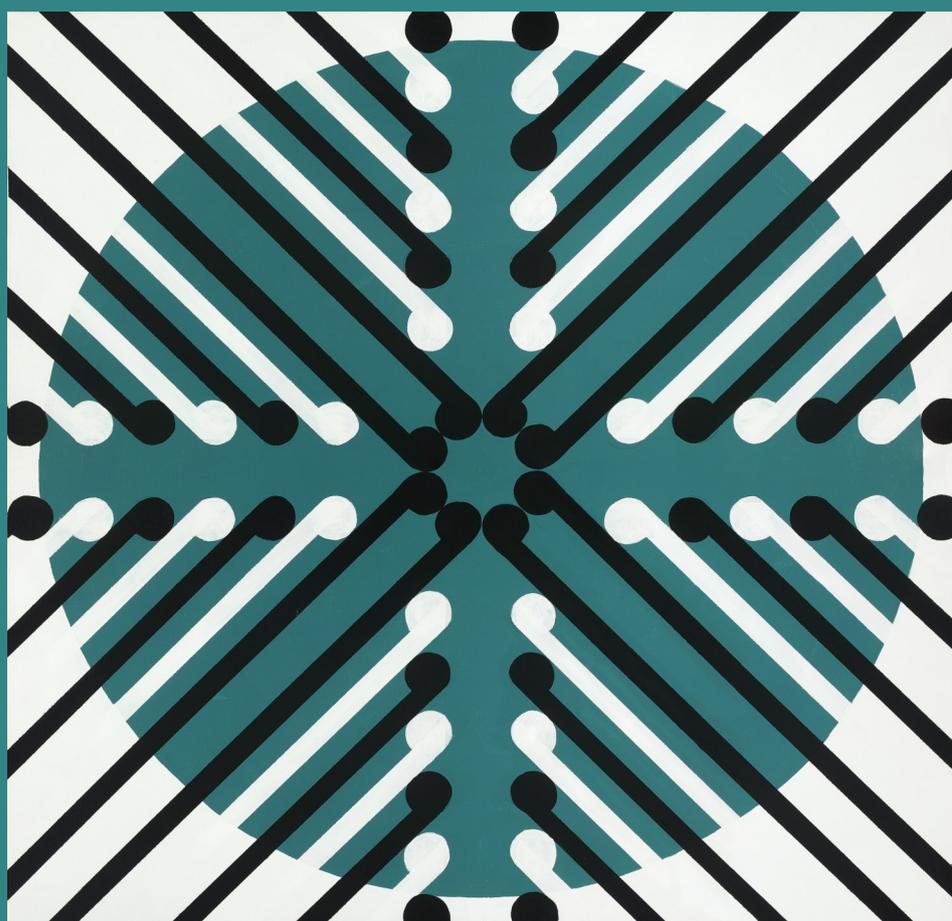


New Zealand and Asia-Pacific Integration

Sailing the waka in ever-widening circles

Brian Lynch



'Voyage II' by Anna Leyland

**Centre for Strategic Studies: New Zealand
Victoria University of Wellington**

No 17/15

**CENTRE FOR STRATEGIC STUDIES
NEW ZEALAND**

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2015

ISSN 1175-1347

Desktop publishing: Sue Rogers and Julie-Anne Lee

Cover image: 'Voyage II' by Anna Leyland
Acrylic on canvas 76cm x 76cm

Printed by: Milne Print Limited

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Asia-Pacific Integration**
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Brian Lynch

Discussion Paper 17/15

'For Karen'



Published by
Centre for Strategic Studies: New Zealand
Victoria University of Wellington

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ABBREVIATIONS AND ACRONYMS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
ADB	Asian Development Bank
ADIZ	(China) Air Defence Identification Zone
ADMM	ASEAN Defence Ministers Meeting
AIIB	Asian Infrastructure Investment Bank
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
ANZUS	Australia, New Zealand, United States (Security Treaty)
APEC	Asia-Pacific Economic Community
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations (Members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam. Observers: Papua New Guinea, Timor Leste)
ASEAN Plus 3	ASEAN plus China, Japan and South Korea
ASEAN Plus 6	ASEAN Plus 3 plus Australia, India, and New Zealand
ASEM	Asia-Europe Meeting (Members: Australia, Austria, Bangladesh, Belgium, Brunei, Bulgaria, Cambodia, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Italy, Japan, Kazakhstan, Korea, Laos, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Mongolia, Myanmar, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Thailand, United Kingdom and Vietnam; the EU and ASEAN)
CICA	(China) Conference on Interaction and Confidence Building in Asia
CMI	Chiang Mai Initiative
CPC	Communist Party of China
CSCAP	(ASEAN) Council for Security Cooperation in the Asia-Pacific
CUES	(WPNS) Code for Unplanned Encounters at Sea
DPRK	Democratic People's Republic of Korea (North Korea)
EAS	East Asia Summit (Members: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Russia, Singapore, South Korea, Thailand, Vietnam, United States)
EEZ	Exclusive Economic Zone
EU	European Union
FDI	Foreign direct investment
FPDA	Five Power Defence Arrangement (Members: Australia, Malaysia, New Zealand, Singapore, United Kingdom)
FTAAP	Free Trade Area of the Asia-Pacific
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product

GFC	Global financial crisis
IISS	Institute for International Strategic Studies (London)
IMF	International Monetary Fund
JSDF	Japan Self-Defence Forces
NAFTA	North American Free Trade Agreement (Members: Canada, Mexico, United States)
OCSCE	Organisation for Security Cooperation in Europe
PBEC	Pacific Basin Economic Community
PCA	Permanent Court of Arbitration (The Hague)
PECC	Pacific Economic Cooperation Council
QDR	(US) Quadrennial Defense Review
RCEP	Regional Comprehensive Economic Partnership (Members: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand, Vietnam)
RIMPAC	Rim of the Pacific (annual US naval exercise)
SAARC	South Asia Association for Regional Cooperation (Members: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka)
SCO	Shanghai Cooperation Organisation (Members: China, Russia and the Central Asian Republics)
TAC	(ASEAN) Treaty of Amity and Cooperation
TPP	Trans Pacific Partnership (Members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam)
TTIP	(EU-US) Transatlantic Trade and Investment Partnership
UK	United Kingdom
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
US	United States
WPNS	Western Pacific Naval Symposium
WTO	World Trade Organization

New Zealand and Asia-Pacific Integration

Sailing the waka in ever-widening circles¹

Introduction

The processes of change to the economic and security landscapes in the Asia-Pacific region affect the public good and the rhythms of private life. This paper identifies the mix of forces driving the changes underway. It assesses the extent to which it could reasonably be said the related processes are linked to each other and mutually supportive rather than discrete and moving along different paths. The picture emerges of a region with much to its credit but showing many signs of structural stress. Both economic and security spheres are host to an impressive number of intergovernmental accords and regional and sub-regional agencies in place. What is their contribution, or what could it potentially be, to the region's future growth and stability?

The paper focuses particularly on the possible implications of this evolving regional landscape for New Zealand. Why? Because there are constant reminders that developments and trends in the Asia-Pacific region matter seriously to New Zealand. For the first century and a half of European settlement, New Zealand's view of the world was largely determined by its historical background and ancestry. While long-held links with Europe still count and will endure, by and large the country's geography now set its horizons of clear and present interest. This reorientation has major significance for the country's long-term vision of where it fits in the world. It influences where neighbours and partners, globally and regionally, perceive New Zealand's place to be and how they form views on the country's appeal as a potential partner. The relative isolation factor—the distance from others—is unchanged but the level of external engagement has grown exponentially. The image of New Zealand as a lonely outpost of European culture and heritage in a far-flung corner of the globe has well and truly gone. Beyond question, the Asia-Pacific has become the central focus of New Zealand's core interests worldwide. The country is hard-wired into the region in multi-dimensional ways, for which there is no precedent in its history.²

¹ This is a metaphorical reference to New Zealand redefining its place in the world and gaining comfort in the new regional setting. 'May this fine waka launch heartily, May it sail in ever widening circles to find its place'. Drawn with permission from a mihi by Patricia Grace in Anderson, A., Binney, J. & Harris, A. *Tangata Whenua: An Illustrated History*. Wellington, Bridget Williams Books. 2014.

² A case could have been made for restricting the geographic coverage of this paper to Asia and its adjoining seas or extending the scope to the Indo-Pacific. It is acknowledged, too, that only peripherally do some of the core themes pursued herein relate to the interests of 'the Pacific' with which many New Zealanders are most familiar, the islands of Polynesia, Melanesia and Micronesia. On balance, the paper's underlying presumption is that, for sound reasons to do with both economic and security considerations and from New Zealand's own standpoint, the term 'Asia-Pacific' will continue to have real meaning and relevance well beyond being a mere cartographic construct.

A host of reasons help to explain why this has happened. It is not coincidental that, at the same time as New Zealand's focus has relocated, the Asia-Pacific region has assumed a pre-eminent position in the global economy and is providing much of the energy driving international trade. The region is home to an expanding network of significant trade and security groups, and New Zealand is closely associated with most of them. There are also other considerations contributing to the Asia-Pacific's importance to New Zealand. It provides a springboard for foreign direct investment (FDI), sustains the growth in tourism numbers, is a major supplier of overseas students and, as the 2013 national census revealed, is the point of origin for the most rapidly growing group of migrants to New Zealand.³

Of primary interest to New Zealand and its neighbours, the region has become a 21st century case study of the capacity of economic interdependence to smooth the edges of historic grievances and obstinate territorial disputes. Unarguably, whether through political, economic, security, defence or other prisms, what happens in the Asia-Pacific, and particularly the way neighbours behave towards each other, bears heavily on New Zealand's ability to promote its own regional presence and how successfully and profitably it does so.

Asia-Pacific: An overview

Obviously, the most congenial setting for New Zealand's regional aspirations would be one in which rules-based constancy was the norm and incentives that encouraged coherence and collaboration held sway. The assumption being that such a relatively benign state of affairs would keep in check any divisive tendencies that could otherwise foster discord and hinder integration and community building. However, the view from the region's southern extremity is far from clear. While the Asia-Pacific land and seascapes have undoubted attractions, they present a shifting mosaic of features; some confidence building, others less comforting. There is ample evidence in most countries of better governance, impressive economic growth and measureable welfare improvement. There are also unmistakable signs that the disposition of regional power in place since the late 1940s is stressed and undergoing significant change. While the established order displays no sign yet of being in imminent risk of wholesale unravelling, the process of change has excited fresh interest in theories of power transition.⁴

From one sombre perspective, 'the mix of several countries with robust identities, dynamic economies, rising military budgets, bitter historical memories, and unresolved territorial

³ Hawke, G. et al. *Our Futures: Te Pae Tawhiti. The 2013 census and New Zealand's changing population.* Wellington, Royal Society of New Zealand. 2014.

⁴ Foot, R. *Constraints on Conflict in the Asia Pacific.* 2014 Kippenberger Lecture, Discussion Paper 15/14. Wellington, Centre for Strategic Studies, Victoria University of Wellington. 2014.

disputes yields a recipe for classic geopolitical manoeuvring and possibly armed conflict'.⁵ The once preponderant but short-lived 'unipolar moment' of the United States (US) is clearly being tested. It is confronted by China's assertive 'rise', a resurgent Japan, Russia in revanchist mood, the sepulchral presence of the DPRK (North Korea), and the greater willingness of others - like India, the Republic of Korea (South Korea), Taiwan and some Southeast Asian countries—to project and protect their own interests. To that list, looking East, could be added signs of restiveness in South America over continued US political and economic dominance. These swirling currents across the region's geopolitical sphere may be intriguing to a disinterested observer. To those fearful of being swept up in them, and with a sense of Asia's turbulent history, they are seldom at rest, unpredictable and a tad scary.

Tackling familiar challenges

New Zealand cannot contemplate that fluid situation or try to evaluate its implications with idle interest. Attempting to exert influence and protect important national concerns is a daunting task for a minor player at the best of times. In a large region of great diversity that is experiencing strain and substantial change, the challenge to the advancement of a small country's national interests presents numerous practical difficulties. It complicates mightily the process of establishing and maintaining a meaningful regional profile. It creates serious decision-making dilemmas, many of a kind that is unfamiliar to New Zealand's political leaders, practitioners in the policy arena and those in the export community with ambitions to cross new frontiers or strengthen an existing market presence. Such existential impacts are cast in stark relief by the inescapable reality that no other developed nation fits as well as New Zealand the description 'small and distant'.⁶ Overcoming the 'tyrannies' of scale and relative remoteness, or at least mitigating their most egregious effects, is as pertinent for New Zealand in today's context as at any earlier period in the country's history.

This, of course, is New Zealand's customary lot. In a competitive world no concessions are sought or made for size and the country has to live with the hand it's been dealt. That's not to say the 'geographic imperative' is devoid of benefit. New Zealand's coastline is the world's eighth longest, beyond that of China, Japan or Mexico. Russia may be by far the world's largest geographic entity but its coastline is only three-fold that of New Zealand's. The country is surrounded in all directions by a thousand or more kilometres of open sea. Its area of Pacific search and rescue responsibility spans 11% of the globe. Only three other nations are blessed with an extended economic zone of greater dimensions; either continental Europe or the Indian sub-continent could fit comfortably into New Zealand's EEZ.

⁵ Haas, R N. 'The Unravelling: How to Respond to a Disordered World'. *Foreign Affairs*, 93 (6). November-December 2014.

⁶ On this theme see James, C. 'Alone, alone, all, all alone'. *NZIIA New Zealand International Review*, 38(3). May/June 2013.

However, unlike some other small states, New Zealand does not possess known reserves of prized precious minerals, or large fuel deposits—geothermal reserves aside. Nor is the country within easy reach of strategically located maritime straits or ‘choke-points’ where commerce is encouraged to thrive. Foreign linkages can never be considered ‘given’ or locked in place unalterably but are forever ‘works in progress’. Formal treaty-style allegiances are rare for New Zealand beyond the scope of binding multilateral commitments or regional accords. An exception is the defence-based Canberra Pact with Australia, but that has never been invoked.⁷ In other contexts, New Zealand is bereft by choice of the collateral advantages, such as privileged market access and peace of mind, that are said to be part of the bounty minor players derive from being engaged in an alliance relationship with a dominant partner.

