alliances.



The World's Fastest-Growing Economies

China's economy continues to grow rapidly, but the U.S. economy is still nearly double its size. Japan, the only Asian nation that even comes close to rivaling China's economy, is experiencing only minor growth as it absorbs Prime Minister Shinzo Abe's economic reforms.

GDP IN TRILLIONS OF DOLLARS

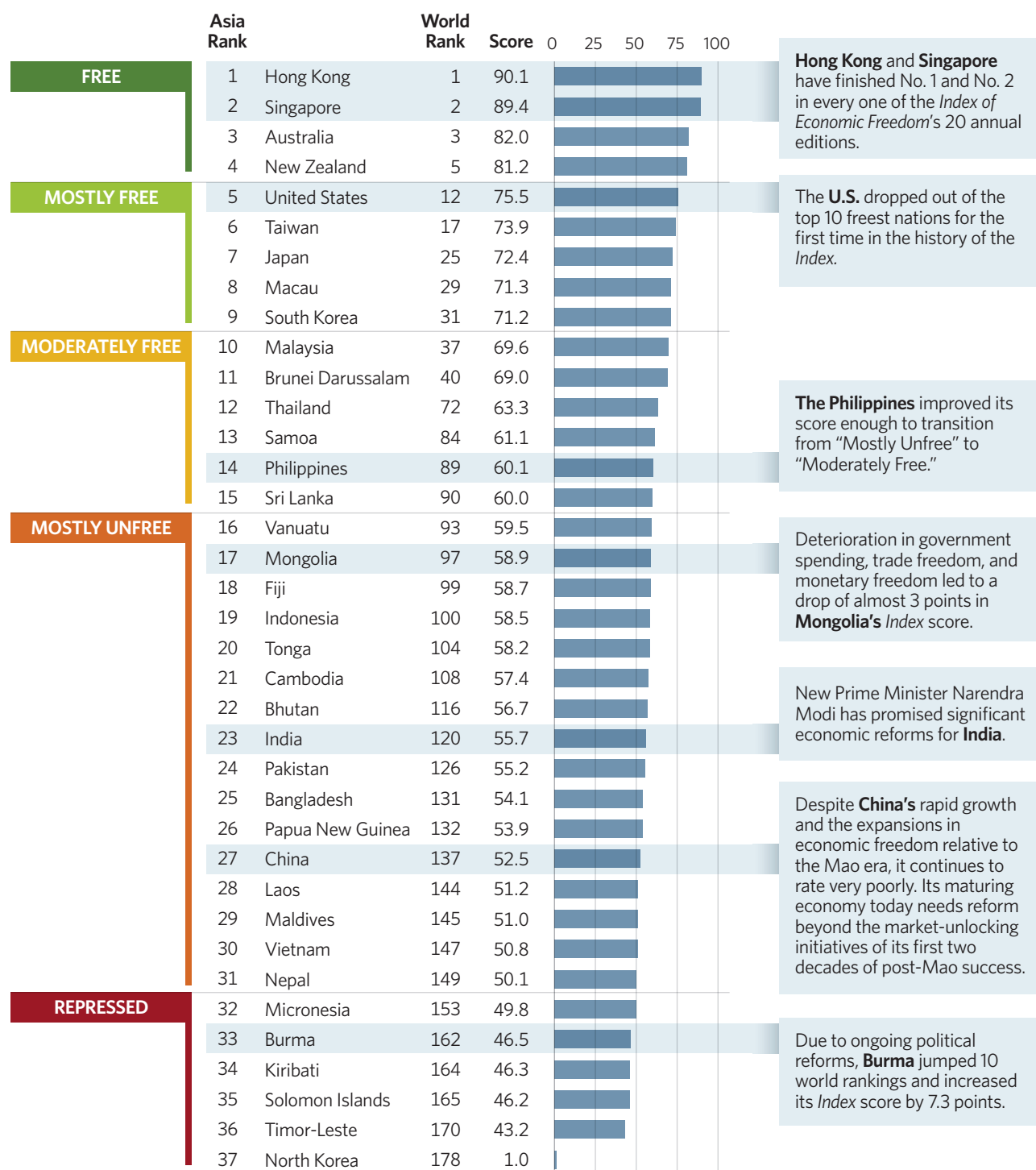


China's growth is on a much steeper trajectory than America's. Within the next decade or two, it may surpass the U.S. in nominal GDP terms, as should be natural in a country with a population four times as large. Economic growth, however, is determined by policy, not history. Policy decisions in both countries will make the difference.

Sources: The World Bank, World Development Indicators, GDP, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed August 13, 2014).

Most Economically Free Nations in the World

The Heritage Foundation and The Wall Street Journal rate and rank the freedom of the world's economies. Asia is home to some of the world's most repressed economies, as well as the freest.



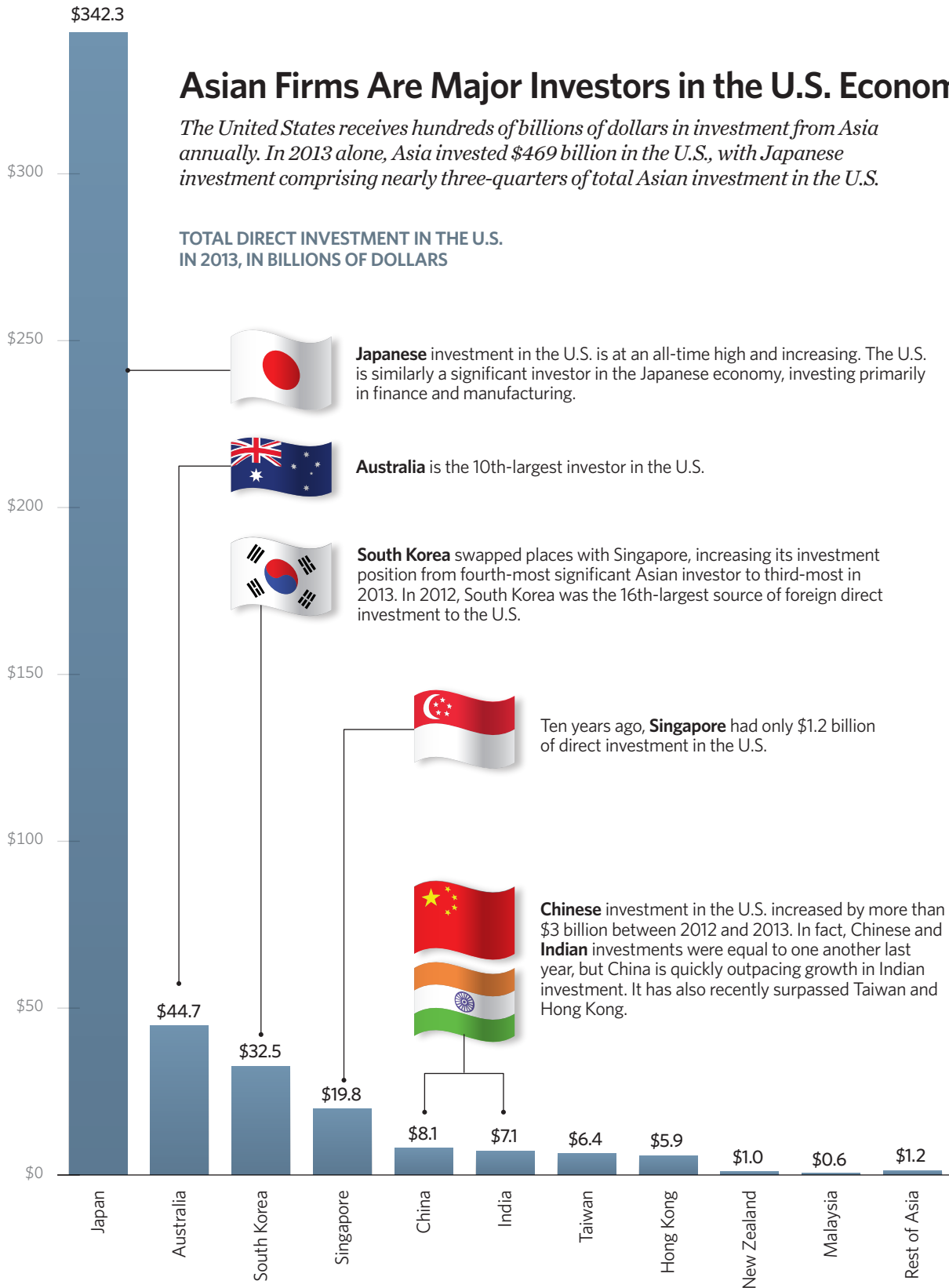
Not ranked: Afghanistan.

Source: Terry Miller, Anthony B. Kim, and Kim R. Holmes, 2014 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), www.heritage.org/index.

Asian Firms Are Major Investors in the U.S. Economy

The United States receives hundreds of billions of dollars in investment from Asia annually. In 2013 alone, Asia invested \$469 billion in the U.S., with Japanese investment comprising nearly three-quarters of total Asian investment in the U.S.