No gloss can cloak the formidable odds that New Zealand faces in its quest for regional identity and acceptance. Or for safeguarding its four key national security interests: a safe, secure and resilient country, a network of strong international relationships, a rules-based international order, and access to international markets via secure sea, air and electronic lines of communication.⁸ Yet a passive ‘poor me’ approach is no more a realistic option for New Zealand today than in any previous era. Nor would it be acceptable to the country’s citizens. There is no way New Zealand could permit itself to appear from the outside as content with an image of being some secluded form of South Pacific irrelevance. No less now than when the connection with Europe was the prevailing narrative, forging an Asia-Pacific future calls for nimbleness of mind and foot in establishing tangible links and pursuing feasible policy options. The country has to earn and retain the respect of others for its capacity and readiness to influence factors that affect its interests and well-being, and for its unwavering adherence to generally accepted beliefs and values.⁹

It is hard to avoid the conclusion that New Zealand has entered another period in its modern history that is witness to a fundamental reshaping of its worldly and regional priorities. This latest experience is requiring adjustments that are altering the composition and fabric of domestic society, changing the fundamental nature of the economy and helping to mould what might be called the country’s evolving national character. New Zealand is no stranger to the need to accept and adapt to changing circumstances. Notable examples in the past century have been:

- coping with the agony and aftermath of the two world wars,
- the trauma of the Depression of the 1930s,
- reshaping relations with near South Pacific neighbours in the 1960s,

⁷ For a recent affirmation of joint defence and security cooperation, see *Joint Statement by Prime Ministers Hon Tony Abbott and Rt Hon John Key*, Auckland, 28 February 2015.

⁸ New Zealand Government 2010 *Defence White Paper*, also 2014 *Defence Assessment*, Wellington.

⁹ Ayson, R. ‘Standing up for values’. NZIIA New Zealand International Review, 40(5), September-October 2015.

- responding to Britain's entry into Europe in the 1970s,
- helping others reconcile themselves to the regional fallout from the Vietnam War, and
- absorbing the downside of the fracture of defence ties with the US in the 1980s over nuclear issues.

As the analysis below seeks to show, for New Zealand today's equivalent to those character-forming events is the challenge of coming to terms with the issues of geo-strategic leadership unleashed by China's dramatic rise in modern times and questions around the US perception of its future role in the region. New Zealand is not alone in facing that challenge.

New definitions and terminology

As the Asia-Pacific theatre beckons, there are many differences for New Zealand from earlier times and especially the immediate post-World War II period. One of the most obvious is the significantly altered composition of the group that has become of prime importance to New Zealand. Furthermore, there has had to be some rethinking of traditional terminology applied to bilateral and wider relationships. While the Western-dominated global order prevailed, there was a well-thumbed thesaurus whose meanings were generally acknowledged and not disputed. Today, less is axiomatic or presumed to be beyond question. Familiar reference points are not so readily accepted, including in parts of the Asia-Pacific, as being underpinned by an agreed set of assumptions, expectations and norms. Today, what qualities qualify a country to be addressed as an 'ally', 'responsible international stakeholder', 'strategic partner' or 'very good friend'? What do terms such as 'collaboration', 'core national interest', 'rebalancing', 'reaching consensus', 'reciprocity' and 'single undertaking' really imply?

Another mother lode of variegated meanings and imprecise usage is uncovered when attempting to define exactly what is meant by the fashionable metaphor 'regional architecture'. Does it mean much the same as 'institutions', 'networks' and 'systems'? Or does it pertain to a higher order of institutional being? To those who favour order and tidiness, the findings of Tow and Taylor are hard to pass by.¹⁰ Their argument is that regional architecture, whether economic or security focused, should display distinct characteristics. These they identify as coherence, unity, synergy, 'intelligent design' and purpose. Not wanting to be too prescriptive or imply a rigidly systematic approach, they concede these core attributes may display some flexibility and evolve through time as circumstances alter. In turn, on the basis that institution building is usually a messy business, Rolfe and others argue for a much less mechanistic, even more strongly organic

¹⁰ Tow, W. & Taylor, B. 'Emerging Regional Security Architecture: An Australian Perspective', in Tow, W. & Wah, C.W., eds. *ASEAN, India, Australia: Towards Closer Engagement in a New Asia*. Singapore, Institute of Southeast Asia Studies. 2009. 3-21.

and evolutionary approach.¹¹ The general point is that a range of terms in everyday use among analysts, commentators and practitioners now lend themselves to more than one interpretation. That situation illustrates the premium attached to a carefully nuanced and managed approach to pursuing relationships in a region where the tectonic plates of economic and strategic focus are under pressure, in varying degrees at the one time and from different directions.

Shifts in regional dynamics and the New Zealand dimension

This is all highly relevant to New Zealand. As already alluded to, for the first time in its modern history some of New Zealand's major current or emerging trade partners—and one in particular, China—are not those with which it has for decades had agreed strategic perspectives, enjoyed extensive security ties with and often fought alongside in defence of perceived shared values.¹² A further complication is that, for those whose expectation of the Asia-Pacific's institutions is that they should function collaboratively to common ends, the report card to date records many good intentions but varied results.

That said, any two observers will possibly draw different conclusions about what has actually been achieved. Some commentary complains that the region's overall progress is no match for what the European Union (EU) has accomplished as a post-Westphalian collective entity. But that advanced level of ambition for regional coherence and concession of sovereignty has never been postulated as a realistic goal for the Asia-Pacific. Its proponents might justifiably point out that the EU has had to endure travails, some self-inflicted, which their region has avoided or has been able to cushion the more severe impacts. In that category would fit the most recent 'global financial crisis' (GFC), the painful austerity measures a number of European economies were compelled to impose on themselves, and conflicting views more recently on how best to cope with a massive influx of refugees from sources south and east of the Mediterranean. For the Asia-Pacific the tumult of the 1950s and 1960s is a receding memory. Aside from Timor at the close of the century, in the past 40 years the region has not had to contend with tension levels, confrontation and bloody conflict on anything like the scale that assailed the Balkans in the 1990s and, more recently, has afflicted central Europe.

Notwithstanding relative peace in the neighbourhood and its economic resurgence, the challenge of developing relationships in the Asia-Pacific is one that some in New Zealand face with mixed feelings. There is no doubt that consolidating a place in the region in the 21st century is an experience with unique aspects in New Zealand's evolving nationhood. There are features missing, built around long association and familiar norms, which have

¹¹ Rolfe, J. 'Regional Security, Multilateralism and Darwinian Principles', Asia New Zealand Foundation, *Bulletin* online magazine. 11 August 2014.

¹² Patman, R. *US-China and New Zealand's Balancing Act in the Asia-Pacific*. CSS/NZIIA Seminar on Asia-Pacific Integration. Wellington, Victoria University of Wellington. 13 November 2013.

marked the country's other significant past and present attachments. Those are the British imperial system, the former defence-dominated alliance ties with the US, the multilateral rules-based order of doing things in the United Nations (UN), the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO), and the familiarity bestowed by the Commonwealth and South Pacific connections. Another example is the intimacy that, for the most part, now underpins close links with Australia.¹³ No matter how deep the uncharted and often stormy Asia-Pacific waters may seem, a policy of active involvement in areas of particular interest is the only practical economic and strategic choice for a nation intent on thinking for itself and that wants its aspirations, concerns and opinions taken into account.¹⁴

Therein, from the standpoint of managing its resource base, is a key element of the policy conundrum that confronts New Zealand in projecting its Asia-Pacific presence. With strictly limited operational skills and experience at hand, how much human and capital asset should be given over to the promotion of valuable bilateral ties? Compared, that is, with the time and effort needed to maintain a conspicuous level of participation in broad-based regional endeavours, some of which are making worthy progress while others demonstrably less so. This resource allocation dilemma is not a novel situation for New Zealand. The need to balance the competing demands of bilateral links and multilateral membership has existed since the League of Nations and became more acute once the UN and its suite of specialised agencies were set up and the Bretton Woods financial institutions came into being. New Zealand's 2015-2016 two-year term as a non-permanent member on the UN Security Council will bring the particular management challenge of weighing the merits of different options into sharper focus. Participation in Council proceedings as a member from the 'Western European and Others' electoral group should in no way inhibit New Zealand's ability to play a full part and show creative leadership in Council discussion of issues of close interest to the Asia-Pacific or further afield.¹⁵

The substantive difference for New Zealand between membership of the big multilateral agencies and the relatively smaller Asia-Pacific groupings is obviously one of relevance and

¹³ The differing ways in which the two countries have responded to the exigencies of their geography and history is well set out with a light touch in McLean, D. *The Prickly Pair*. Wellington, Astra Print. 2003.

¹⁴ The challenge of reconciling traditional links New Zealand had to the Atlantic Community with its physical location in the world was a topic of debate even from the early days of the country's Foreign Service. 'We are a nation in search of a regional identity', Alister McIntosh address to Canterbury University 1965, in Templeton, M. (ed.) *An Eye, An Ear and A Voice*. Wellington, Ministry of Foreign Affairs and Trade. 1993.

¹⁵ *New Zealand statement to UN Security Council Open Debate: Maintenance of International Peace and Security*. Delivered by McCully, Hon M., New Zealand Minister of Foreign Affairs. Wellington, Ministry of Foreign Affairs and Trade. 23 February 2015. Also his article on the eve of New Zealand assuming presidency of the Security Council. 'New Zealand plans to focus on Mid-East on the security council'. Wellington, *Dominion Post*. 30 June 2015.

scale. This exists on two counts. It is easier to be seen and heard in the regional context than when nearly 200 other states may be competing for attention on the world stage. There is also a qualitatively different dynamic at play when the agenda of a regional body is most likely to include items that, with rare exceptions, are directly linked to New Zealand's concerns. In drawing such distinctions it has to be noted that a cluster of pressing global challenges appear with just as much legitimacy and regularity on both regional and multilateral agendas. Issues such as arms and drugs trafficking, climate change, cyber-crime, energy conservation, food security, labour mobility, pandemics and people smuggling come to mind.

The tapestry of New Zealand's bilateral relations

Within the bilateral arena another hierarchy of interests has to be factored into New Zealand's policy equation. Simply put, and for various reasons including accessibility, size, market opportunities and the level of mutual support for common aims and values, some countries matter more to New Zealand than others and probably always will. Inevitably, New Zealand's relationships with individual neighbours are always at various stages of development.

At the most elementary level, existing ties with North Korea and the small Himalayan, Indian Ocean and mid-Pacific nations could be described as being in their *infancy*. They consist of the bare essentials of bilateral interaction through modest development assistance packages offered by New Zealand and occasional contacts in multilateral forums. On the other hand, with countries like Bangladesh, Cambodia, Laos, Colombia, Mongolia, Myanmar and Peru, relations are evolving in promising ways and have reached *early adolescence*. This involves joint recognition of some emerging areas of common economic or strategic concerns, in some cases both, and with relatively easy access to each other along formal and informal channels when the need arises.

Late adolescence would describe New Zealand's links with countries such as Brunei, Vietnam, Mexico, Pakistan, Russia and Sri Lanka where there is some serious history to the association valued by both sides, and New Zealand and its partner accept they have solid areas of interest but with unfulfilled potential. With a number of other regional partners—Chile, China, India, Indonesia, Philippines and Thailand—there are ties of considerable depth, some of long-standing, but significant areas remain underdeveloped. This state of affairs could be termed *early maturity*.

Finally there is the situation of *late maturity* where New Zealand's links with others have a very long and valued history. This inner circle of traditional close connections cannot be taken for granted but their bedrock underpinning is securely in place. There are shared perspectives, substantial political and economic breadth and depth, and much common experience, some of it painfully borne together. In these well-developed contexts, from New

Zealand's standpoint, communication with capitals in the group is straightforward, open and often robust. Regular contact occurs at senior political and business levels, and there is constant people-to-people movement. Within the Asia-Pacific, the standout candidates in this category for New Zealand are Australia, Canada, Japan, Malaysia, Singapore, South Korea and the US.

An important caveat must be added. The tentative taxonomy above should not leave the impression that individual linkages are static entities, fixed in time and place. Bilateral relationships between countries are organic beings and never assume a definitive final form. Rather, they show an amoeba-like behaviour, certainly in their fledgling stages, forming and then reforming as they respond to changing stimuli. They can prosper and 'graduate' from one stage of intimacy to another provided the parties are willing for this to happen and prepared to make the effort. This evolutionary process has been well illustrated in New Zealand's deepening ties in recent years with, for example, Chile and Colombia, Mongolia and Myanmar, Pakistan and Peru.

Another qualification should also be made. A narrow focus on the relative strength of purely two-way ties can be misleading and unfair. It may miss the often less obvious but still hugely important regional dimension that is ever present in each bilateral relationship. The importance to New Zealand of solid links with countries like Brunei, Chile, Mexico and Peru, or with Cambodia, Laos and Myanmar, cannot be accurately measured and done justice to if the significance of their participation in the Asia-Pacific Economic Community (APEC) and Association of Southeast Asian (ASEAN), respectively, and the contribution these groups make to regional solidarity, is overlooked.

More about APEC below. First, in respect of ASEAN its centrality in Asia-Pacific 'open regionalism' is a fundamental cornerstone of the wider objective sought by most East Asian countries of community building and economic integration. Since the ASEAN Charter was adopted in November 2007, by its own assessment the group has advanced a considerable distance to setting in place the three 'Pillars' of its vision to create coherence out of diversity and obtain a genuine, single integrated Community by the close of 2015. Forward movement in the economic sphere is more evident than in the political-security or socio-cultural dimensions and some delay in reaching the goal of a single community appears inevitable. There is frequent negative comment, internally in ASEAN and from outside, about the cautious pace of progress being made with complaints that emphasis is too much on form rather than substance.¹⁶ What might be called signs of 'centrality fatigue' have appeared and undoubtedly the 'ASEAN way of non-intrusive and gradualist decision making'¹⁷ has put heavy pressure on the achievement of real ASEAN cohesion.

¹⁶ Desker, B. 'ASEAN integration remains an illusion'. *East Asia Forum*. 2 April 2015. Also Desker, B. 'ASEAN's ambitions risk outstripping its capacity'. *East Asia Forum*. 27 August 2015.

¹⁷ Dobson, W. 'Striking a balance: Asian institutions and global influence'. *East Asia Forum*. 12 July 2013.

To its credit this single entity with a population exceeding 600 million has already achieved a combined GDP of over US\$3 trillion. Unsurprisingly, adjustments have to be made to policies and expectations as the vigorous economic expansion of recent years eases, new growth drivers such as rapid urbanisation have to be grappled with, and contrasting development levels among the group's members become more starkly apparent. There is, too, the novel experience for most ASEAN administrations of public 'push-back' over environment and equity concerns. While they have some solid foundation, the criticisms of slow progress to a single sub-regional entity need to be balanced against the absolute priority of strengthening ASEAN unity in a consistent and durable manner. This behoves the group to move, no matter the accompanying frustration, at the speed that its less economically advanced or politically adventurous members are comfortable with and are able to sustain.