**TOTAL DIRECT INVESTMENT IN THE U.S.
IN 2013, IN BILLIONS OF DOLLARS**

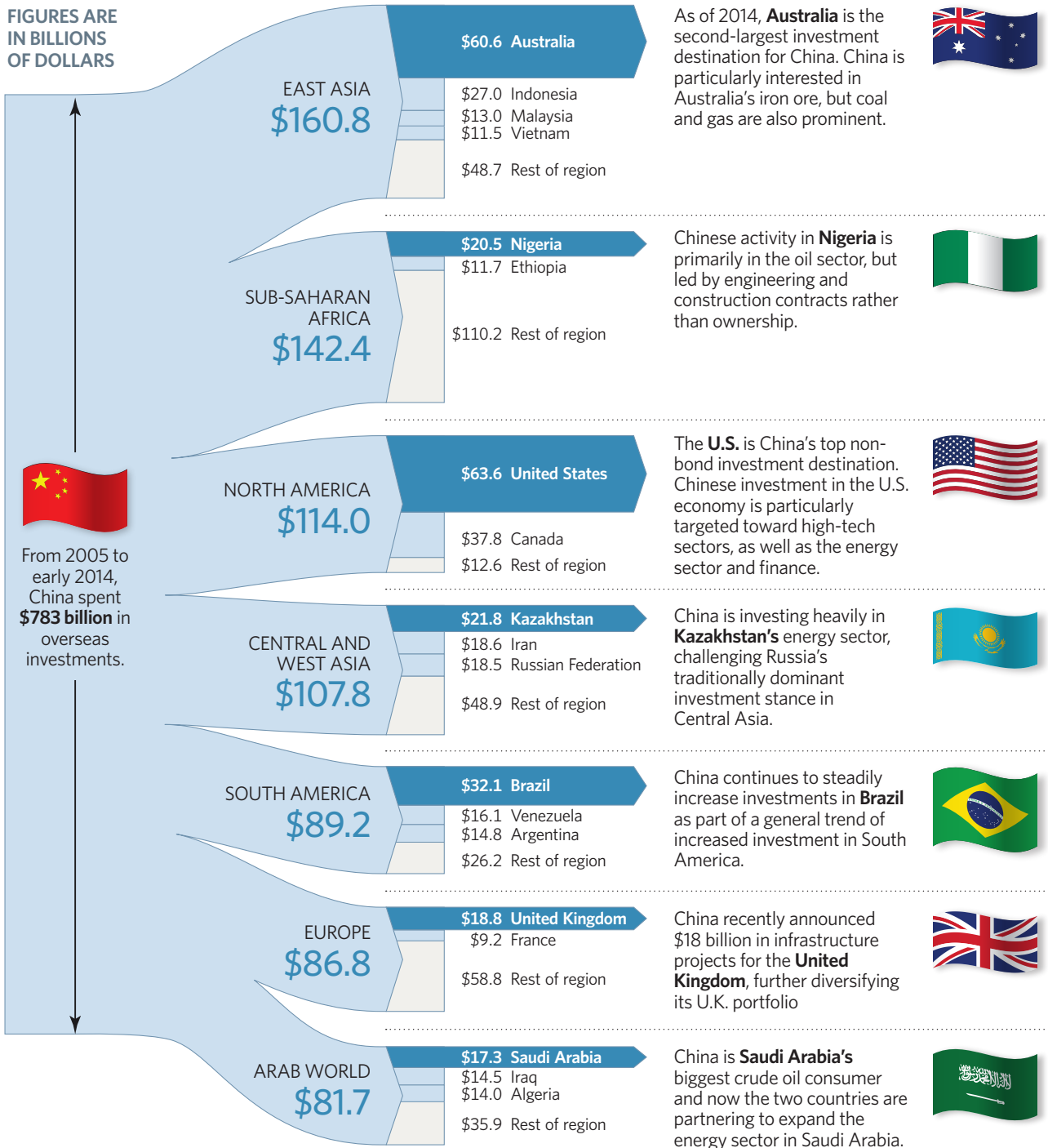


Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Foreign Direct Investment Position in the United States on a Historical-Cost Basis, 2013," <http://www.bea.gov/international/di1fdibal.htm> (accessed July 28, 2014).

China's Outward Investments and Contracts Are Expanding

China is a global investor and where it is not investing, it is building roads, power plants, and other infrastructure. In 2014, China increased its investment in Central and West Asia and the Arab world by more than \$20 billion and increased its total investment in the world by almost \$100 billion.

FIGURES ARE
IN BILLIONS
OF DOLLARS



Note: Figures include direct investment and contracts. Figures may not sum to totals due to rounding.

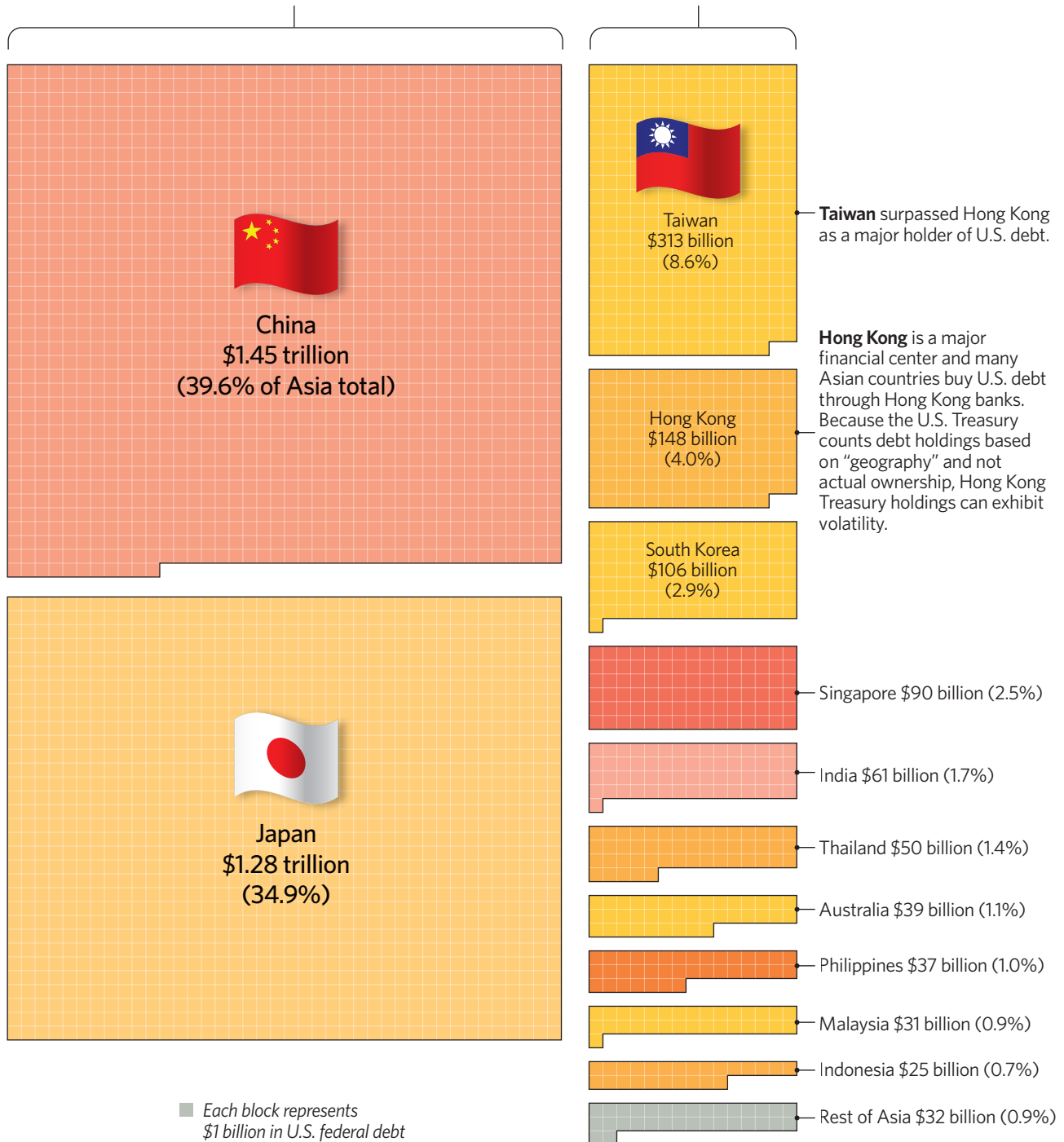
Source: "China Global Investment Tracker," The Heritage Foundation and the American Enterprise Institute, <http://www.heritage.org/Research/Projects/China-Global-Investment-Tracker-Interactive-Map> (accessed August 19, 2014).

Asian Central Banks Are Major Buyers of U.S. Government Debt

Asian nations hold nearly \$3.7 trillion, or almost 22%, of the more than \$17 trillion in U.S. government debt.

China and Japan hold \$2.7 trillion of U.S. debt—
about 75 percent of Asia's total share.

More than two dozen
other Asian nations also
hold U.S. debt.



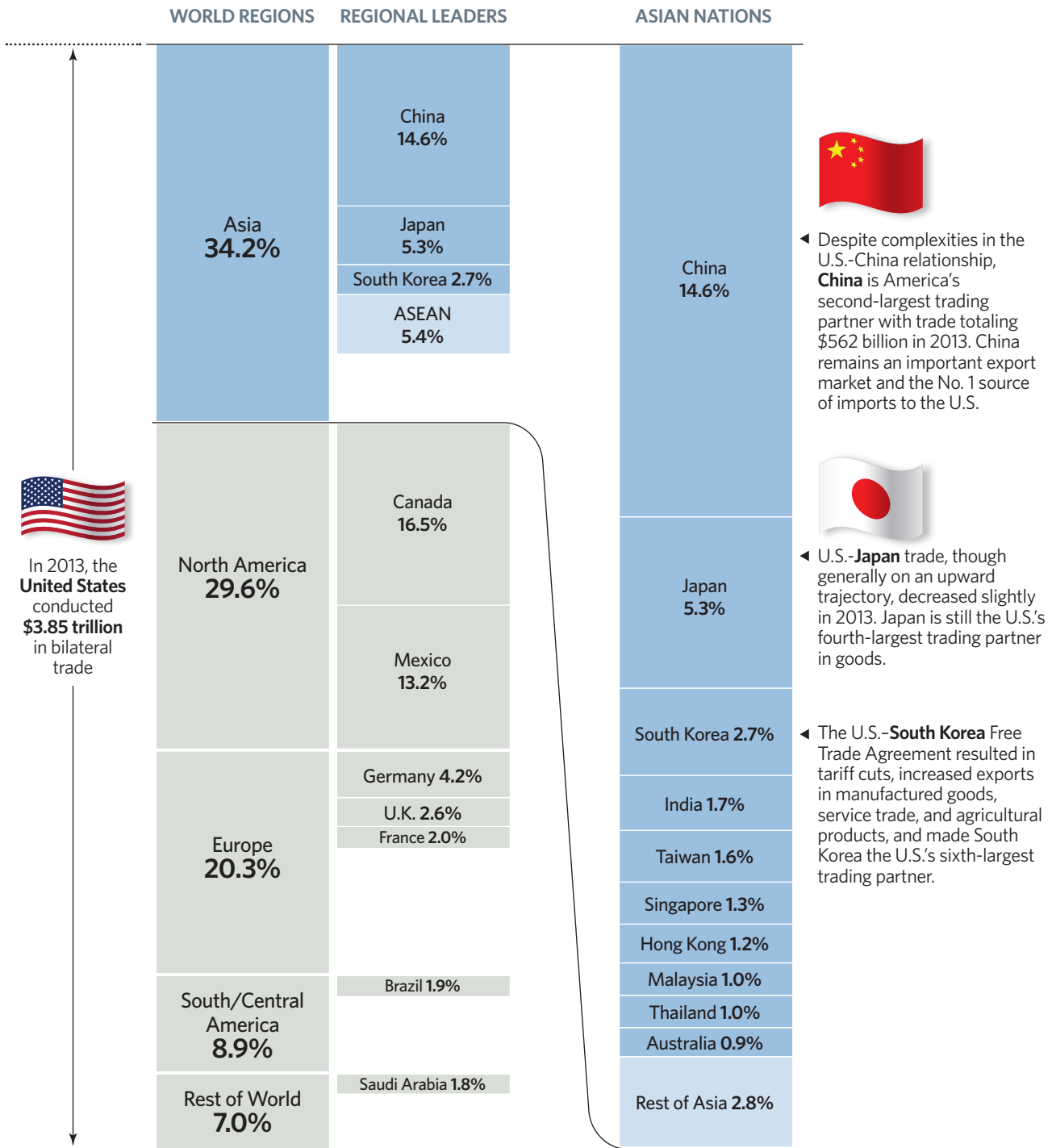
Taiwan surpassed Hong Kong as a major holder of U.S. debt.

Hong Kong is a major financial center and many Asian countries buy U.S. debt through Hong Kong banks. Because the U.S. Treasury counts debt holdings based on "geography" and not actual ownership, Hong Kong Treasury holdings can exhibit volatility.

Source: U.S. Department of the Treasury, "Foreign Portfolio Holdings of U.S. Securities as of June 30, 2013," April 2014, Tables A2, A3, A5, and A6, <http://www.treasury.gov/ticdata/Publish/shla2013r.pdf> (accessed July 18, 2014).

Asia Is America's Biggest Trading Partner

The U.S. does more trade with Asia than any other region of the world. Alongside top trading partners China and Japan lies the Association of Southeast Asian Nations (ASEAN), a rapidly developing 10-nation bloc that is now America's fourth-largest trading partner.



Notes: Figures are not seasonally adjusted. Figures may not sum to totals due to rounding.

Source: U.S. Census Bureau, "U.S. Trade in Goods by Country," <http://www.census.gov/foreign-trade/balance/country.xls> (accessed July 9, 2014).

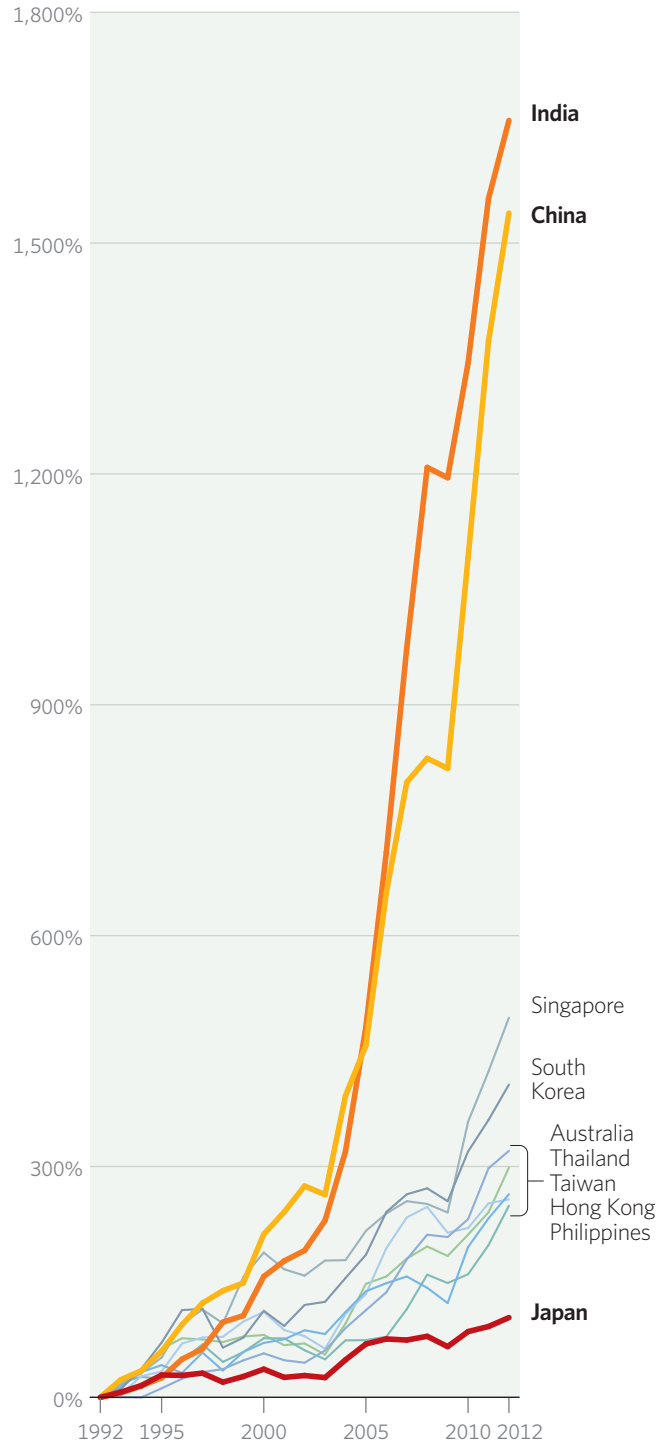
Boom in U.S.-Asia Cross-Border Services

Japan has long been America's biggest partner in services trade, but trade with India and China is growing very rapidly.

BILLIONS OF DOLLARS



PERCENTAGE CHANGE FROM 1992



Source: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. International Services, "Private Services Trade by Area and Country," http://www.bea.gov/international/international_services.htm#summaryandother (accessed August 7, 2014).

U.S. Lags in Bilateral Trade Agreements

Free trade agreements have proliferated in the region over the last decade. There are now some 40 completed intraregional agreements and over 100 agreements with outside countries. The United States is party to only three—one of the factors that makes a truly liberalizing Trans-Pacific Partnership so important.

COUNTRY	ABBREV.	BILATERAL TRADE AGREEMENTS											
India	IND	AFG	BTN	SGP	LKA	KOR	NPL	JPN	MYS	THA	AUS	IDN	NZL
Australia	AUS	KOR	JPN	NZL	MYS	PNG	SGP	THA	USA	IND	IDN	CHN	
Japan	JPN	AUS	BRN	IND	IDN	MYS	PHL	SGP	THA	VNM	MNG		
Singapore	SGP	IND	JPN	NZL	CHN	AUS	USA	KOR	TWN	PAK			
New Zealand	NZL	AUS	MYS	HKG	CHN	SGP	THA	TWN	IND	KOR			
China	CHN	NZL	HKG	PAK	SGP	THA	TWN	AUS	KOR				
South Korea	KOR	AUS	IND	SGP	USA	NZL	CHN	IDN	VNM				
Thailand	THA	IND	JPN	LAO	CHN	AUS	NZL						
Pakistan	PAK	MYS	IDN	LKA	CHN	BGD	SGP						
Malaysia	MYS	JPN	AUS	IND	NZL	PAK							
Indonesia	IDN	JPN	PAK	IND	AUS	KOR							
Taiwan	TWN	NZL	CHN	SGP									
United States	USA	AUS	KOR	SGP									
Hong Kong	HKG	NZL	CHN										
Sri Lanka	LKA	IND	PAK										
Vietnam	VNM	JPN	KOR										
Afghanistan	AFG	IND											
Brunei Darussalam	BRN	JPN											
Bangladesh	BGD	PAK											
Bhutan	BTN	IND											
Laos	LAO	THA											
Mongolia	MNG	JPN											
Nepal	NPL	IND											
Papua New Guinea	PNG	AUS											
Philippines	PHL	JPN											

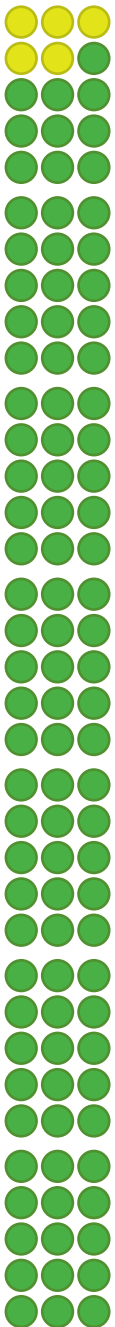
■ Existing trade agreements
■ Under negotiation

Sources: Asian Development Bank, "Free Trade Agreements by Country," 2014, www.aric.adb.org/fta-country (accessed August 21, 2014).

The Growth of Nuclear Power in Asia

While commercial nuclear power is expected to continue providing inexpensive, clean, and reliable electricity around the world, the industry's greatest growth will come from Asia.

Total: 105



Though long-term optimism for the **U.S.** nuclear industry is justified, incoherent government policies make near-term growth difficult. Nonetheless, five new reactors are currently under construction and nuclear power continues to provide approximately 19 percent of America's electricity.



Commercial nuclear power provided almost 30 percent of **Japan's** electricity prior to the Fukushima accident. Reactors are currently applying to restart after safety review by the Japanese Nuclear Regulatory Authority. Japan continues to play a critical role as a leader in nuclear technology exports and is a valuable trade partner with the United States.



The demand for electricity in **China** is very high and is expected to continue growing through the next half-century. Nuclear generating capacity is expected to almost triple by 2020 and is providing affordable, clean, and reliable energy to support economic growth.



In the past several years, **South Korea** has had regulatory and quality control problems. While these issues are being addressed, South Korea is also expanding its domestic nuclear power and emerging as a major competitor in the export market. The United States and South Korea have a long history of commercial nuclear cooperation.



Like China, **India** will continue to have a high demand for affordable, clean, and reliable electricity. Nuclear power is an important contributor to increase access to electricity for millions yet without it.