Small state relations

That last point brings to the fore another immutable fact of life for small players like New Zealand. On precious few subjects of global or regional significance can they influence the results of discussions decisively by toiling single-handedly. Security Council engagement in 2015-16 will bring further reminders of this. Solo performers on the international stage who transparently push their own agenda may be given a turn at the podium and listened to politely. But not often does a self-centred, even if virtuoso, performance by a small player move the course of the debate or have substantial impact on the outcomes. For countries with limited capacity and their sights set on resolving issues that weigh heavily on them, the clue to success in most instances is working in concert with other 'like-minded' partners, probably also of modest means but who share the same level of ambition.

For New Zealand, much of the successful regional trade effort to date has depended on effective cooperation in joint endeavours with countries such as Brunei, Chile and Singapore, and more recently with Malaysia, Peru and Vietnam. The point also applies further afield in areas that address broad-based global political and security-type problems, and where small developed nations can find common accord. On nuclear materials issues, for example, or non-nuclear proliferation and measures to combat the menace of cluster munitions, New Zealand's contribution has benefitted from its ability to work in harmony with the Nordic nations and with European partners like Austria, Belgium, Ireland and the Netherlands. The 'Small Advanced Economies Initiative' established by New Zealand in 2012 involves Denmark, Finland, Ireland, Israel, Singapore and New Zealand. The group discuss common challenges and opportunities in an increasingly inter-related world and competitive global economy.

Asia-Pacific's move to centre stage

The snapshot above highlights that, while it could be said New Zealand is now bound at the hip to its Asia-Pacific neighbourhood, the connection is unmistakably many-hued. The region itself is vast in size, enormously diverse and defies neat packaging. It now holds dominant position on a number of recognised global rankings. More than half the world's population resides in the wider region. Close to one-third of global inhabitants live in mainland East Asia and adjacent island chains like Indonesia, Japan, the Philippines and Taiwan; Australia and New Zealand are included here. South Asia holds nearly one-quarter of global population, principally in India. North America hosts another 5%. Asia-Pacific as a whole accounts for the majority share of global gross domestic product (GDP), above 55%. This rises closer to 60% on a purchasing power parity basis, applying the International Monetary Fund (IMF)/World Bank definition.¹⁸

Perhaps most impressive has been the extent to which in the past decade the Asia-Pacific's economic growth rates have outstripped all other regions. Recent world average growth has been just over 2%, but East Asia and the Western Pacific have averaged 4%, being responsible for 26.5% of global manufacturing output in 1990 and 46.5% by 2013. Developing countries have set the pace at around 7%, led by China, which the IMF expects to increase its share of Asian GDP from 32% in 2010 to 46% by 2019.¹⁹ In 2014, by the measure of purchasing power parity, China displaced the US as the world's largest trading economy, though not by a long stretch in per capita terms.²⁰ US economic growth has been marginally below the world average but appears to be on a firm rebound that, if sustained, would serve to buttress its regional profile. By 2030, five of the world's six biggest economies are expected to be in the Asia-Pacific; namely, China, India, Indonesia, Japan and the US.²¹ On these projections, by 2030 the US will by only a small margin hold global economic dominance ahead of China and India. A range of other indicators reinforces the Asia-Pacific's reputation of having become the 'engine-room of global growth'. The region is relaxed in that role; home to eight of the world's 15 largest producers and consumers of energy, to eight of the 15 largest banks, 11 of the world's busiest airports and most of the world's biggest container cargo facilities.²²

¹⁸ The Economist. *The World in Figures*. 2014.

¹⁹ China's economic expansion slowed in 2014-15, in part inevitably so as the economy transitions from being infrastructure investment and export-led to one based on consumer demand and services. The long-term impacts of the slowdown should not be over-stated and foreign companies need to adapt their strategies as the country becomes 'increasingly more a value than a growth proposition'. See Mahon, D. *China Watch*. Autumn 2015.

²⁰ International Monetary Fund. *The World Economic Outlook*. April 2014.

²¹ Various sources: IMF, Goldman Sachs, McKinsey Global Institute, US Department of Agriculture. 2015.

²² The Economist. *The World in Figures*. 2014.

Refocusing New Zealand's interests

The wider Asia-Pacific region has established itself front and centre of New Zealand's economic ambitions and performance. Things have moved a long way from the immediate post-World War II era, especially since the mid-1970s when, driven in other directions by Britain's entry into the Common Market, New Zealand was compelled to focus its trade attention away from Europe. Previously, until Britain's long-term aspirations towards Europe became clear in the 1960s, formation of a comprehensive trade strategy and its execution across many markets had never had to feature prominently among New Zealand's economic priorities. Today, as a direct result of such a strategy, the top five and seven of New Zealand's top 10 trading partners are in the Asia-Pacific.²³

Building on the pioneering work of the 1970s, the shift in the country's export trade has been dramatic, particularly over the past three decades. In 1984 Europe still took 20% of New Zealand's exports, Australia 17%, Japan and the US around 15%, the ASEAN group absorbed 5% and China 4%. By 2004 Australia and the US still headed the list of key markets, but Europe had fallen to 17% and Japan to 11%. Both ASEAN and China had climbed to 8%.²⁴

Another 10 years on and the rankings have changed once more. The bilateral free trade agreement with China was signed in 2008. There was a confident prediction, which appeared light-headed at the time, that China could become New Zealand's foremost export destination by 2020. That point was actually reached in 2013; the rapid growth in Chinese demand for New Zealand consumer products had not been anticipated. China now takes 21% of New Zealand's exports. It is prudent here to insert a precautionary word. While it was satisfying that China had climbed to be New Zealand's number one trading partner so soon after the bilateral agreement was signed, the gravitational pull of the China economy means that up to 100 other countries could echo that claim, many of them in the Asia-Pacific.

Australia is now in second place among New Zealand's markets at 18% of export receipts; in some months trans-Tasman trade volumes surpass those with China. ASEAN as a group attracts more than 10% of New Zealand's exports, the EU and the US both take around 10%, Japan is down to 6% and South Korea to 4%. The single largest cluster of New Zealand's trade partners worldwide consists of the three North Asian countries, China, Japan and South Korea. Together they absorb about 30% of New Zealand's exports. Collectively the EU is still a significant destination and not to be overlooked. But the marked shift to other markets closer to home means the bulk of New Zealand's exports now travel half the

²³ Statistics New Zealand. *Overseas Trade Indexes*. 'Coriolis Analysis of New Zealand food and beverage exports'. Auckland, Statistics New Zealand. 2014.

²⁴ UN Comtrade Database. Also, New Zealand Institute of Economic Research. *New Zealand's Economic Relationship with Japan*. Wellington, NZIER. 2006.

distance they did 30 years ago (perversely the benefits of reduced transit time are offset in some newer markets by more protracted import procedures). A couple of other statistics highlight that trend. The weekly trade with ASEAN now is equivalent to what took 12 months to send to Southeast Asian markets when the group was formed in 1967. The annual shipments from New Zealand to China when diplomatic relations were established in 1972 now move in that direction every four or five hours.

New Zealand's economy is above average on a per capita GDP basis and has grown above the OECD mean. While relatively small it is recognised as being open and highly trade-oriented. A key feature, too, is that the economy's wellbeing is heavily reliant on enforceable rules-based systems to safeguard and facilitate the flow of goods and services. This level of dependence on open markets, free but not unregulated trade, agreed procedures and rules, meant New Zealand had no choice but to participate actively in the process of closer economic connectivity and integration that has taken place in the Asia-Pacific since the early 1990s. Consequently, the region now hosts all of New Zealand's trade agreements and economic partnerships currently in place and most of those under negotiation. The exceptions are the talks being held with the Gulf Cooperation Council and, separately, with Belarus, Kazakhstan and Russia. Trade statistics show that between 2008-2014 New Zealand exports to non-trade agreement markets declined 2.6% but to partners in agreements rose 10.4%.²⁵

Within New Zealand's store of agreements in force, the 1983 Australia New Zealand Closer Economic Trade Agreement (ANZCERTA) has been the platinum performer over the years. Underpinned by the many other strands to the bilateral relationship, ANZCERTA is often held up as the exemplary 'model' for those who aspire to a modern, comprehensive, genuinely 'free' trade accord. In its continuing process of evolution over three decades, ANZCERTA has progressively enlarged its scope and depth, advancing some light years beyond the limits of what its designers ever conceived possible.²⁶

The ASEAN-Australia-New Zealand Agreement (AANZFTA) entered into effect in 2009. It, too, contained original features: specifically, its treatment of difficult multilateral subjects such as competition policy, government procurement, investor-state dispute resolution, investment and regulatory coherence. The ASEAN group is New Zealand's third largest trading partner and the nearest cluster of economically dynamic countries with sizeable populations, rapidly growing and acquisitive middle classes, and changing life-styles. Exports reached NZ\$6.1 billion in the year ended March 2015.²⁷ Together, the group has the world's third biggest labour force. It is Asia's third largest and world's seventh largest

²⁵ Groser, Hon T. Remarks to annual general meeting of New Zealand PECC, Auckland, 3 September 2015.

²⁶ See, for example, Leslie, J. *New Zealand Trade Strategy and evolving Asian-Pacific regional economic architecture*. Wellington, Asia New Zealand Foundation. January 2015.

²⁷ Adams, C. 'Southeast Asia 'our insurance''. *New Zealand Herald*. 24 August 2015.

economy, responsible for 7% of global exports and with a combined GDP one-quarter above that of India.²⁸

Among ASEAN members, New Zealand has negotiated several bilateral trade agreements; some of them at the point of signing had liberal elements that were at the time without precedent. The bilateral Singapore accord (2001) was the first occasion following ANZCERTA on which New Zealand stepped back from its long preferred multilateral approach to negotiating trade agreements and also looked beyond solely goods exchanges to espouse broad economic integration. Similarly progressive agreements followed with Thailand (2005) and Malaysia (2010).

A 'closer economic partnership', as it is termed to avoid sensitive issues around the enclave's political status, is in place with Hong Kong (2011). Since 2013 there has been another such partnership with Taiwan that *The Economist*, not given to bestowing praise lightly on Asia-Pacific trade initiatives, described at the time as 'a diplomatic coup' for New Zealand.²⁹ The most recent trade accord, formally signed on 23 March 2015, was with South Korea; New Zealand's seventh most important trading partner, annual trade being around NZ\$4 billion. On the agreement's entry into force duties on nearly half New Zealand's exports to Korea will be eliminated.³⁰

The 2008 New Zealand-China Free Trade Agreement warrants further mention. Until late 2014, when Beijing and Canberra concluded their trade deal, the agreement with New Zealand was for six years the only one China had in place with a developed economy and OECD member. Actual export growth has far exceeded the cautious estimates when the agreement came into force that New Zealand's annual volumes to China could expand in value by NZ\$200-300 million. In 2013 alone, export trade to China grew by NZ\$3 billion to NZ\$10 billion in total, up nearly 300% from 2008. The two governments have agreed on a target to double the yearly trade to NZ\$30 billion by 2025 (that is an ambitious goal but, to keep a sense of proportion, Malaysia's annual trade with China is around US\$170 billion and Singapore's close to US\$100 billion, total ASEAN trade with China is about US\$500 billion.)

There have been other tangible spin-off benefits not envisaged when the agreement was signed. For example, it is hard to imagine that the substantial expansion in two-way direct investment would have occurred without the supportive framework of the free trade accord. It is well known that the dairy sector has rapidly come to dominate what New Zealand sends to China. What was not foreseen in 2008 was that the China agreement

²⁸ McKinsey Global Institute. *Southeast Asia at the Crossroads*. November 2014. Also, ANZ Bank. *ASEAN: The Next Horizon*. April 2015.

²⁹ *The Economist*. 13 July 2013.

³⁰ Groser, Hon T. *Trade Minister welcomes signing of NZ-Korea FTA*. Wellington, New Zealand Government. 23 March 2015.

would provide access to a worthy testing ground for the way that New Zealand companies, such as in the dairy sector, might reposition to better advantage along a particular production network chain and benchmark their performance against competitors.³¹ That said, the Australia-China trade agreement concluded in 2014 has features absent from the five-year-old New Zealand accord with Beijing, which now needs to be upgraded if the growth target for 2030 is to be realised.

In sum, the 21st century commercial reality is that no other global markets offer the same level of demand and promise for New Zealand exports as do those in the Asia-Pacific. This is explained by the rise in income levels in East Asia, the eye-watering amounts available in foreign currency reserves, the emergence of a very sizeable middle class already of around half a billion, and the trend in dietary preferences towards higher protein consumption. Those demand-side factors have graphically shown up the disparity between East Asia's huge people numbers and its scarce tracts of farmable space. China is home to one-quarter of world population but hosts just 7% of global arable land. The Asia-Pacific region and especially East Asia stands tall above all others for its ability to absorb increasing tonnages and to offer worthwhile returns for the food and fibre products New Zealand is best known for. This applies especially to land-based consumer items, given the New Zealand farming sector's capacity to provide food for many millions beyond the needs of the domestic population.

While that outlook is reassuring, penetration of the new regional markets by New Zealand exporters has not come quickly or easily. Stern lessons have and are still being learned, an experience from which no New Zealand trading entity of any size may confidently consider itself immune. Success for New Zealand companies has come only through persistence and hard work, for being known for ethical business behaviour and for having innovative ideas and customer-focused products to offer. It has meant acquiring knowledge of different business cultures and regulatory frameworks and new ways of establishing and maintaining commercial connections. There has had to be a shift in mind-set particularly towards Asian linkages, to recognise that partners there are '... much more than traders. They are builders, lenders, investors ...'³² New Zealand exporters have had to learn as well that a market presence is never guaranteed: it has to be earned and continually refreshed. A reputation for supplying consistently high quality items in sufficient volumes to meet expanding demand has been a major factor in New Zealand gaining Asia-Pacific market share. Holding on to that reputation is paramount. Some high profile embarrassing mistakes with accompanying publicity have demonstrated that the advantages of a hard won positive image can be forfeited through one false step.

³¹ New Zealand Pacific Economic Cooperation Council. *NZPECC/Coriolis: Dairy Value Chain Research Project*. www.pecc.org.nz. 2014. See also interview with Alan Bollard, Director, APEC Secretariat, in *New Zealand Herald*. 21 March 2015.

³² Feigenbaum, E A. 'The New Pan-Asian Order'. *Foreign Affairs*. 2 February 2015.