50

49

28

27

8

5

1

United States

Japan

China

South Korea

India

Taiwan

Pakistan

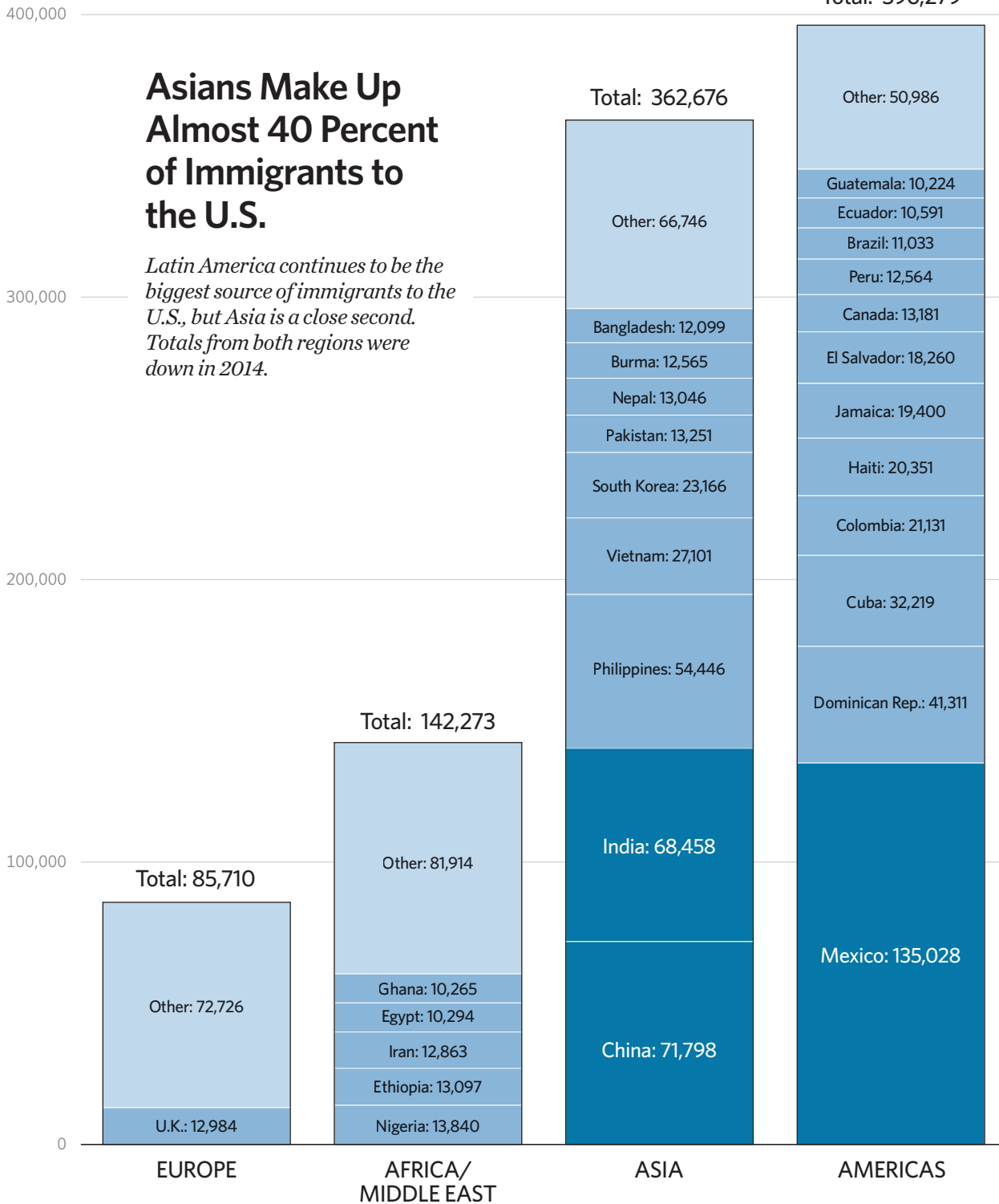
North Korea

Status of Nuclear Reactors

- Operational
- Under construction

Source: World Nuclear Association, "WNA Reactor Database," 2013, <http://world-nuclear.org/NuclearDatabase/rdResults.aspx?id=27569> (accessed September 3, 2014).

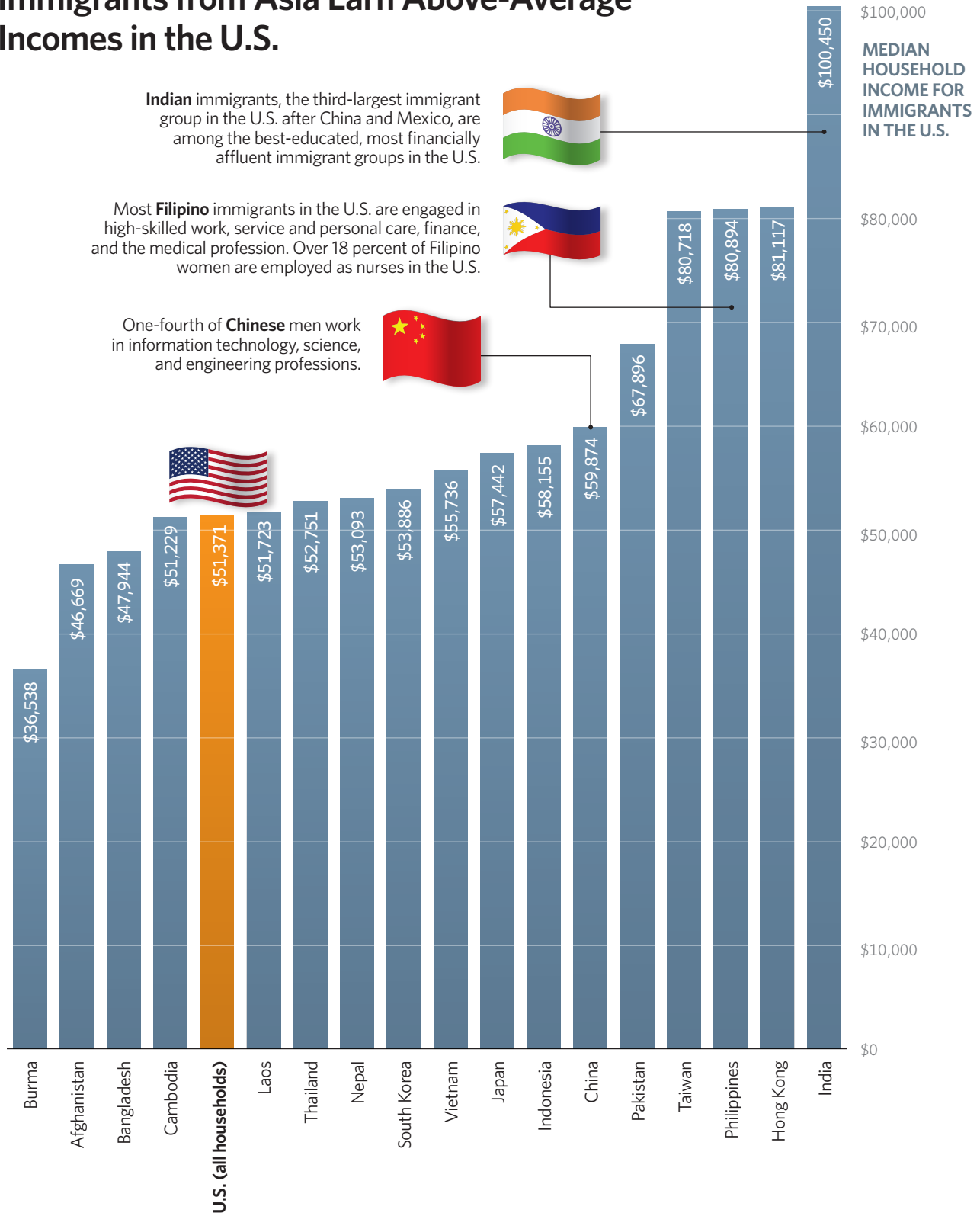
LEGAL PERMANENT RESIDENTS COMING TO THE U.S., BY NATION OF ORIGIN, 2013



Notes: The following countries are categorized as Asian nations by the Department of Homeland Security, but in this graphic are categorized as African/Middle Eastern: Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and Yemen. "Other" refers to the total for all other countries in the region whose figures are each less than 10,000.

Source: U.S. Department of Homeland Security, Office of Immigration Statistics, "Yearbook of Immigration Statistics: 2013," Lawful Permanent Residents, Table 3, <http://www.dhs.gov/yearbook-immigration-statistics-2013-lawful-permanent-residents> (accessed July 10, 2014).

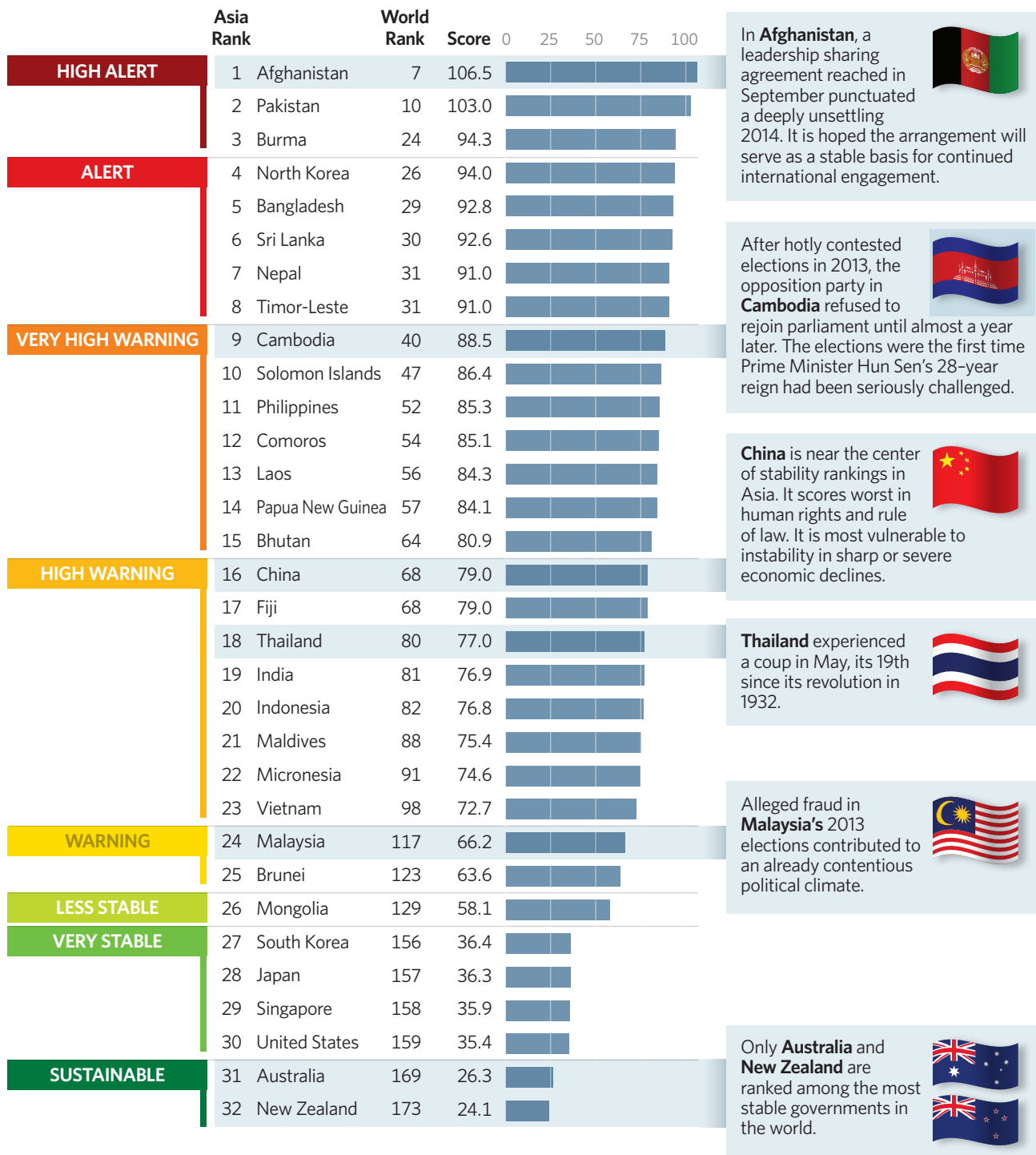
Immigrants from Asia Earn Above-Average Incomes in the U.S.



Source: U.S. Census Bureau, 2012 American Community Survey, Selected Population Profile in the United States, 1-Year Estimates, <http://factfinder2.census.gov/> (accessed August 12, 2014).

Political Instability Remains the Downside of Asia's Dynamism

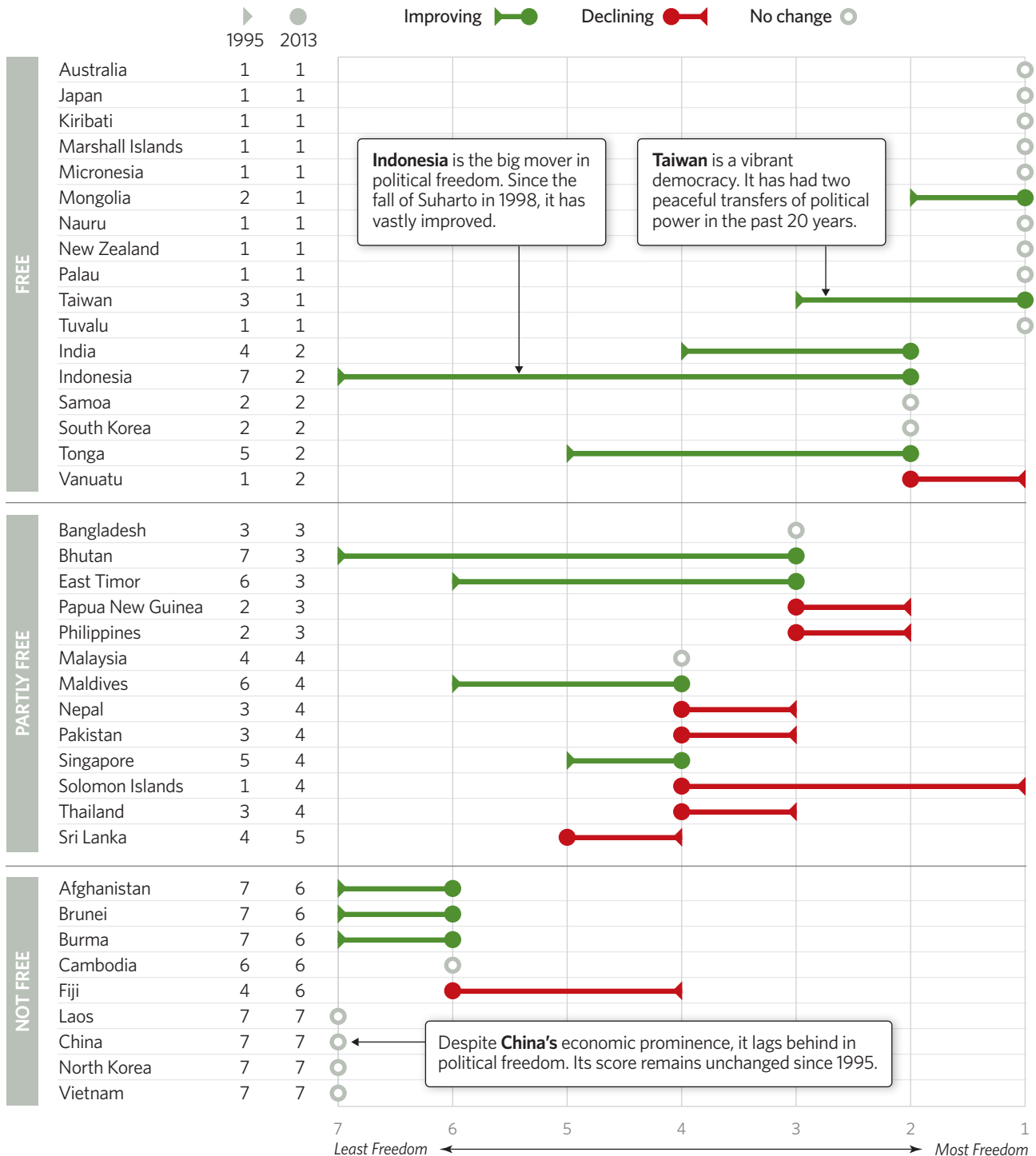
According to the 2014 Fragile States Index, most Asian nations continue to exhibit high levels of political instability. Only a handful are rated stable or sustainable.



Source: Foreign Policy and Fund for Peace, "Fragile States Index 2014," <http://ffp.statesindex.org/rankings-2014> (accessed July 10, 2014).

Political Freedom in Asia Is Mixed, but Gaining Ground

Asia is home to a remarkable mix of political systems, from free market democracies to communist dictatorships. It is making slow but steady progress toward liberty. From 1995 to 2013, 12 of the 39 countries listed improved their political freedom scores and nine recorded declines. On average, countries improved by 0.4 point.

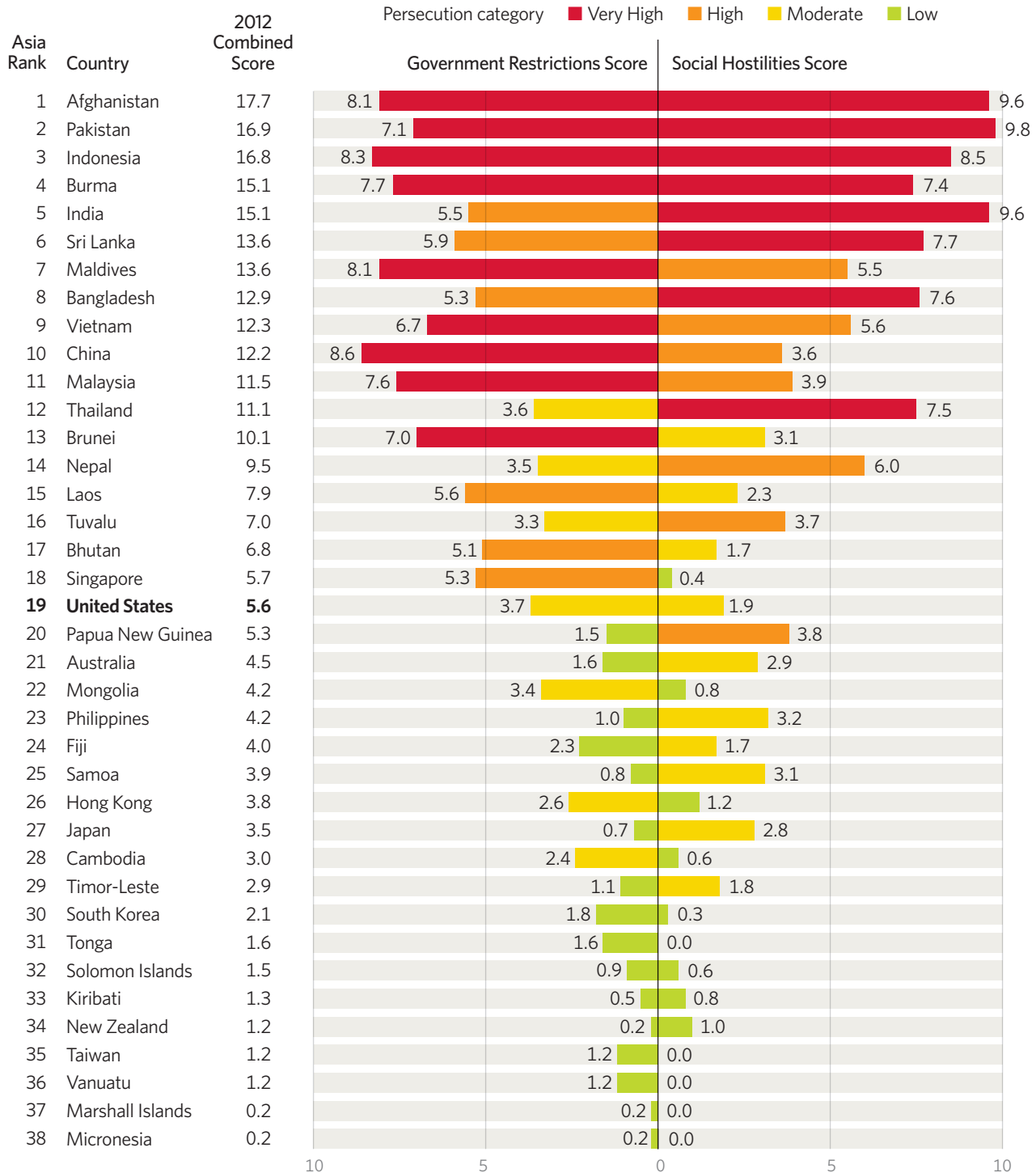


Note: For East Timor, earliest data figure is for 1999.

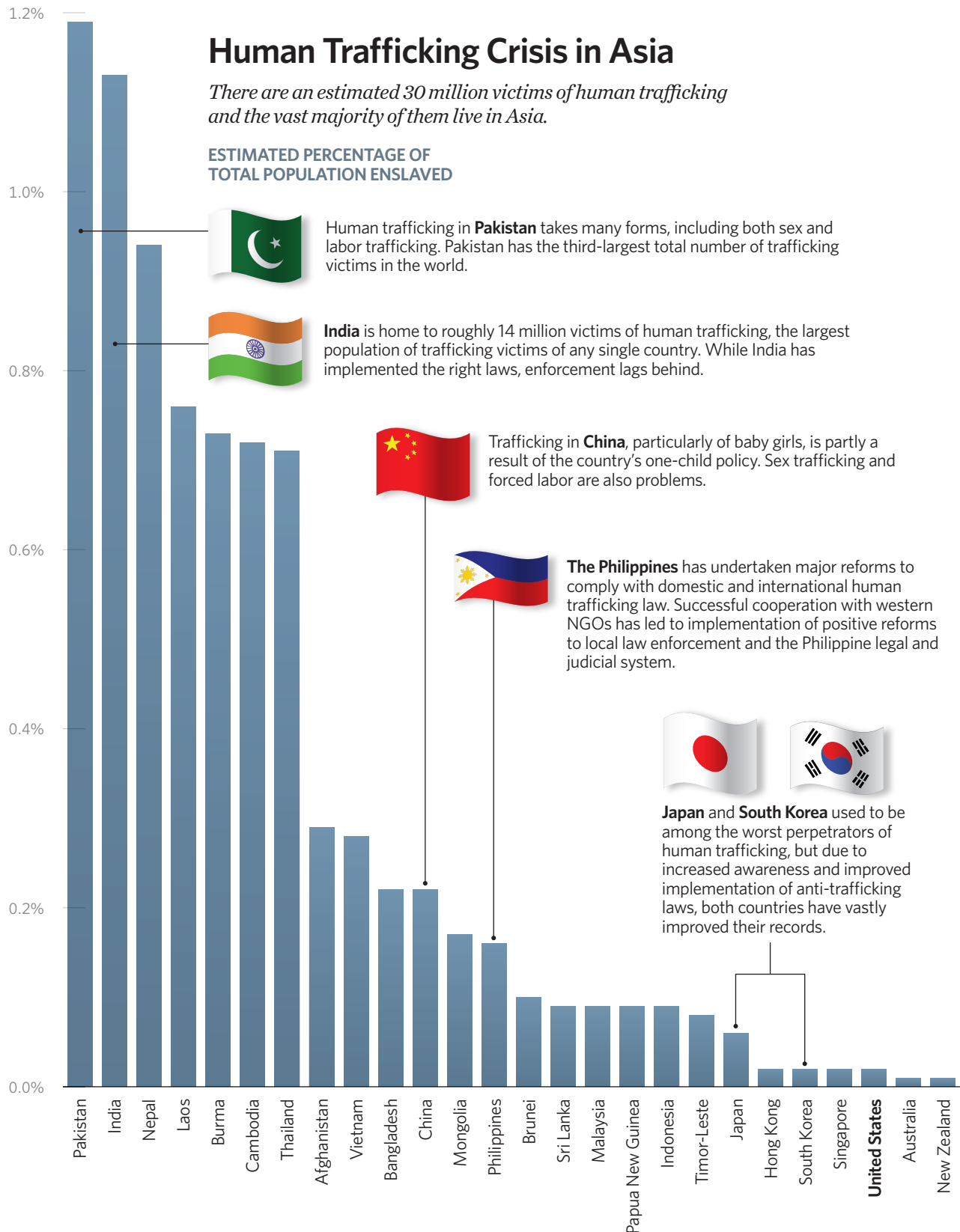
Source: Freedom House, *2014 Freedom in the World*, <http://www.freedomhouse.org/report/freedom-world/freedom-world-2014> (accessed July 11, 2014).