There are many other modern-day challenges facing New Zealand exporters in the Asia-Pacific. One that has become profoundly important, not only for participants in the food and beverage sector but for purveyors of services as well, is to adapt their *modus operandi* to the demanding requirements of regional production networks. These are the sinews of economic connectedness that operate seamlessly across borders unmindful of sovereignty issues and the sanctity of national frontiers.³³ They are intertwined commercial arrangements, sometimes loosely called supply or value chains. Their emphasis is on the final assembly of products not being at the firm's domestic plant but close to distant markets. They are prominent in the regional production of items as diverse as automobiles and electrical goods, infant formula, Wimbledon tennis balls and textiles. Competition between production networks that turn out the same finished item has become as much a feature of modern business as competition among participants within a single chain. That does not preclude an individual firm from functioning in more than one chain.

The task for today's trade policy practitioners is to build credible supply-value chain and production network analysis into their negotiating armoury in ways that recognise the realities of 21st century commerce, not least the now dominant position of trade in services. To be in tune with modern business practices, the next generation of trade liberalisation measures will need to accept that to acknowledge the way that regional production networks function is not an optional extra for possible incorporation in trade agreements; it is essential to the whole process of further economic integration. New agreements should have relevance throughout a regional production network and desirably include all economies within which a particular chain operates. A recent study drew attention to the significance of the increasingly dispersed and digitised nature of the global and regional economies. It highlighted the distance New Zealand still has to travel to raise its level of connectedness with value chains, with emerging markets especially in Asia, and with the new world of knowledge intensive trade flows.³⁴

Economic Integration

Process, pressures and pathways

In its early beginnings, and especially in East Asia and parts of South Asia in the 1980s, the region's economic expansion owed much to a large influx of foreign direct investment (FDI). That FDI surge was soon followed by the arrival of big multinational companies (MNCs) from Japan and the US, some from Europe, and their construction of cross-border production chains into what became fondly known as 'Factory Asia'.³⁵ The long-established

³³ The spread of global value chains and their promotion of economic integration help explain the growth of intra-Asian trade from 25% in 1990 to over 50% by 2014. *The Economist*. 31 May 2014.

³⁴ See McKinsey & Company. *Companions Abroad: Australia's and New Zealand's participation in global flows*. February 2015.

³⁵ On the contribution of global value chains to regional integration see Dobson, W. 'Creating architecture to sustain Asia's spectacular progress'. *East Asia Forum*. 3 March 2015.

trade in completed products exchanged between two economies gave way to a new preoccupation with movement of intermediate goods over many borders. The flow of semi-finished items now accounts for over 70% of all Asia-Pacific regional trade. The process involves items becoming more sophisticated and progressively more valuable as they move across borders until their eventual retail sale in as many markets as possible.

What this means is that no longer is the conduct and content of trade a simple matter of a seller in one country locating a willing buyer in another. The norms of modern commerce have become a great deal more complex and exacting. As a result of the deep penetration across borders of regional value chains, the prominence of the semi-finished products trade and the steep rise of services interchanges, the once dominant movement of completed goods has given way to what may be termed a 'trade in tasks' along value chains. It is not surprising that global value chain managers attach more importance to improving the apparatus of inter-state connectivity than to mainstream trade liberalisation measures as such.³⁶

In hindsight, the 'regionalisation' of Asia-Pacific trade, market-led and driven by the tightly focused commercial ambitions of the MNCs, caught regional governments and their established regulatory systems out of position. They were unprepared for the new ways of transacting business, with peripatetic consumer items undergoing incremental enhancement in many national jurisdictions before final assembly and delivery. On reflection, trade advisors might acknowledge there had indeed been 'institutional lag' and that creative new rules for commercial engagement were called for. Likewise, long respected regional agencies, such as the economic commissions for 'Asia and the Far East' and for Latin America, also failed to grasp that trade was being transformed and to adapt their agendas accordingly. They have struggled to remain relevant.

The multilateral trading system: Whither or wither?

As regional growth gathered momentum there was initial anticipation that a further boost would come from another productive, wide-ranging accord sponsored by the WTO that was established in Geneva in 1995. The eighth round of global trade negotiations was launched in Doha in 2001. This new multilateral effort was expected to lead to an agreement to follow the GATT Uruguay Round that had ended in 1994 with generally positive results. That successful outcome had not meant that all the gains possible through multilateral liberalisation had been achieved. But it had benefitted New Zealand more than most developed economies by way of guaranteed access quotas, reduced subsidies for competitors, lower tariffs, binding rules, and a new regime for dispute settlement. The sense of expectation succumbed to disillusion as the 'Doha Development Round' negotiations dragged on, slowed and eventually stalled. They are still becalmed. A breakthrough in one

³⁶ See Elek, A. 'RCEP will help get ASEAN integration back on track'. *East Asia Forum*. 8 June 2014.

important field was made with the removal, following US intervention, of India's objections to the 'Bali package' of trade facilitation measures negotiated in December 2013.³⁷

Despite the travails of the Doha Round, not all worthwhile negotiations in Geneva are deadlocked. A Government Procurement Agreement concluded in 2012 has come into force.³⁸ It gives New Zealand exporters equal rights when competing for government contract opportunities abroad without having to establish offshore subsidiaries. An expanded version of the Information Technology Agreement shortly to take effect will remove tariffs on a wide range of new technology products. There is also ongoing work outside the formal WTO process towards a new Trade in Services Agreement and on another sector accord on environmental goods.³⁹ Only a relatively small number of WTO members, including New Zealand, are engaged in these last two negotiations.

There was profound disappointment in the Asia-Pacific region over the limitations of the multilateral system in the modern era exposed by the stuttering progress of the Doha Round. This served to reinforce the incentive, already felt by Asia-Pacific governments, to look inwards to their own regional and sub-regional resources in the search for new mechanisms to maintain economic growth. What viable alternative institutional arrangement could offer the continuing stimulus sought?

One notable early step away from the 'purist' multilateral approach was to establish, in 1989, on Australia's initiative with support from Japan, a new piece of regional architecture in the form of the Asia-Pacific Economic Community (APEC). The original 12 APEC members have increased to 21 regional economies drawn from the Americas, North and Southeast Asia, Oceania and Russia. They include all the economic heavyweights around the Pacific Rim. New Zealand was a founding member. In 1994 APEC captured its main aims in the 'Bogor Goals' that envisaged free and open trade and investment among the region's developed economies being reached by 2010, and this being achieved among its developing economies by 2020. Another mid-term review of progress towards the 'Goals' is imminent.

From bilateral to sub-regional and mega-regional

The favoured vehicle of economic consultation in most parts of the region very quickly became negotiated instruments in which two or a larger but still confined number of contracting parties agreed to make specific economic and trade concessions to each other. Commonly described as 'free trade' agreements these 'new generation' accords were rarely

³⁷ Froman, M. *Statement by United States Trade Representative*. Washington DC. November 2014.

³⁸ Joyce, Hon S. and Groser, Hon T. *Global procurement deal takes effect today*. Joint press release. Wellington, New Zealand Government. 13 August 2015.

³⁹ It is noteworthy that China and the US, with other major players (Japan, South Korea), have achieved a level of collaboration at the multilateral level they have struggled to emulate in the regional setting.

that in the strict sense and definitely not *laissez-faire* arrangements. Nor did they qualify as genuine 'multilateral' agreements because there was implicit discrimination against non-members. A more accurate term would be 'preferential agreements'. Of greater importance than issues of definition, the flow-on effect has been that these more narrowly targeted instruments served the purpose of sustaining the process of regional economic liberalisation.

Fears that they would encourage significant trade 'diversion' away from better paying markets not included in the scope of specific preferential agreements have proved largely unfounded. Any measurable redirection that may have occurred was overwhelmed by the general upsurge in intra-regional trade volumes. In significant part, the enthusiasm that East Asia economies discovered for these geographically confined agreements, typified in the ASEAN Plus Three and ASEAN Plus Six initiatives (discussed further below), was a measure of the searing experience they had coping with the regional financial and economic crisis of 1997-98. At that difficult time Asian governments received precious little sympathy or support from the large developed economies or the international financial institutions. By contrast, China was understanding and supportive, heralding the beginning of the new phase of its active involvement in the region. Little wonder that self-help took on greater appeal for smaller economies, as illustrated in the establishment of regional economic public goods, such as a reserve currency pool through the Chiang Mai Initiative (CMI).

Only four restricted membership agreements were in place in the wider region in 2000. The 1983 ANZCERTA accord between Australia and New Zealand was one of the longest standing. ASEAN had its own internal free trade arrangement and in North America there was a Canada-US bilateral agreement plus the North American Free Trade Agreement (NAFTA) threesome that included Mexico.

A marked proliferation of Asia-Pacific trade agreements has occurred since 2000 and close to 100 are now in force. They vary considerably in their breadth of sector coverage, in the allowance for exemptions, and in tariff reduction timeframes. Also in the rigour of their treatment of key aspects, such as open accession, regulatory barriers and rules of origin.⁴⁰ In some cases there has been an extension of the geographic scope to include members from both the eastern and western rims of the region. Most of these new agreements are bilateral accords; of those with wider regional reach, the innovative 2005 Trans-Pacific Economic Partnership ('P4', which grew into what is now the 12-member Trans Pacific Partnership (TPP)) between Brunei, Chile, Singapore and New Zealand was an early example. It was not unexpected that given their number, diverse membership and different ingredient mix

⁴⁰ Sally, R. 'Is bigger better for ASEAN in a mega-regional world? *East Asia Forum*. 10 September 2014.

from one agreed trade package to the next, descriptive terms such as ‘alphabet soup’ and ‘spaghetti bowl’ of agreements came quickly into common usage.⁴¹

APEC: Agenda and contribution

APEC is the singular institution promoting Asia-Pacific regional growth and integration. Its members are responsible for 40% of global population and close to 60% of global GDP. About three-quarters of New Zealand’s exports now go to APEC economies. APEC is not itself a negotiating entity and proceeds by consensus. Its decisions are non-binding but carry weight because of the many dominant economies involved. This means that APEC is not determinant in what it does but is better described as an enabling and facilitative forum. Over time, APEC has proven to serve a very useful purpose in bringing closer together, if not yet fully reconciling, the ‘Western’ preference for economic and trade agreements to be reciprocal, enforceable and verifiable, with the ‘Asian’ emphasis on community building and inclusivity.⁴²

Initially, while still gaining regional acceptance, APEC provided a setting only for dialogue among relevant ministers and senior officials. From 1993 onwards, at the urging of the US, APEC has hosted an annual meeting of the heads of government of its 21 member economies, enhanced by formal interaction with APEC’s Business Council and the presence for their own deliberations of several hundred senior company executives from around the region. This yearly caucus of political and business leaders has a well-established and valued place in the regional conference calendar, which helps to explain the numbers of aspiring member economies as distant from each other as India and Colombia. Among those currently not APEC members are the three least developed ASEAN countries; Cambodia, Laos and Myanmar.

APEC’s main pillars of activity are trade and investment liberalisation, business facilitation, and economic and technical cooperation, now more commonly called capacity building. This largely economic and trade-oriented agenda has remained APEC’s primary focus and is responsible for several hundred meetings annually of ministers and officials preceding the Leaders’ high-level gathering. The Leaders’ schedule has been malleable enough to include at different meetings consideration of pressing non-traditional regional concerns that have been generally shared. The 2001 APEC statement on terrorism after ‘9/11’ set the trend. Other recent examples include climate change, counter-terrorism, disaster relief, emergency preparedness, energy security, global financial stresses, and human security.

⁴¹ Bhagwati, J. *Termites in the Trading System*. Council on Foreign Relations, Oxford University Press. 2008.

⁴² Gary Hawke has written extensively on this topic. See, for example: Hawke, G. *What Kind of Economic Integration?* Background paper, Economic Research Institute of ASEAN. 2012. And, *Economic Integration with Asia: Bridging the Divide*. Asialink Essays, University of Melbourne. August 2013.

The annual Leaders get-together has also proved a fortuitous opportunity for individual leaders to address bilateral matters with their peers in a speed-dating sequence of 'pull-aside' sessions. On occasion, a limited number of leaders or senior ministers with a common interest in an immediate issue have been able to convene 'off site'; for example, to inject fresh political energy into slow moving sub-regional trade talks. Another illustration of the informal way of proceeding was the hastily assembled but successful meeting of APEC foreign ministers on the eve of the 1999 Auckland APEC Leaders forum to discuss the sudden deterioration of the security situation in Timor Leste.

Now moving beyond its first quarter-century, APEC has attracted its supporters and its detractors. The latter are inclined to seize upon the institution's lack of supra-nationality (no common citizenship, currency or law) and the absence of a formal negotiating mandate and enforcement powers to dismiss it with the 'mere talk shop' label. For their part, the champions of private enterprise and the custodians of global value chains could well protest about how much regional growth should actually be credited to the interventions of governments. They might argue that a greater contribution should more fairly be recognised as having been driven by the stimulus of the private sector's entrepreneurial efforts.

APEC's patrons do not disguise its limitations but point to the undeniable economic gains the region has made 'on its watch'. By APEC's own reckoning, since 1989:

- average regional tariff barriers have fallen from 17% to under 5%,
- business transactions costs have dropped by over 10%, representing savings of many billions of dollars,
- intra-APEC trade has risen six-fold,
- the region's total trade has increased five-fold,
- more than 50 trade agreements have been signed among APEC members, and most of them are operational.⁴³

It is hard to challenge the pertinence of APEC's current 'top of the list' projects under the rubric of regional connectivity and community building. They focus on economic integration, economic and financial reform, e-commerce, environmental goods, government procurement, innovative development, regulatory coherence, structural reform, and strengthening infrastructure.⁴⁴ Through its 'pathfinder' initiatives, APEC has filled a valuable role as an incubator for trialling ideas in social fields such as education, environment, health and life sciences. It is still the case that individual members are free to accept, ignore or modify to their own circumstances the annual output of APEC's codes of best practice, framework agreements, model measures and multifarious recommendations.

⁴³ APEC Secretariat. *About Us: Achievements and Benefits*. Singapore.

⁴⁴ APEC. *2014 Leaders' Declaration*. Beijing. November 2014.

Free trade area of the Asia-Pacific: Concept and content

Despite its regional *raison d'être*, APEC Leaders have consistently affirmed support for multilateral trade negotiations as the preferred approach to comprehensive rules-based accords and have strongly backed efforts to re-energise the WTO Doha Round. But as those talks dragged on in Geneva with successive deadlines failing to be met, APEC's attention increasingly turned inwards, to endorsement of the underlying philosophy and to actions that might bring about the region's own expansive, fully integrated economic architecture. This goal would, among other aims, respond to unease that the Asia-Pacific could ever be divided by 'a line somewhere down the Pacific' or even be split by the International Date Line.