Religious Persecution in Asia

The Pew Forum on Religion and Public Life tracks threats to religious liberty worldwide by measuring government restrictions and social hostilities in a given country. Pakistan and Afghanistan are among the world's worst violators of religious freedom.



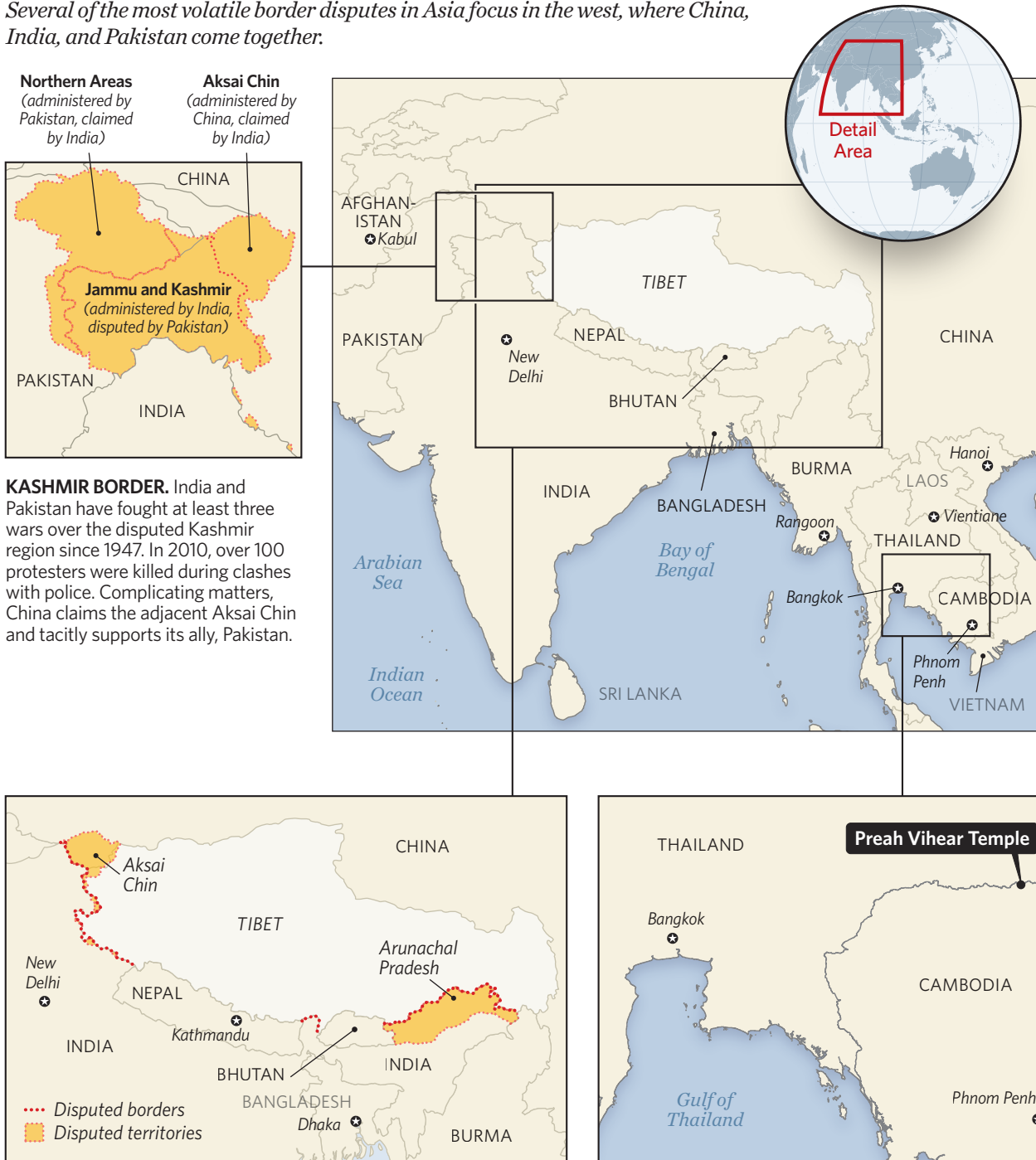
Source: Pew Research Center, "Religious Hostilities Reach Six-Year High," January 14, 2014, Appendix 4: Religious Restrictions Index Scores by Region, <http://www.pewforum.org/files/2014/01/RestrictionsV-by-region.pdf> (accessed July 24, 2014).



Source: Global Slavery Index, <http://www.globalslaveryindex.org/> (accessed July 23, 2014).

Areas of Dispute: China, India, and Mainland Southeast Asia

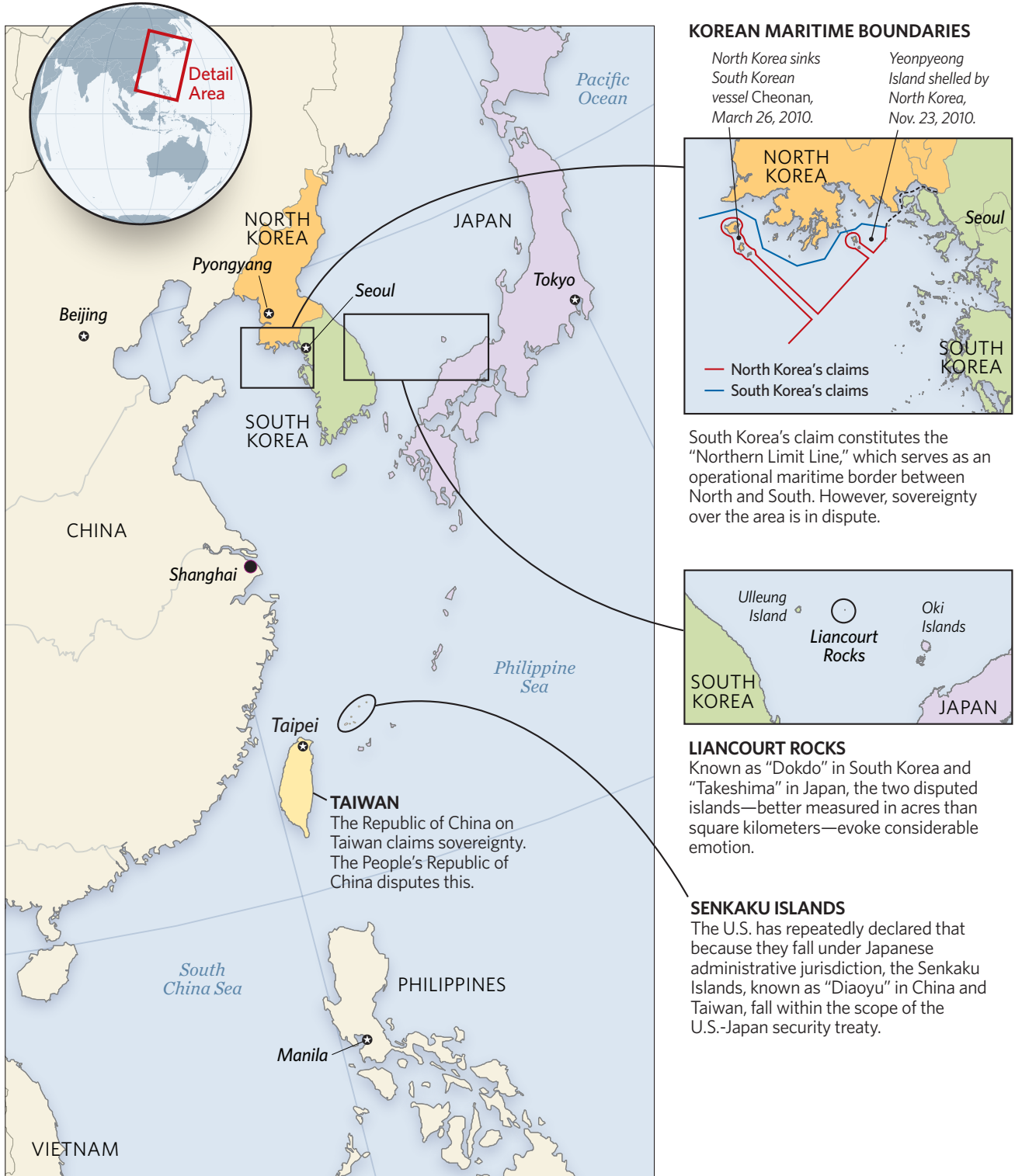
Several of the most volatile border disputes in Asia focus in the west, where China, India, and Pakistan come together.



Source: Heritage Foundation research.