The concept took shape in the vision of a 'Free Trade Area of the Asia-Pacific' (FTAAP) that had forerunners in the work of forums such as PBEC (Pacific Basin Economic Community) and PECC (Pacific Economic Cooperation Council). The concept was revived in 2004 by APEC's Business Council on the initiative of Chile and New Zealand. It had a lukewarm reception at the outset, particularly from some developed economies on both sides of the Pacific who were bothered that it could distract attention, commitment and resources from the WTO process.

Nevertheless, driven in part by frustration with the Doha Round's faltering momentum, the FTAAP vision gained traction. It came to be seen as offering what could prove to be APEC's defining contribution to achievement of the broadest possible regional economic integration outcome. Since 2010 the FTAAP concept has assumed front-of-house prominence; APEC Leaders now no longer portray it somewhat vaguely as 'a long-term prospect'. They have given FTAAP the status of 'a major instrument' with a commitment to take 'concrete steps' to put it in place. At their November 2014 meeting in Beijing, with a strong push from the host economy, Leaders described APEC's role as being that of 'the incubator to translate the FTAAP into reality' and agreed to launch a 'collective strategic study' on issues relevant to its realisation.⁴⁵ The unanimity that lay behind the Leaders' decisions was not easily accomplished. But it went some way to dispelling a confused public impression that the economic integration scene had narrowed to a competitive struggle between what could appear to be very different alternatives. One set being the region-wide projects favoured by China, namely FTAAP and the Regional Comprehensive Economic Partnership (RCEP) (see below). The other more limited in current membership in the form of the Trans-Pacific Partnership (TPP) (see below), for which the US has become the main protagonist after overcoming Washington's initial reservations.⁴⁶

⁴⁵ APEC. 2014 Leaders' Declaration: Annex A: The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP. Beijing, November 2014.

⁴⁶ The 2014 APEC statement was silent about the Asian Infrastructure Investment Bank (AIIB) launched in October 2014 on China's initiative. This indicated that some long-time regional supporters of the Asian Development Bank and the World Bank were not yet comfortable about the AIIB. The number of doubters has diminished. By the 30 April 2015 deadline, close to 50 countries had applied to be founding

The mega-regionals: RCEP and TPP

A FTAAP would only have real meaning and impact if it was comprehensive, modern in content, binding and rules-based. As noted already, negotiations to achieve that result are not APEC's long established *modus operandi*. Accordingly, the 2014 Beijing meeting also reaffirmed the position, first agreed in 2010, that APEC Leaders anticipated the FTAAP being achieved outside APEC but parallel to the APEC process. If all went well, FTAAP would in due course be the outcome of successful negotiations along adjacent but eventually converging paths, one with an East Asian focus the other trans-Pacific.

The former was expected to revolve around the ASEAN-Plus Three (China-Japan-South Korea) and ASEAN-Plus Six (China-Japan-South Korea, together with Australia-India-New Zealand) negotiating processes. Those dual approaches have, in practice, been bundled into a single set of RCEP negotiations that started in May 2013 among the ASEAN-Plus Six countries. The 16 RCEP economies are responsible for nearly one-third of global GDP and take 60% of New Zealand's goods exports. Twelve of the current RCEP participants belong to APEC, but the US is not among them.

The cross-Pacific approach is dominated by the TPP; formal negotiations began in 2010 and now involve 12 economies that account for one quarter of global trade flows and attract 40% of New Zealand's goods shipments. The TPP's modest provenance lay in the work of the 'P4' quartet of Brunei, Chile, New Zealand and Singapore. The present TPP group are all APEC members but neither China nor South Korea is yet included. Since 2008, the momentum behind the TPP has been provided by the US, the project having become the economic cornerstone of Washington's 'pivot', now renamed its 'rebalancing' towards Asia. Trade ministers from the 12 participating economies concluded the TPP negotiations with an agreed text on 6 October 2015. Before coming into effect the TPP requires formal ratification by each participant, a process that could take as long as two years to complete. In New Zealand's case, cabinet approval is called for, followed by a non-binding debate in parliament.

Assessment of the potential gains from a positive outcome to the 'mega-regional' negotiations—RCEP and TPP or their successful convergence to form the FTAAP or something very like it—is not an exact science. By general agreement the most thorough and thoughtful forensic work to date has been done by the Petersen Institute for International Economics in Washington DC. Its 2012 and subsequent analyses concluded that the economic benefits from a full-scale, all-inclusive regional accord could, by 2025, reach

AIB members, including New Zealand, which made a NZ\$125 million contribution and was the first 'Western' developed country to formally express interest. Japan and the US currently remain outside the AIB's ranks. It was reported that New Zealand and Singapore had together been at the forefront of negotiations on the AIB's governance framework; see Young, A. *New Zealand Herald*. Auckland. 8 April 2015.

nearly US\$2 trillion annually.⁴⁷ A successful TPP would promise yearly gains of close to US\$300 billion, and the RCEP gains of US\$500 billion; the more impressive income in the latter case anticipating substantial flow-on effects from liberalising trade and encouraging largely unfettered competition among the three big north Asian economies and between them and India. The Petersen analysts were also in no doubt that a genuine region-wide agreement would only deliver maximum gains if both China and the US were fully engaged and committed stakeholders. The analysis found those two countries would also likely be the largest economic beneficiaries from such an all-encompassing agreement.

The last point underscores the present differences in membership and development levels of participants in the two mega-regional sets of negotiations. Neither fits the description of being a 'free trade agreement' in the terms an earlier generation of negotiators would recognise where the primary focus was on dismantling tariff schedules. And there are significant disparities between them. These include differing levels of importance attached to the breadth and depth of coverage of modern-day global trade and economic integration issues, where the need for new rules has emerged since the Uruguay Round concluded. Examples include the treatment of the digital economy, coherence among regulatory frameworks, cyber security, environment issues, investment, intellectual property, investor-state dispute resolution, and services.⁴⁸

There are differences, too, over whether the eventual outcome would be achieved as 'a single undertaking' to be entered into force simultaneously and in full among all parties (but without ruling out differential transitional adjustment paths), as the TPP approach favours. Or alternatively, as envisaged by the RCEP process, the package would pay more heed to community building and be implemented in a phased manner with fuller provision for special treatment of selected developing economies. Some observers claim the TPP travelled a more rigorous negotiating path and espoused a higher level of ambition more attuned to the complex demands of modern international business.⁴⁹ And, as presently framed, TPP will likely offer a better model for services liberalisation than the RCEP contemplates, and have more strict requirements for compliance from the domestic regulatory frameworks of its members. This latter aspect could inhibit the likelihood of early TPP membership for China or India.

⁴⁷ Petri, P. A., Plummer, M. G. and Zhai, F. *The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment*. 2012. Also by the same authors: 'The TPP, China and FTAAP' in *New Directions in Asia-Pacific Economic Integration*. Honolulu, East West Center. 2014. Also see Basu Das, S. 'RCEP and TPP – Can they Converge into an FTAAP?' Singapore, *ISEAS Perspective*, No. 60. 2014.

⁴⁸ Scollay, R. *Trans-Pacific Partnership: Challenges and Potential*. Auckland, University of Auckland, APEC Study Centre. 2001. Also by Scollay, R. 'The TPP and RCEP: Prospects for Convergence' in Guogiang, T. and Petri, P. (eds). *New Directions in Asia Pacific Economic Integration*. Honolulu, East-West Center. 2014.

⁴⁹ See, for example, Schott, J. J. 'Asia-Pacific Economic Integration, Projecting the Path Forward' in *New Directions in Asia-Pacific Economic Integration*. Honolulu, East West Center. 2014.

The TPP has a more explicit list of chapters under negotiation because its disaggregation level is higher. That does not mean the RCEP should be considered a potentially inferior agreement or the TPP's poorer cousin, particularly as it includes India. Part of the TPP process entailed a set of bilateral negotiations between members that always carries the risk of country-specific concessions and exemptions, only the fine print will reveal the extent to which this has happened. For example, there could be internal discrimination among parties, such as disparities in the length of time over which tariffs would be lowered. RCEP may yet prove to be a more effective regional integrative mechanism and its market access provisions could end up being equally as good or of a higher order, enhancing its appeal to New Zealand.

At this stage in the negotiating processes, without full disclosure of the details, it would be premature to attempt a comparison of the content of the two mega-regionals, the merits of their negotiating modalities, the extent to which either would best fit the particular needs of production networks or the pace at which both might reach a credible conclusion. The critical ambition to be realised is that they emerge either as discrete comprehensive agreements of undeniable high quality, or come together under one *chapeau* in a manner intended to achieve that goal. That scenario highlights the importance of the content of the two mega-regionals being kept broadly in step so that should one 'implode' its members could seriously consider transition to the other context. From the regional business perspective, a productive outcome to either or both sets of negotiations would bring improved market access but also more harmony to the present layers of protocols, regulations and rules of origin that abound in the 'noodle bowl' of overlapping agreements .

At the start of 2015 it was said the TPP's 'contours of a final agreement' were finally 'coming into focus.'⁵⁰ But, in the time-honoured tradition of multilateral trade negotiations, both RCEP and TPP have proved to be intense, tough and protracted, and RCEP remains a work in progress. Even with a TPP outcome now on the table there are serious sequencing issues to be worked through. Neither set of negotiations has an obvious advantage over the other in offering a model 'template' for what the FTAAP could become. Whether and by what means RCEP and TPP might in due course converge to bring the FTAAP into being has not yet begun to be seriously considered by regional participants. This will be a primary focus of the 'collective, strategic' project initiated in Beijing in November 2014 by APEC Leaders, for which the terms of reference are still to be agreed. The approach adopted by the two major powers is crucial. It can be assumed that neither China nor the US would readily acquiesce in an arrangement largely fashioned to suit the interests and objectives of one over the other.

⁵⁰ Froman. M. *Remarks by US Trade Representative to Senate Finance Committee and House Ways and Means Committee*. Washington DC. 27 January 2015.

Inexorably, that leads to the conclusion that an accommodation of the essential interests of the two dominant economies will be required and that, if the FTAAP is to become a reality, they will have to exercise some form of joint leadership of the process. This would have to be a formula that was mutually agreed but also generally acceptable to other participants. In the case of the US, endorsement of an eventual FTAAP would almost certainly first include the consent of Congress to invest the President with trade promotion authority so that final approval could be expedited. In the likely sequence of events, that 'hurdle' has applied more immediately to the TPP 'package' under negotiation and to the EU-US Transatlantic Trade and Investment Partnership (TTIP). Within the current Congress there was just enough bipartisan support for granting trade promotion authority.⁵¹ It would have been a severe blow to US regional economic diplomacy if the prospect of a successful TPP outcome had been delayed indefinitely by the presidential election timetable or was to have fallen victim to the eccentricities of congressional politics.⁵² From a broader perspective, had Congress withheld 'fast track' authority and effectively stalemated the TPP process, this would have reinforced doubts among partners and others about the depth of the US resolve to retain leadership in the region.⁵³

Success with the TPP will need to be followed by serious effort to achieve a strategic level of major power collaboration. If that is not readily obtained, the outlook for the FTAAP 'vision', or something closely resembling it, would become bleak. In that situation the regional economies would be tempted to cast around for a sub-optimal alternative to the FTAAP. This could involve creating an enduring place in the trade architecture for one but preferably both of the mega-regionals, with emphasis on the importance of their open accession clauses to encourage broader participation. That provision would have to be coupled with formal and workable safeguard mechanisms to ensure the agreements functioned complementary to each other and not as two insulated, hermetically sealed trade conglomerates.

For substantive reasons not just for completeness, it should be mentioned that on the region's eastern rim four South American neighbours (a greater number is expected to accede to the eventual accord), including three APEC economies, have formed the 'Pacific Alliance' involving Chile, Colombia, Mexico and Peru. These Latin American economies are intent on merging their several separate trade agreements with each other into a single entity. That move would be internally beneficial and a strategic 'building block' in the cause of wider regional economic integration. It would offer its members the means to lessen their

⁵¹ For background to 'a permanent tension' created by the Constitution between the President and Congress see Sloan, S R. 'White House-Congress Relations after the End of the 'Imperial Presidency' in *The Uncertain Superpower*. Berlin, German Council on Foreign Relations. 2003.

⁵² Soble, J. 'Failure of Obama's Trans-Pacific Trade Deal Could Hurt US Influence in Asia'. *New York Times*. 6 June 2015.

⁵³ White, H. 'The failure of the TPP matters but not for economic reasons'. *The Interpreter*, Sydney, Lowy Institute. 18 June 2015.

dependence on the US market and to adjust the serious imbalance in their trade with Asian partners, which from near zero prior to 1990 now exceeds US\$500 billion annually.⁵⁴ At this early stage the 'Pacific Alliance' displays some of the characteristics that ASEAN did in its fledgling phase. It is a project that also appears to have history on its side; New Zealand already has observer status and will want to seriously engage with the group as they move forward, with membership an attractive goal.

Figure 1 below shows the membership of the various regional economic processes.

Figure 1—Membership of TPP/RCEP/APEC/Pacific Alliance

Country/Economy	APEC	RCEP	TPP	Pacific Alliance
Australia	Yes	Yes	Yes	No
Brunei	Yes	Yes	Yes	No
Cambodia	No	Yes	No	No
Canada	Yes	No	Yes	No
Chile	Yes	No	Yes	Yes
China	Yes	Yes	No	No
Colombia	No	No	No	Yes
Hong Kong	Yes	No	No	No
India	No	Yes	No	No
Indonesia	Yes	Yes	No	No
Japan	Yes	Yes	Yes	No
Laos	No	Yes	No	No
Malaysia	Yes	Yes	Yes	No
Mexico	Yes	No	Yes	Yes
Myanmar	No	Yes	No	No
New Zealand	Yes	Yes	Yes	No
Papua New Guinea	Yes	No	No	No
Peru	Yes	No	Yes	Yes
Philippines	Yes	Yes	No	No
Russia	Yes	No	No	No
Singapore	Yes	Yes	Yes	No
South Korea	Yes	Yes	No	No
Taiwan	Yes	No	No	No
Thailand	Yes	Yes	No	No
United States	Yes	No	Yes	No
Vietnam	Yes	Yes	Yes	No

⁵⁴ See Bartesaghi, I. *Latin America and the Asia-Pacific: Realities defining the Agenda*. Latin America-Asia Pacific Observatory. July 2014.

Economic integration: What it means for New Zealand

Where does New Zealand fit as a relatively minor cog in this mix of emerging big and complex regional economic entities? On the one hand there is comforting assurance in the growth in export volumes, their geographic spread and the rise in the level of returns. There is reason for satisfaction, too, in the pleasing number of quality agreements to which New Zealand has become a full-fledged party and earned first-mover advantage. A 2009 survey by the Ministry of Foreign Affairs and Trade (MFAT) of over 800 New Zealand export companies revealed that three-quarters of the firms approached could confidently attribute significant improvement in their profitability to their ability to access free trade arrangements.⁵⁵ That corroborative detail confirmed the extent to which the country had become deeply trade-engaged over the past 40 years, since the privileged access to the United Kingdom market was lost. Participation from the beginning in the 'mega-regional' negotiations in train offers potential for significant additional market access benefits. It also allows New Zealand scope to influence the rules under which the two agreements would operate once in place, either separately or in some merged form.

Having pole position to affect the outcomes of the current negotiations is important for New Zealand. The unfinished business from the Uruguay Round means that New Zealand's trade with some large partners—several that could offer much higher returns than at present, such as Canada, India, Japan and the US—continue to present serious obstacles to competitive entry by New Zealand companies. Barriers still intrude in the form of distortionary tariffs, quota schemes that favour other suppliers and residual subsidies that benefit local producers. In seeking to sell what they have to offer to those markets, notably in agriculture, forestry, horticulture and seafood, New Zealand exporters are handicapped in comparison with their competitors from Australia, Chile, Mexico and Peru that already have preferential trade deals in place with major regional markets. In addition, it has proved difficult to build consensus around certain 'new generation' subjects such as, in the TPP context, issues to do with currency manipulation, intellectual property and investor-state dispute resolution, and very importantly from New Zealand's point of view on future market entry provisions for dairy products.

With some irony, the issues in common to both RCEP and TPP that are proving hardest to resolve are largely not novel in origin. Rather they reflect the tenacity of old-style protectionist measures around market access, principally in agriculture (cotton, dairy, rice, sugar) that are rarely laid completely to rest and were left in the 'too hard basket' from the Uruguay Round. Opposition to efforts to eliminate those measures in the mega-regional talks is a key factor hampering final progress in both negotiating forums. Ultimately, the degree of movement agreed upon to genuinely level the playing field in market access terms and the balance of advantage reached between trade gains and possible social policy

⁵⁵ New Zealand Ministry of Foreign Affairs and Trade. *FTA Exporter Survey Report*. Wellington. December 2009.

losses, will determine the extent to which, from New Zealand's perspective, the results of either or both sets of negotiations could be deemed acceptable and worth signing. To walk away, however, would in effect mean admitting defeat. It would risk 'locking-in' the present discrimination against New Zealand in some markets to the benefit of competitors, and could even damage existing access arrangements.

That is a sobering scenario. It acknowledges the reality for New Zealand that further sizeable gains through trade accords are not likely to come from putting scarce negotiating resources mainly into a bid for stand-alone bilateral deals with major partners. They, too, have finite resources and are principally interested in pursuing the 'big picture' outcomes. For example, while there have been desultory talks between New Zealand and Japan over many years about lowering trade barriers, only pressure from one or more heavyweights, such as the US in the TPP arena, is likely to dislodge entrenched Japanese agricultural interests. A similar situation for New Zealand exists with India where trade talks have been at a standstill. The RCEP mega-regional route appears the more promising opportunity from New Zealand's viewpoint to achieve worthwhile relaxation of obdurate entry barriers to the Indian market, and add greater substance to the relationship than is offered by reliance on the hallowed trinity of Colombo Plan, the Commonwealth and cricket.

The message for New Zealand is that success in dismantling residual trade constraints and pursuing deeper economic integration with partners is likely to be obtained primarily along the path to broad membership-based results. This would normally allow small players to apply the 'most favoured nation' (MFN) principle to leverage benefit from commitments and concessions the major participants have made to each other. It is yet to be seen whether either or both RCEP and TPP will uphold that principle. The Petersen Institute modelling referred to earlier estimated the economic benefits for New Zealand of a successful TPP that embraced Japan and the north American NAFTA trio could exceed US\$5 billion annually by 2020. The New Zealand government's more conservative assessment of the agreement concluded was that by 2020 yearly gains should reach NZ\$2.7 billion. Seriously positive benefits could come from a successful RCEP negotiation that included India and the three large north Asian economies. A 2014 study predicted an income gain of 5.2% for New Zealand, one of the highest forecast as being possible among RCEP members.⁵⁶ There is nothing sacrosanct about economic modelling, but New Zealand's experience over time with the ASEAN-ANZFTA, China, and ANZCER agreements suggests that present estimates of welfare gains from RCEP/TPP could be on the low side.

A huge amount of potential trade benefit is still at stake for New Zealand in the field of Asia-Pacific economic integration. The most advantageous sequence would likely be the successful TPP followed by completion of the RCEP, if either had been side-lined for

⁵⁶ Wignaraja, G. 'The Regional Comprehensive Economic Partnership: An Initial Assessment' in *New Directions in Asia-Pacific Economic Integration*. East West Center, Honolulu. 2014.

whatever reason the other set of negotiations would have become the most urgent exercise, certainly for New Zealand. Longer-term, the objective would then have been to conclude the broadest possible integration outcome through the FTAAP, recognising that such an ambitious region-wide project could be a decade in the making. As the TPP's torturous path showed once more, New Zealand's particular agenda can influence but not determine the way things turn out or the pace at which they happen. But the cause of trade liberalisation is not a lone crusade. There are many current and emerging trade partners of New Zealand with allied interests; they are economies of all shapes and sizes and at all stages of development.

Asia-Pacific: The security dimension

Now consider the region's security perspective. Here altogether different dynamics are involved. For one, there is no parallel in the security arena to the close mutuality of interests and incentives for interaction that governments and business share in the economic and trade sphere. Where a country's security and sovereignty, and issues around human protection and safety are the focus of attention, a separate agenda of issues holds centre-stage. Tests of national character and self-belief take on other meanings. A set of compelling duties and concerns is involved in the security sphere that cannot be delivered by proxy. They are public goods and responsibility for dealing with troublesome issues falls squarely on governments and their relevant agencies, who alone can address them and be held accountable for the results.

Regional peace and progress: The underlying assumptions

To set the scene, it is inconceivable that the Asia-Pacific could have risen to the global economic heights it now commands without the blessing of an extended period of relative political calm in the region and the absence of seriously debilitating domestic or cross-border conflicts. The active unrest in recent years has been initiated by disaffected ethnic minorities or undertaken by insurgent groups driven by a different set of objectives. There have been some exceptions to localised disturbances, such as the costly military exchanges between China and India, India and Pakistan, China and Vietnam, casualties from maritime clashes in Korean waters and tensions along Thailand's borders. But, generally, armed encounters and fiery exchanges have been confined within national boundaries rather than across frontiers.⁵⁷ Border disputes are an understandable and ongoing preoccupation for countries such as China, India, Indonesia, Myanmar, the Philippines and Thailand, Chile, Colombia and Peru but do not have direct impact widely across the region.

⁵⁷ As will be noted further on in this paper, that comment does not imply grounds for being sanguine about the surge in tensions that periodically unnerve the region, around competing claims in the South China Sea.

What conclusion can be drawn? Looking ahead, there seems only one pragmatic 'guiding principle' for Asia-Pacific producers, exporters, their bankers, clients and consumers, retailers, trade associations, private investors and logistics providers. This bottom-line principle holds as well for those immersed in the cauldron of trade negotiations. Given that the security risk level does not lend itself to easy quantification nor allow for cast-iron predictability, the day-to-day expectation must be that the experience predominant for the past 40 years will continue. The day-to-day presumption is that the region will remain free of the distraction, disruption and resource depletion that inevitably accompany any significant threat of major hostilities or actual military conflict.

That cautiously optimistic point of view seems partially borne out by recent McKinsey surveys, at least through the business prism.⁵⁸ They revealed that while company executives in Europe and North America identified the threat of geopolitical instability as a serious risk to growth in their economies this assessment was less prevalent among Asian respondents. For the latter, the factors inhibiting their ease of doing business had more to do with currency issues, inadequate connectivity, confused and intrusive rules and regulations, and volatile markets. It is, of course, to be expected that the view from a company executive's desk should be influenced by considerations that are far removed from the calculus of those whose responsibility it is to manage foreign political relations. Or those who are required to make strategic judgements about the likelihood and nature of security threats to the nation and take decisions about the role, capability, capacity and deployment of their defence assets.

It follows that a supremely important question has to be uppermost for senior management in the region, particularly those with a duty of national care and those who are commercially motivated. How much real confidence is there that a stable security environment will persist in the Asia Pacific, one that is conducive to continued peaceful progress in the region? Or, more gloomily, are there instead deep-seated bilateral or even more broad-based grievances festering away that breed cross-border friction? If the latter, how are they manifest and wherein rest their root causes? To what extent is the unremitting rise of China a contributing factor? How effective a conciliatory role do current inter-government structures with a security purpose play?

There is a strong emphasis in the defence and security spheres on robust unilateral behaviour and collective activity with selected partners. What does this say about the membership, mandates and working methods of existing or evolving inter-state security forums? Are they not yet sufficient for tackling serious risks to regional equilibrium and potentially explosive situations? Another obvious question follows: to what extent is the Asia-Pacific's future geopolitical stability dependent on tightly knit, broad-based security

⁵⁸ McKinsey Global Survey of Company Executives, *Geopolitical Risks*, September 2014 and March 2015 *Economic Conditions Snapshot*, September 2015.

integration and related architecture? In the same way institutional arrangements encouraging regulatory coherence, adherence to rules and reciprocal undertakings are of fundamental importance in promoting the region's economic growth and prosperity.

Regional stability: Why it matters to New Zealand

Before addressing these central questions, we should remember why the absence of serious regional conflict matters to New Zealand, indeed is of profound importance. The trade-focused section above highlighted the extent to which the country's economic livelihood is now inseparable from the wellbeing of the region as a whole.⁵⁹ Beyond question, relative distance from the known or likely territorial flashpoints would confer no immunity from the consequences of a security meltdown. Around 80% of New Zealand's exports—worth many billions of dollars and amounting to half a million tonnes of commodity items, intermediate and finished products—leave New Zealand each year destined for Asia-Pacific markets. Of the total tonnage, 50% passes through the waters of the Western Pacific and East Asia that are currently the subject of disputed claims. Any overt interference with or perceived threat to the scheduled transfer of goods to key Asia-Pacific destinations would very quickly have seriously damaging effects on the pattern and profitability of New Zealand trade movements that exporters have established and are now familiar with.

Of necessity, the inviolability of commerce flows on international waterways and of airborne freight carriage is a vital aspect of the global and regional order for New Zealand. As well, a wide range of sophisticated services connections the country has built up over decades would be at risk if regional differences erupted and overflowed. These linkages are in place in banking, cultural exchanges, creative arts, e-commerce, education, engineering, finance, health care, tourism, and people-to-people movement. The exposure of those areas of potential vulnerability and the related impacts would be no different whether aggression or the likelihood of it was mounted directly against New Zealand's interests by another state or states, or by a hostile non-state entity that had the hard power wherewithal to inflict heavy damage. Or, indeed, if the aggression was not directed at New Zealand at all, but had a consequential effect on the country's trade flows and other connections. New Zealand would not stand alone; it could be expected every other country in the region would share those concerns, each from its own particular perspective.

In addition, through a more sharply focussed lens there are some Asia-Pacific countries with which New Zealand has enjoyed long-standing relations and would take exception if their territorial integrity were to be grievously imperilled. Malaysia and Singapore are obvious cases in point. New Zealand's commitment to their collective security shared with Australia and Britain has existed from the late 1940s. Since 1971, when the Anglo-Malaysian

⁵⁹ There was prescient recognition of this in the decision in the late 1950s to move New Zealand's military commitment from the Middle East to Southeast Asia and, for the first occasion in peacetime, to station troops overseas as a contribution to the 'Commonwealth Strategic Reserve'. See McIntosh, A. *op cit.*

Defence Agreement was dissolved, this undertaking has assumed its current form in the Five Power Defence Arrangements (FPDA) through which New Zealand, Australia and the United Kingdom (UK) underwrite the military security of those two Commonwealth countries. Closer to home, there are formal defence responsibilities and security understandings in respect of several small island states with whom New Zealand has especially close associations: the Cook Islands, Fiji, Niue, Samoa, Solomon Islands, Tokelau and Tonga. These commitments in the near neighbourhood date back to the first international gathering hosted by New Zealand, that being the defence conference involving Australia, Britain and New Zealand held in Wellington in April 1939 on the eve of World War II.⁶⁰

Regional tensions and flashpoints

Whether viewing the Asia-Pacific from afar or close-up, a darker picture could be drawn and some near apocalyptic scenarios imagined.⁶¹ To an extent greater than the Middle East, the Asia-Pacific is the region where the interests of all the big powers are unmistakably contiguous. If they did massively collide as a result of malevolent action or through miscalculation there would be catastrophic effects, not just regionally but on the global commons.

Bearing that in mind, an observer with the region's best interests at heart could point to some disquieting trends and repeated instances of questionable conduct in the Western Pacific. They include the abrasive reiteration of rival territorial claims mainly at sea, and unapologetic readiness to register the point. There has been the reigniting of some specific bilateral extra-territorial tensions, recourse to ill-tempered recriminatory exchanges and poorly disguised attempts at intimidation. There has also been a growing number of air and sea-borne incidents and narrow escapes involving armed assets of two or more parties. To date the latter occurrences have been of low intensity. But they appear to betray an incomplete understanding of, or knowingly to ignore, long-established protocols of behaviour intended to reduce provocations and lessen the risk of an exchange of hostile fire. It is hardly surprising that, for deterrence reasons or to support the projection of newly acquired ordnance, there has been a boost in Asian regional defence spending between 2010 and 2013; in total it now exceeds all of NATO save the US.⁶²

⁶⁰ Hensley, G. *Beyond the Battlefield: New Zealand and its Allies 1939-45*. Penguin Group, New Zealand. 2009.

⁶¹ "The region (Asia-Pacific) must work harder to build some kind of architecture where regional powers can discuss security. If such a framework had existed in Europe in 1914, things might have turned out differently", in 'Face-off'. *The Economist*, London. 30 November 2013.

⁶² *The Military Balance 2014*. London, International Institute for Strategic Studies (IISS). 2014. It should be noted that while the sums have increased, across the region defence spending as a percentage of GDP has changed very little or actually declined in all countries except Russia. See Lee, S. *Crowded Waters: Naval competition in the Asia-Pacific*. ASPI Special Report, Australian Strategic Policy Institute (ASPI). July 2015.