Areas of Dispute: China, Japan, and the Koreas

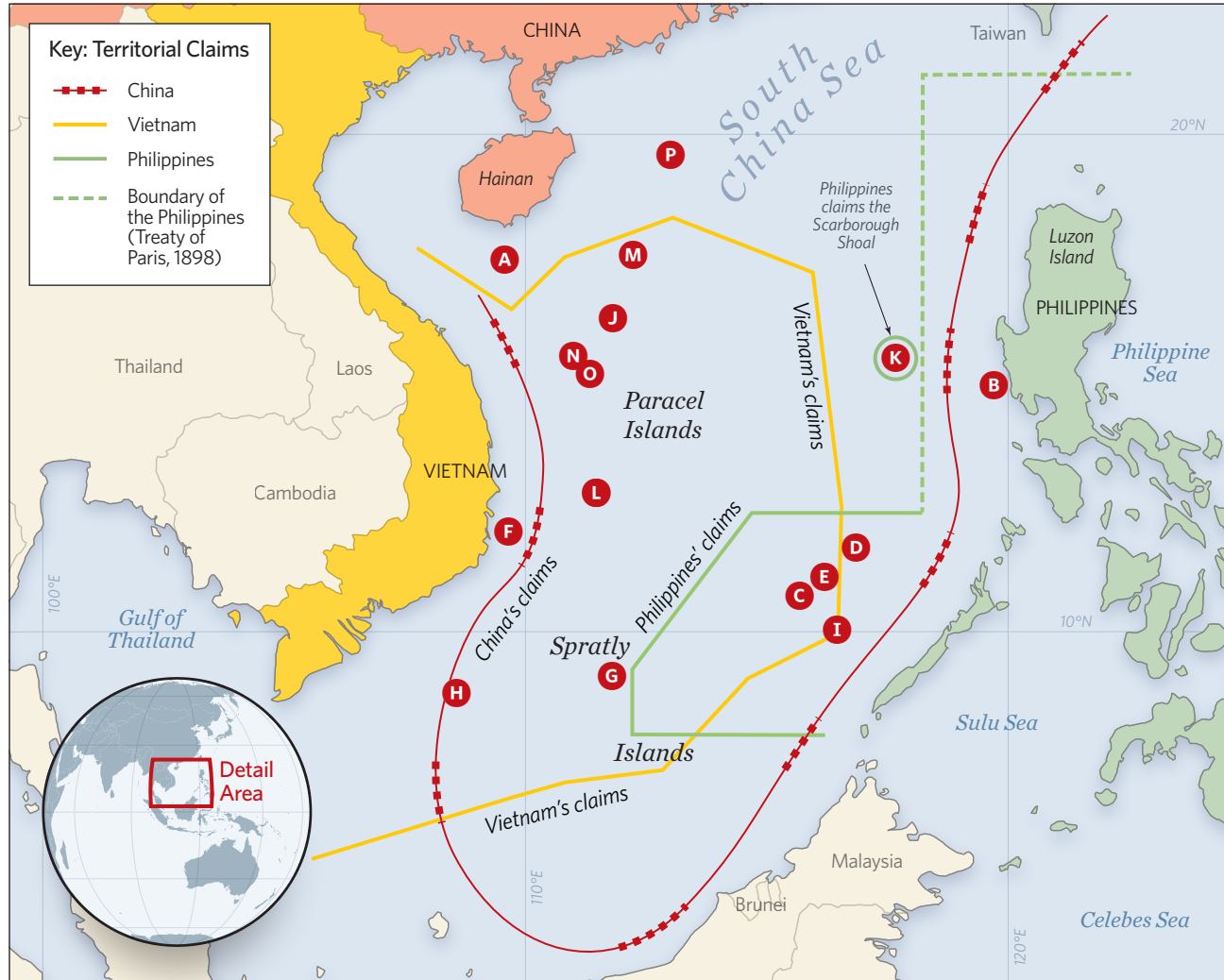
The Western Pacific is home to several heated sovereignty disputes with the potential for conflict.



Sources: Heritage Foundation research; Colonel Moo Bong Ryoo, "The Korean Armistice and the Islands," U.S. Army War College, March 11, 2009, <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA500904&Location=U2&doc=GetTRDoc.pdf> (accessed April 5, 2012).

Area of Dispute: South China Sea

Chinese aggression in the South China Sea has been on the rise since 2009.



A March 2009. Chinese vessels harass USNS *Impeccable*

B June 2009. Chinese submarine collides with sonar cable of USS *John McCain*

C February 2011. Chinese frigate fires at Philippine fishing boats

D March 2011. Chinese patrol boats try to ram Philippines government research vessel

E May 2011. Chinese vessels lay steel posts and buoys

F May 2011. Chinese maritime security vessel cuts cables of Vietnamese exploration vessel

G May 2011. Chinese military vessels threaten Vietnamese fishing boats

H June 2011. Three Chinese vessels disabled cables of a PetroVietnam oil survey ship, the *Viking 2*

I December 2011. Two Chinese civilian ships and Chinese naval vessel seen in Philippine territorial waters

J March 2012. China sparks diplomatic row after detaining 21 Vietnamese fishermen in the Paracel Islands

K April 2012. Chinese seize Scarborough Shoal

L December 2012. Chinese fishing boats sever seismic survey cables of Vietnamese ship, *Bin Minh 02*

M December 2013. Chinese warship nearly collided with guided-missile cruiser USS *Cowpens*

N May-June 2014. China placed five oil rigs in Vietnam's exclusive economic zone

O July 2014. Chinese coast guard arrested six Vietnamese fishermen near the Paracel Islands

P August 2014. Chinese fighter jet nearly collides with U.S. military aircraft flying over South China Sea

Sources: Heritage Foundation research based on media reports.

America's Forward-Deployed Military Is Key to Regional Stability

Since the end of World War II, the U.S. military has remained forward deployed in the Western Pacific. It currently maintains dozens of bases in the region, most notably in South Korea and Japan.

AFGHANISTAN

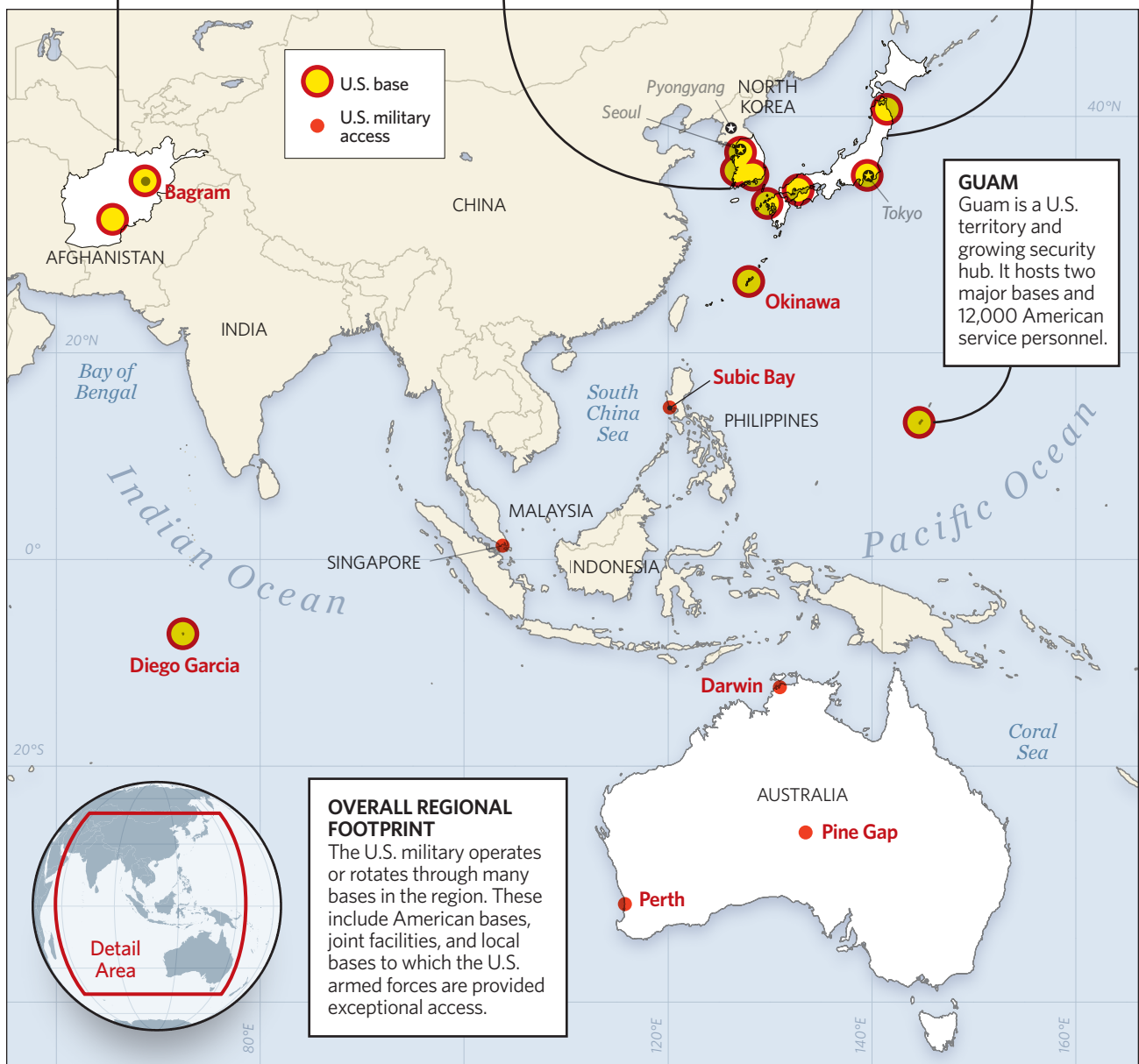
Troops levels were reduced from 60,000 to 38,000 in January. By 2015, troop levels are expected to drop to 9,800, contingent on the incoming Afghan administration signing the Bilateral Security Agreement.

SOUTH KOREA

The U.S. is committed to maintaining a minimum of 28,500 troops on the Korean Peninsula to deter North Korean aggression. The two Korean nations remain technically at war, having only signed an armistice in 1953.

JAPAN

The U.S. military maintains dozens of bases in Japan, accommodating a total of 38,000 Army, Air Force, Navy, and Marine Corps personnel. The U.S. Seventh Fleet is home ported in Yokosuka.



Sources: U.S. Department of Defense, "Military Installations," <http://www.militaryinstallations.dod.mil/pls/psgprod/f?p=MI:ENTRY:0> (accessed March 5, 2012), and Heritage Foundation research.

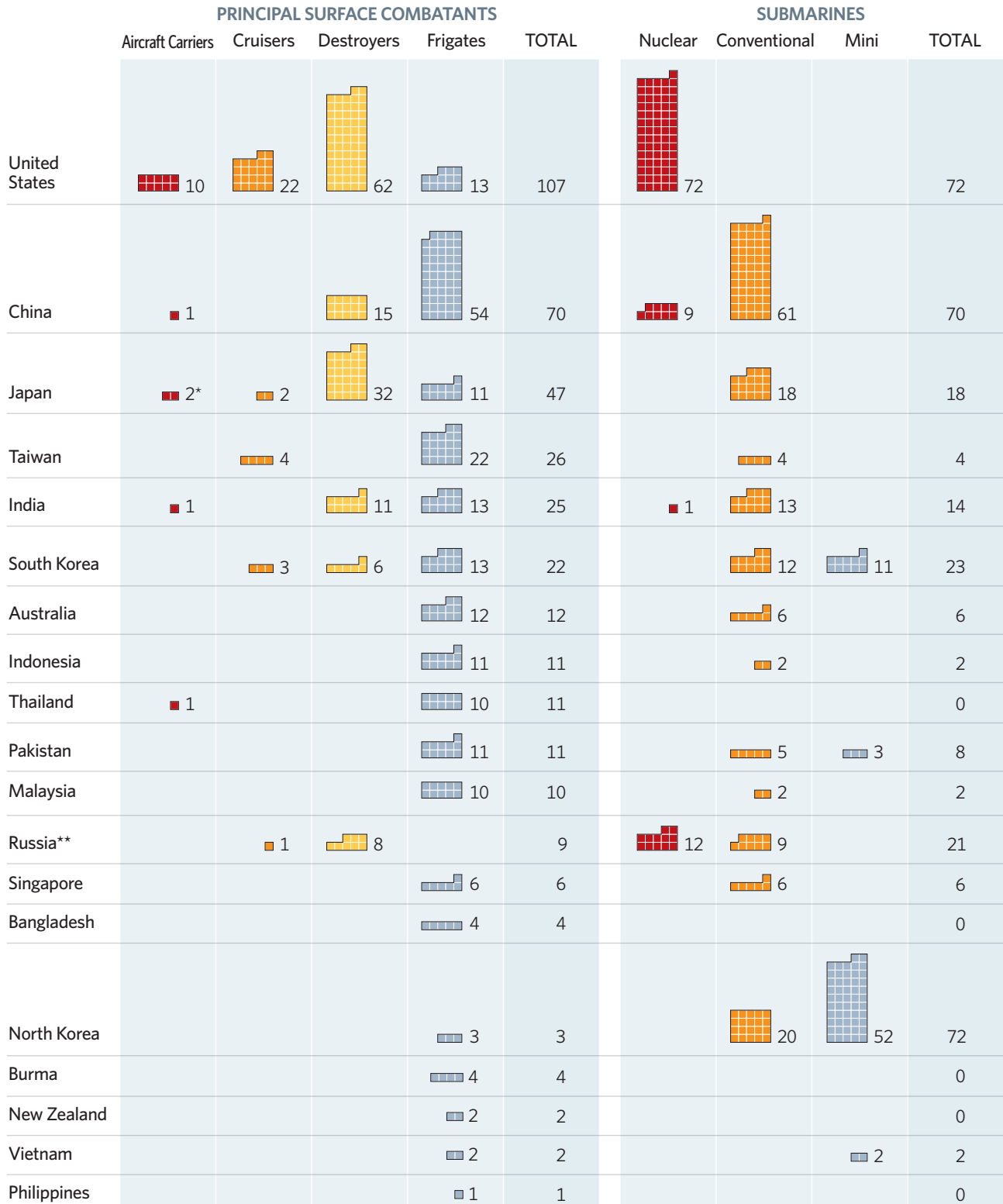
Japan, South Korea Allies Host Bulk of America's Military in Asia