Unavoidably, such troubling developments contribute to a pervasive sense of regional anxiety. It should not be over-played, and at government level it was rare for the underlying concern about security issues and strategic rivalry to be openly expressed in regional settings until the recent escalation of tension in the South China Sea. Yet the unease has simmered never far beneath the surface. When articulated it emerges in searching questions that observers and practitioners agonise over: does what is going on around us represent, cumulatively, a grave and potent threat to the regional order? Are the established norms of conduct in danger of falling apart? Or are those norms in the process of being fundamentally re-engineered in ways and directions unknown? Does the fact that the contested theatre of operations lies principally at sea rather than on land increase or diminish the risks of a perilous altercation?⁶³

There are no patently obvious answers to those questions, or at least not yet. The normally muted if ever present regional apprehension determines the agenda for many inter-government consultations and debate on what it all means among defence specialists and security observers. No Asia-Pacific 'track two' dialogue of note among analysts would be complete without attention to the latest revelations, well founded or less so, about the sources and substance of regional security tensions and attempts to portray their import.⁶⁴

In sum, for those who are most at ease with established order and a certain future, the Asia-Pacific region's security landscape is a kaleidoscope of ambiguous intentions, contrasting images, mixed behavioural patterns and disputed space. Potentially that's a toxic mix and it is a challenge to unpick sensibly such a fluid tapestry. That all this should be the case is attributable in large part to some significant shifts in regional dynamics. They are extraordinarily complex and their trajectories are convoluted. The character and scope of their potential impacts is capable of being observed from many points in the political and strategic compass. To be more precise, they are traceable to apprehension about the medium to long-term security significance of a risen China, to signs of a rebirth of nationalist sentiment in a still strong Japan, to the persistently fragile state of affairs on the Korean peninsula, and to manifestations from India and Russia of resurgent regional ambitions. There is concern about a cluster of small and weak states that do not fall into the 'failed' category but are decidedly fragile.

Those are the central components of a volatile security scene. They help to explain the contingency plans to meet any situation posing a serious security threat that are being put in place by those with national assets to protect, such as Taiwan⁶⁵ and the five founding

⁶³ It has been commented that the risk of small-scale incidents leading to major confrontation has been exaggerated. Stashwick, S. "South Seas; Conflict Escalation and 'Miscalculation' Myths". *The Diplomat*. 25 September 2015.

⁶⁴ On the origins, content and evolution of 'track two' diplomacy as distinct from 'track one' at government level, see the article by Hawke, G. in *Strategic Manoeuvres: Security in the Asia-Pacific*. Centre for Strategic Studies, Wellington. 2009.

⁶⁵ *Quadrennial Defence Review*. Taipei, Ministry of National Defense. March 2013.

members of ASEAN, and by Vietnam. And, of particular significance to New Zealand, also by Australia in close partnership with Japan and the US.⁶⁶ There appears to be little deep-rooted confidence in the region that ‘the iron discipline of nuclear deterrence’ and the ‘unprecedented level of economic and technological interdependence’ will together be enough unaided to avert hostilities.⁶⁷

Regional security mechanisms: ASEAN centrality

It is reasonable to ask what contribution to managing the combustible regional mix is being made by the existing cluster of security-oriented organisations. Seemingly, they have arrived on the regional scene not as part of a grand plan, but by a largely *ad hoc* process. From a distance they appear at risk of over-crowding the institutional space the region has to offer. At the core is the ASEAN-centric group consisting of the ASEAN Regional Forum (ARF), the ASEAN Defence Ministers Meeting Plus (ADMM-Plus) and the East Asia Summit (EAS).

The ARF began in 1994 and provides the venue for annual discussions at foreign minister level. At the start these exchanges were confined to ASEAN and its formal ‘dialogue partners’: China, India, Japan, South Korea, Australia and New Zealand, joined more recently by Russia and the US. But over the past two decades the ARF’s membership has steadily expanded to also include more South Asian countries and the EU and now involves nearly 30 participants. That number around the table does not readily facilitate consensus-formation on difficult and divisive topics that fall within the scope of conflict resolution and preventive diplomacy. In practice, the ARF has laboured to move its deliberations beyond a predictable set of lowest common denominator, confidence-building measures.⁶⁸ Its track two research body, CSCAP (the Council for Security Cooperation in the Asia-Pacific), has spawned expert working parties that are dedicated to specific security topics and do useful work. CSCAP’s 2014 review of the state of regional security spoke of ‘qualified pessimism’. Its latest *Regional Outlook* concluded that the security framework ‘has been unravelling for some years and the rate of deterioration may be accelerating’.⁶⁹

ASEAN Defence Ministers began regular meetings only in 2006, nearly 40 years after the parent group was formed. That is a telling comment on how difficult ASEAN members have found it to discuss matters in the more awkward arena of defence and security. That diffidence may be in decline. At their March 2015 meeting Defence Ministers approved a joint declaration designed to strengthen the regional security response to issues ranging

⁶⁶ Media release by Foreign Minister. *Trilateral Strategic Dialogue*. Canberra. 4 October 2013.

⁶⁷ Dibb, P. ‘Why 2014 in Asia will not be a repeat of 1914 in Europe’. *East Asia Forum*. 18 March 2014.

⁶⁸ But not as poor a performer as *The Economist* has given the ARF credit for: ‘... a gathering where the bland mislead the bland’. *The Economist*. 16 August 2014.

⁶⁹ Council for Security Cooperation in the Asia-Pacific (CSCAP). *Regional Security Outlook*. Canberra. January 2015. See also Dobell, G. ‘Asia’s trend and temperature.’ *The Strategist*. Australian Strategic Policy Institute (ASPI). 16 February 2015.

from the South China Sea to the 'Islamic State'. Concept papers have been written on establishment of an ASEAN Militaries Ready Group on humanitarian aid and disaster relief, and an ASEAN Centre of Military Medicine. There has even been serious talk of creating an ASEAN peacekeeping force.

It was a major move in 2010 for ASEAN to launch the ADMM-Plus group that, again, embraces the eight-member 'dialogue' cluster. Like the ARF, ADMM-Plus has created a series of working groups where New Zealand, among others, has been able to offer practical experience. In keeping with ASEAN's favoured working methods, these groups abstain from discussion of controversial subjects that might incite bilateral or regional rancour and restrict the coverage of their formal discussions to relatively safe fields where humanitarian considerations are paramount. To be fair to ADMM-Plus, from very early on it placed a firm emphasis on practical measures of cooperation that, by comparison, the ARF in its designated field of interest has not to date been able to emulate.

Finally, at the most senior political level there is the EAS of heads of government drawn from ASEAN and the eight dialogue partners. The EAS first met in 2005; it is always hosted by the incumbent ASEAN chair. Admission to the EAS requires an invitation to take part and prior acceptance and signature of the ASEAN Treaty of Amity and Cooperation (TAC). Although the Asia-Europe Meeting (ASEM) is approaching its 20th anniversary the EU has not yet been invited to join the EAS despite having already signed the TAC.

Inevitably there is duplication and overlap in what these three primary ASEAN-sponsored bodies discuss and do. In general terms, what distinguishes them is that the EAS is seen as a forum for delivery of high-level strategic direction, the ARF offers a structured foreign policy-diplomatic-security setting and the ADMM-Plus group has a focus on practical security collaboration and confidence building measures. The ARF and the ADMM-Plus are biased towards humanitarian and disaster relief activities and are underpinned by committees and working parties. The EAS is the formally agreed context for leaders' dialogue on 'broad strategic, political and economic issues of common interest.' But as the putative 'regional peak body', at present the EAS lacks many of the accoutrements that would normally be expected of a functioning and credibly effective leadership forum. The Summit does not yet aspire to be a decision-making body. It has no coercive powers and is without a permanent support structure. There is ongoing debate, mixed opinion and some confusion over where the main focus of the EAS should lie - community building, dispute resolution, economic development, regional institution building, or a mix of all of these? Or should the EAS exist simply as a vehicle for fostering confidence and goodwill and regular meetings among regional leaders? The EAS's 10th anniversary in 2015 is an opportunity to clarify and introduce the greater specificity that is required around the Summit's long-term regional role.

What can only be called a 'plethora' of other forums or annual gatherings exist, both 'track one' and 'track two'. Some are quite informal; others have gained a regular place on the regional calendar. The former includes the US-led Proliferation Security Initiative. There are the Six Power Party Talks on North Korea where China has often taken the lead. Three other groupings are primarily sponsored by China: the Boao Forum, of which New Zealand was a founding member, initially had a principal economic thrust but has evolved to also provide a platform for major policy pronouncements by China's leaders. The Conference on Interaction and Confidence Building in Asia (CICA) has a more obvious security focus. Since its formation in 2004, also on China's initiative, the Shanghai Cooperation Organisation (SCO) has acquired some of the attributes of its South Asian counterpart SAARC (see below) and ASEAN. Members of the SCO are presently limited to China, Russia and the Central Asian Republics. India and Pakistan have shown interest in moving beyond their current observer status to full membership; given their enduring rivalry such a step could risk reshaping the SCO's dynamics and would need careful management.

A much wider audience at senior ministerial level is regularly drawn to the longer-established Shangri-La Dialogue, held yearly in Singapore under the auspices of the London-based Institute for International Strategic Studies (IISS). The Five Power Defence Arrangement (FPDA) since 1971 has been another variant of security cooperation. The FPDA is not an alliance proper but has proved its worth and continuing relevance over time, and is valued by its two Southeast Asian participants.⁷⁰ At the operational level, naval gatherings such as the annual Rim of the Pacific (RIMPAC) exercises and the Western Pacific Naval Symposium (WPNS) serve constructive collaborative purposes and have broadened their membership. They provide a cover for joint exercising but by design they disavow any policy dimension. The same could be said of the ASEAN Expanded Maritime Forum. There are non-naval interactions as well, such as the Pacific Armies Management Seminar and regular intelligence exchanges within particular groups.

Among the constellation of security-related forums, those pertinent to ASEAN's centrality are given priority, unquestionably by New Zealand. Consistent with the familiar ASEAN approach, these forums are typically process-focussed rather than functionally-oriented. None of the group is highly institutionalised or equipped to intercede let alone to intervene on controversial matters. Meetings are carefully choreographed and the non-traditional security agenda has pride of place. With rare exceptions discussion of current and controversial 'routine' regional security issues is largely confined to corridor exchanges, not exposed to the glare of open scrutiny that might tempt participants to attribute 'blame'.⁷¹

⁷⁰ Sinclair, P. *Five Power Defence Arrangement*. CSS Background, Wellington 09/2013. 2013. Also Emmers, R., Singh, D. and Storey, I. *Five Power Defence Arrangements at Forty*. ISEAS, Singapore. 2011.

⁷¹ The 'dominance of form over function' in these institutions has been identified as a serious strategic weakness. See Feigenbaum, E A. 'Multiplex world: steps towards a new global order'. *East Asia Forum*. 14 August 2013.

Drawing attention to that deeply ingrained, cautious ASEAN practice is not to belittle the contribution that can be made to regional community building through serious consideration of shared afflictions, such as infectious diseases and criminal behaviour across borders. However, it is clear that the multi-layered and many-hued institutional scene makes it difficult to glimpse the makings of a one-dimensional unitary 'regional security architecture' for the Asia-Pacific, other than very dimly at this point.

Regional security: The interplay of major power interests

The US dimension

Against the backdrop of that network of regional security institutions it is appropriate to consider how the major players are responding to the manner, magnitude and frequency with which their thickets of entrenched interests rub up against each other.

To start with, of seminal importance to the region's present and future wellbeing is the situation in which the US finds itself. That country continues to display the qualities of an innovative and buoyant society. It has a large, growing and, unlike other major players (China, Japan, Russia), a comparatively young population. It is still the world's pre-eminent economic power and the only one whose military footprint is truly global. But in relative terms the US is not today the dominant economic force it was in 2008 at the onset of the GFC and is even further behind the leading position it held in 1998 when Asia faced its own financial woes. The US' global leadership status and security profile have also waned. Beyond argument, the lengthy anti-terrorist and counter-insurgency campaigns in Afghanistan and Iraq have taken a heavy toll. This is apparent in many dimensions, among which the enormous financial burden is one unhappy legacy. There is deep-seated disenchantment within influential domestic constituencies about the utility of engaging in further costly offshore ventures. Despite Washington's repeated affirmations of continued commitment to the region, other Asia-Pacific countries are obliged to factor into their strategic calculations, recognisable signs of a diminished American appetite for solving other peoples' problems.

Accordingly, in the Asia-Pacific context some basic questions about the substance and future direction of US policy and practice duly arise. How enduring is the political will in Washington or could popular American support be mustered to maintain a meaningful regional presence in the long-term? Or, for how much longer can the US be expected to project hard power capabilities that command deference and respect, that are very visible and give confidence to allies and partners? And that would as well serve notice to any potential adversaries that, if necessary, 'all the elements of American power' would be brought to bear to make plain that territorial adventurism would not be tolerated and to ensure that vital sea lines of communication and air routes would remain open.

There are strongly held views from different standpoints whether the perceived diminution of the US regional presence is absolute,⁷² relative but not seriously alarming to partners, or merely illusory. It has been argued that what is actually occurring is a case of 'parallel resurgence', a unique experience for the region in which two major powers are on the march at the same time but are not immune to the efforts of smaller states to enmesh them in regional security structures.⁷³ The case has also been put that 'because the rhetoric of US decline runs well ahead of the reality,' the international and regional orders are 'Still Ours to Lead'.⁷⁴ A contrary view, which has stimulated lively and continuing debate, argues that because China's rise is unstoppable the only sensible approach for the US would be to accept the inevitable and be prepared to countenance some version of an institutionalised regional power-sharing formula.⁷⁵ Here, it seems, the inference is that if the US wants to remain seriously engaged and influential in Asia and the Western Pacific over the long haul, Washington must be willing to make concessions to Beijing's regional leadership ambitions.

It has not been a straightforward task for other countries in the region to get a firm grip on the US' own perception of its long-term interests and place in the Asia-Pacific. There has been no lack of declaratory statements over the past four years, delivered at the most senior political level from the President and successive secretaries of state and defence and senior officials.⁷⁶ They have echoed the sentiments expressed by William Henry Seward, Lincoln's Secretary of State one and a half-centuries ago, that 'not Europe and the Atlantic but the Pacific Ocean, its shores, its islands and the vast regions beyond will become the chief theatre of events in the world's great hereafter.'⁷⁷ The constant theme has been that the US is not about to relinquish its primary leadership position or its role as 'indispensable player'.

Commencing in President Obama's first term, the more recent affirmations of commitment have been to the 'rebalancing' of American resources towards and engagement with the region.⁷⁸ This has been accompanied by an avowed readiness to come to the aid of allies and partners under threat, with the US Navy mandated to maintain 60% of its assets in the Pacific by 2020 (but not necessarily deployed exclusively in the region). A set of quite explicit goals for the 'rebalance' have been laid out: sustainable economic growth with the

⁷² Mahbubani, K. 'When America becomes number two'. *East Asia Forum*. 2 February 2014.