The U.S. Navy, Air Force, and Marine Corps are stationed throughout Japan and South Korea to defend South Korea against invasion from the North and to secure peace and stability in the Pacific. They serve as glue for America's two most important alliances in the Pacific.



Sources: U.S. Department of Defense, "Military Installations," <http://www.militaryinstallations.dod.mil/pls/psgprod/f?p=MI:ENTRY:0> (accessed March 5, 2012), and Heritage Foundation research.

Asian Navies Vary Broadly in Size and Configuration

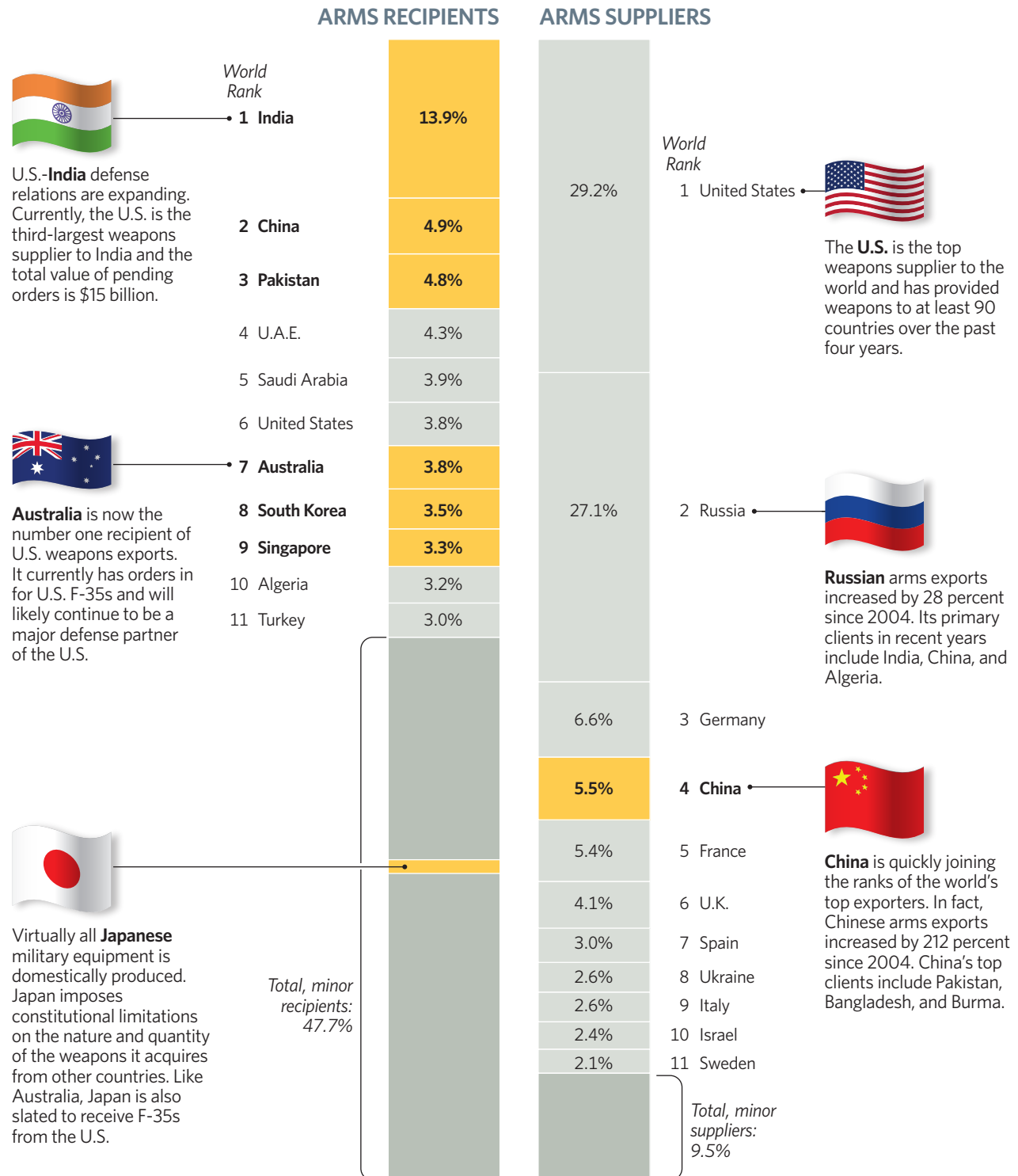


* Japan's carriers are helicopter carriers. ** Figures are for Pacific fleet.

Source: International Institute for Strategic Studies, *The Military Balance 2014* (London: Routledge, 2014).

Asian Nations Top List of Arms Buyers

As highlighted below (■), six of the ten largest recipients of major conventional weapons are Asian nations. Figures shown are shares of global totals for 2009–2013.

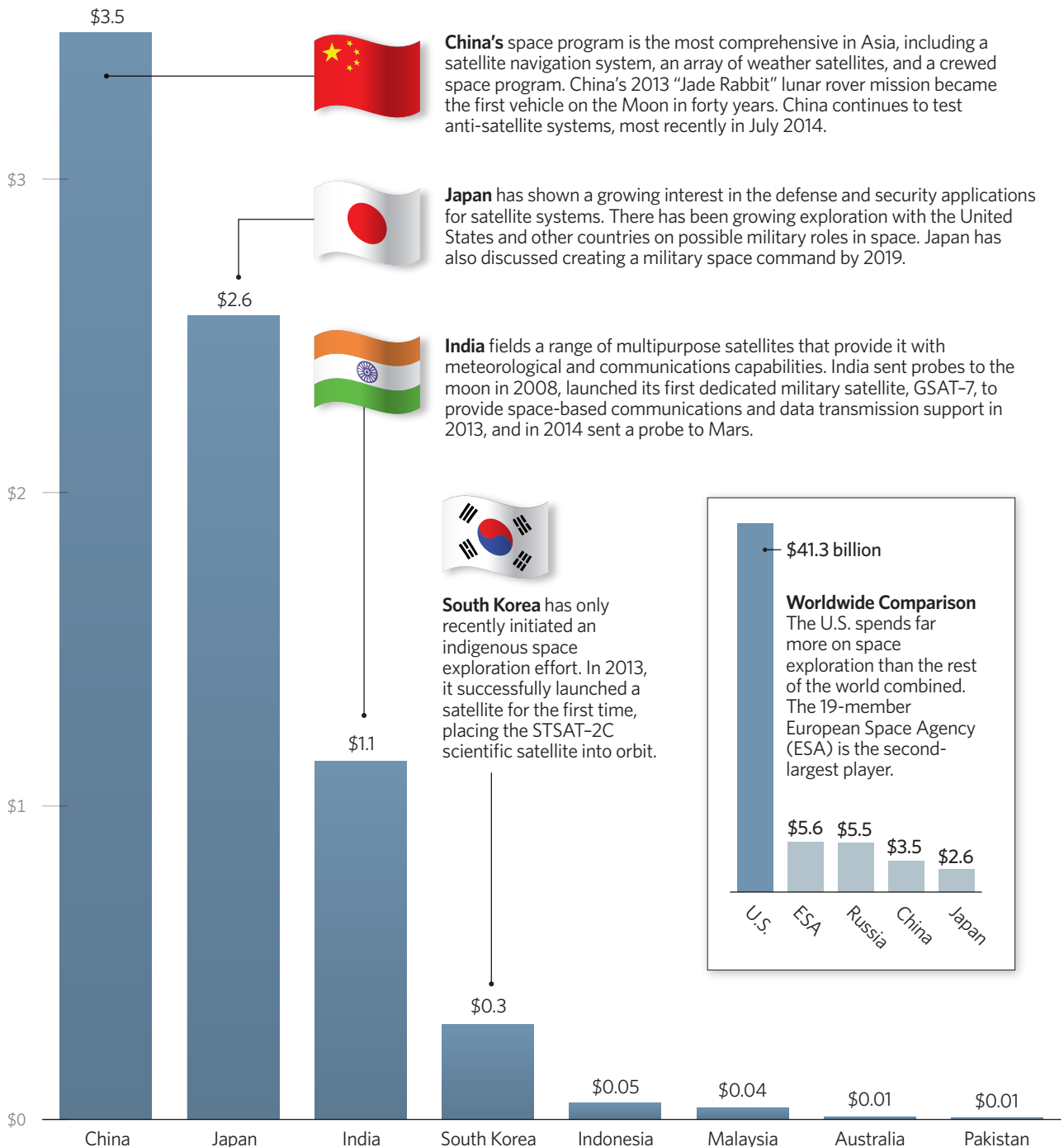


Source: Stockholm International Peace Research Institute, SIPRI Arms Transfers Database, <http://www.sipri.org/databases/armstransfers> (accessed July 24, 2014).

Asian Space Budgets

With the growth of their economies and rising levels of scientific and technological prowess, more and more Asian states are developing indigenous space capabilities to serve both military and civilian ends. Japan, China, India, and South Korea are all developing their own space industries, including launch capabilities and satellite manufacturing.

2013 SPACE BUDGET IN BILLIONS OF U.S. DOLLARS



Source: The Space Foundation, *The Space Report 2014: The Authoritative Guide to Global Space Activity* (Colorado Springs, CO: The Space Foundation, 2014).



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