⁷³ Goh, E. *The Struggle for Order: Hegemony, Hierarchy and Transition in Post-Cold War East Asia*. Oxford University Press. 2013.

⁷⁴ Jones, B. *Still Ours to Lead: America, Rising Powers, and the Tension between Rivalry and Restraint*. Brookings Institution. 2014. This theme is echoed by Hanlon, M. in *Reassurance and Resolve: US-China Relations in the Twenty-First Century*. Brookings Institution. 2014. See also Nye, J. *Is the American Century Over?* Polity Press. 2015.

⁷⁵ White, H. *The China Choice; Why America should share power*. Black Inc. 2012. Also 'Asian Century must begin with great power accommodation'. *East Asia Forum*. 30 June 2015.

⁷⁶ The most recent statement of commitment is carried in the *2015 National Security Strategy*. Washington DC, The White House. February 2015.

⁷⁷ Quoted in 'The Pacific: Special Report', *The Economist*. 15 November 2014.

⁷⁸ Clinton, H. 'America's Pacific Century'. *Foreign Policy*. October 2011. The theme was repeated in speeches by President Obama in visits to Australia, in Canberra on 17 November 2013 and Brisbane on 15 November 2014.

TPP expected to play a crucial role, support for a clean energy revolution, the lowering of tensions, reinforcement of the norms that underpin a rules-based stable region, and moves to 'empower people' throughout the Asia-Pacific.⁷⁹

There has been no overt suggestion by the Obama Administration that the 'rebalancing' was intended to turn back the tide against the rise of China, but it was probably inevitable that inflated expectations along those lines have been created. For its part the US Senate Foreign Relations Committee has to date remained unconvinced and been critical of the 'rebalancing' strategy as under-resourced and uneven.⁸⁰ Considered comment on how the Obama Administration and Congress might work together more effectively in the 'rebalancing' context and a suite of specific recommendations for US policy action has recently been published by some knowledgeable American observers.⁸¹

Where China is concerned it has been said 'rebalancing' will also mean avoiding 'the historic pitfall of strategic rivalry between an emerging power and an existing one,'⁸² (sometimes referred to as 'The Thucydides Trap'). That begs the question: if the rising power has to be accommodated in some measure, where is the line to be drawn? It is clear that ways have to be found for the two powers to work cooperatively in particular areas where opportunity exists, such as in bilateral trade and investment, on non-nuclear proliferation, and across a wide range of non-conventional issues. One of those issues is climate change, where off centre stage the world's two largest carbon emitters reached a promising new agreement at the November 2014 APEC Leaders meeting in Beijing. Another is cyber-security on which some progress seemed made during President Xi Jinping's visit to Washington in September 2015.⁸³ To give meaning to a more collaborative relationship would call for going well beyond simply agreeing to disagree on other vexed subjects such as human rights, and the clash of claims in the South China Sea.

In the latter context, in November 2014 the two Presidents signed a fresh bilateral accord in Beijing designed to help avert close calls by their aircraft and vessels on patrol.⁸⁴ Despite that agreement, a short time later in Brisbane to attend a G20 meeting President Obama pulled no punches in spelling out in a public address the areas of difference between China and the US.⁸⁵ This harder-edged assessment was mirrored in an indication of gathering

⁷⁹ Secretary of State Kerry, J. *Remarks on US-China Relations*. John Hopkins University. 4 November 2014.

⁸⁰ US Senate Foreign Relations Committee. *Rebalancing the Rebalance: Resourcing US Diplomatic Strategy in the Asia-Pacific Region*. Washington DC. 17 April 2014.

⁸¹ *Pivot 2.0*. Centre for Strategic and International Studies (CSIS), Washington DC. January 2015.

⁸² Kerry, J. John Hopkins University. 4 November 2014. See also Allison, G. 'The Thucydides Trap: Are the US and China Headed for War? ', *The Atlantic*, September 2015.

⁸³ 'Obama and Xi Jinping of China Agree to Steps on Cybertheft'. *New York Times*. 25 September 2015.

⁸⁴ Landler, M. *New York Times*. 11 November 2014. During President Xi's visit to Washington in September 2015 the two militaries signed a 'Rules of Behaviour for Safety of Air-to-Air Encounters'.

⁸⁵ White, H. 'Brisbane Speech Underlines Obama's increasingly tough line on China.' *The Interpreter*, Lowy Institute. 16 November 2014.

concern in a Republican-dominated Congress, which chose in late 2014 to insert into the 2015 defence authorisation legislation a requirement on the Pentagon to report regularly on the possible implications for US interests of China's actions in the East Asia maritime setting.⁸⁶ In some Washington quarters among analysts, bureaucrats and politicians, there is residual nostalgia and decided reluctance to contemplate any alternative to continued US predominance. A joint letter (dated 19 March 2015) from the heads of the Senate Armed Services and Foreign Relations Committees to the Secretaries of State and Defence expressed alarm at the scale and speed of China's land reclamation in the Spratly archipelago, and called for a long-term strategy 'to meet the potential threat to long-standing US interests.'⁸⁷ While the 2007 US Sea Service Strategy made no mention of China, the early 2015 revision put stress on the geopolitical challenges posed by China's naval expansion and the need for the US Navy and Coast Guard to have 'All Domain' access.⁸⁸

The foregoing selection of official US statements leaves an impression that only relatively recently has the Washington 'beltway' community come to accept the size and seriousness of the China challenge. Signs of and the inherent risks in adversarial mind-sets becoming entrenched in the two capitals have been well documented.⁸⁹

The US still spends vastly more on defence than any other country and its global military reach remains unmatched. There was a strong affirmation in the early 2014 'Quadrennial Defense Review' (QDR) that US interests remain inextricably linked to peace and security in the Asia-Pacific.⁹⁰ There have been since affirmations of US determination to maintain a capable and credible forward presence, given that the 'excessive nature of maritime claims is creating uncertainty and instability.'⁹¹ The most fundamental questions persist. If an aggressive 'push' anywhere in the Asia-Pacific should reach the point of inviting retribution, how well placed would US defence resources be to deliver a punishing response?⁹²

The historic dominance is acknowledged to be reducing and there was some inevitability about this happening. The US Navy is the smallest in ship numbers since 1916; there is less emphasis on having overwhelming presence and more on possession of critical capabilities. While US defence spending remains more than four times that of China (US\$585 billion and US\$130 billion in 2014, respectively), severe budget restrictions under the spending cap

⁸⁶ US Congress. *Defense Authorisation 2015*. Washington DC. November 2014. Also Heibert, M. *The Defense Authorisation Act and China's Maritime Moves*. CSIS, Washington DC. 10 December 2014.

⁸⁷ Brunnstrom, D. 'Senators seek US strategy to stop China's South China Sea reclamation'. *Reuters*, Washington DC. 20 March 2015.

⁸⁸ *A Cooperative Strategy for 21st Century Seapower*. Washington DC. March 2015.

⁸⁹ Swaine, M.D. 'The Real Challenge in the Pacific'. *Foreign Affairs*. 94(3). May-June 2015.

⁹⁰ US Defense Department. *2014 Quadrennial Defence Review*. Washington DC. 2014

⁹¹ Harris, Admiral H.B., Commander Pacific Fleet. *Future Surface Fleet Conference*. Speech, Canberra. 31 March 2015.

⁹² Dempsey, M., Chairman Joint Chiefs of Staff. *Closing Assessment in the 2014 QDR*: 'In the next ten years interstate conflict in East Asia is expected to rise, the vulnerability of our platforms and basing to increase, our technology edge to erode...'

imposed by 'sequestration' are beginning to impact on the ability of the US to sustain a frontline presence of high end assets. This includes being able to station a carrier taskforce year-round in the contested seascape off East Asia. Real budget cuts amounted to 15% between 2010 and 2015 although some ground has been recovered in the latter year.⁹³ However, coupled with the fact that work on the next generation of over-the-horizon missiles is lagging, could the recalibration of its defence resources towards fewer platforms erode the US Navy's ability to turn up in a fractious situation confident it can be 'lethal and dominant'?⁹⁴

The US has been urged to pursue a more active policy to achieve a greater level of parity with China in many areas—'selective efforts to shape, encourage and deter behaviour in a largely reactive or incremental manner (described as "muddling through") on the basis of continued American military predominance and political leadership across the region will likely prove inadequate or misplaced, especially over the long-term.'⁹⁵ Another, balanced opinion, observed that the US has only two real interests in the South China Sea and should concentrate on these in the near-term; maintaining freedom of navigation, and efforts to dissuade China from the unprovoked use of force against other claimants.⁹⁶

The overarching goal driving US defence posture for decades—that it should be able to prevail in two major conflicts at the same time—has given way to a more modest level of ambition. This would see US forces able to deal decisively with one adversary but simultaneously seek to do no more than frustrate the wilder flights of fancy another aggressor might entertain.⁹⁷ The QDR is unequivocal that more heavy lifting will be expected of allies and friends 'to play greater and even leading roles in advancing mutual security interests in their respective regions'.⁹⁸ The theme is reinforced in the 2015 National Security Strategy, which speaks of the need to strengthen the ability of allies and partners to 'withstand coercion'. It states that the US will 'be principled and selective in the use of force' and notes that 'the threshold for military action is higher when our interests are not directly threatened.'⁹⁹

Apart from its concern over freedom of navigation and overflights in the South China Sea and its own substantial trade and security interests in the stability of the disputed East China Seas theatre, the US cannot avoid being an interested party because some long-

⁹³ *The Military Balance 2015*. London, International Institute for Strategic Studies (IISS). 2015.

⁹⁴ Locklear, Admiral S., Commander US Pacific Command. *Remarks before the US Senate Committee on Armed Services*. 25 March 2014.

⁹⁵ *Conflict and Cooperation in the Asia-Pacific Region*. Carnegie Endowment for International Peace, Washington DC. March 2015.

⁹⁶ Swaine, M.D. 'America's Security Role in the South China Sea'. Testimony before the House Foreign Relations Subcommittee on Asia and the Pacific, Washington DC. 23 July 2015

⁹⁷ This point is highlighted in The Heritage Foundation's *2015 Index of Military Strength*. The Heritage Foundation, Washington DC. January 2015.

⁹⁸ Jennings, P. 'United States: so long and thanks for all the fish'. *The Strategist*. 12 March 2014.

⁹⁹ Schreer, B. 'The new US National Security Strategy, China and the Asian rebalance'. *The Strategist*. 16 February 2015.

standing alliance partners are directly involved. Washington has publicly stated more than once that the Senkaku-Diaoyu Islands in the East China Sea, which China and Japan argue over, are covered by the 1952 Security Treaty the US has with Japan. President Obama gave that assurance in Tokyo in April 2014; the first president in office visiting Japan to do so. The US partners of interest are not only traditional close 'security anchors', Japan and South Korea, but include Taiwan, the Philippines and others with whom defence relations have recently been strengthened, such as Indonesia, Malaysia, Singapore and Vietnam. The US is wary of being dragged into a dispute not of its choosing especially when the veracity of rival claims is unclear. But Washington and partners continue to applaud the contribution to regional stability of the 'hub and spoke' alliance system that has been present since 1945. It is of special interest to New Zealand that its three regional partners in the FPDA, Australia included, have all expanded their defence ties with the US and have become more forthright on issues to do with international maritime transit.¹⁰⁰

The regional reaction to the perceived ebb and flow of US attitudes and policy towards the Asia-Pacific has been mixed. While some long-time security partners of the US have felt it prudent to deepen their defence links with Washington, this has not allayed their misgivings. They welcomed the US assurances that it was 'rebalancing' back towards the Asia-Pacific, even if the move was widely interpreted within the region and by Beijing, but denied by Washington, to be a transparent effort to contain China's growing power.

The unease that persists is about the extent to which regional partners of the US must allow for the likelihood that Washington's avowed refocus towards the Asia-Pacific will in practice be hostage to the vagaries of US domestic politics and to fluctuations in public opinion. And, subject as well, to the pulling power of endemic issues in other regions that periodically call for US-led interventionist activity; in the maelstrom of the Middle East, for example, and perhaps in Europe in the future. That underlying concern about the durability of American commitment is in part behind the hedging provisions and displays of assertiveness by some smaller littoral powers around the South China Sea. Their economies are in the best shape they have ever been, and there is greater willingness to speak from a position of relative strength. This encourages less inhibition than previously and in most cases these countries are able and willing, perhaps for the first time in their recent history, to stand up for what they assert are their sovereign territorial rights.

China: From bit player to big guy

A closer look at the part that individual countries are playing in the Asia-Pacific must turn, after the US, to China. In 1990 China was responsible for less than 3% of global manufacturing output by value; now its share is nearer 25%. Its nominal GDP was US\$1.2 trillion in 2000 and is currently US\$10 trillion.¹⁰¹ In the quintet with which it perhaps feels

¹⁰⁰ Australia-United States Ministerial Meeting. *AUSMIN 2014 Joint Communique*, Canberra. 12 August 2014.

¹⁰¹ Feigenbaum, E.A. 'The New Pan-Asian Order'. *Foreign Affairs*. 2 February 2015.

most at ease—the BRICS (Brazil, China, India, Russia, South Africa)—and where its pre-eminence is unchallenged, China is responsible for two-thirds of the group's total global trade. Not since the time of Mao Zedong has any China government been as forthrightly nationalistic as that presently of President Xi Jinping.¹⁰² His administration's overriding preoccupation, set out before the party plenum of the CPC Central Committee in November 2013 and reinforced on occasions since as Beijing's primary focus, is with domestic economic development, internal stability, human security, and the socio-economic consequences of an ageing population. But, very importantly for Beijing, there are also high profile priorities abroad that engage issues of influence and declared national interests. They go to the heart of the country's ambitions by way of power and recognition, and its aspirations for regional and worldly status.¹⁰³

While the main focus of this paper is on China's activities off its eastern littoral, these cannot be isolated from the evidence of an ambition on Beijing's part to build a dominant position on land and sea through Central Asia and adjoining southern oceans, as far as Moscow and major West European destinations. Concepts of a 'Silk Road Economic Belt' and a '21st Century Maritime Silk Road' were first outlined by President Xi Jinping in 2013. At the 2015 Boao Forum he recast them into the single vision of 'One Belt-One Road'; an interconnected network of infrastructural projects for which funding up to US\$100 billion would come from a dedicated 'Silk Road Fund' and the AIIB.¹⁰⁴ The comments of some foreign observers that the 'One Belt-One Road' could be depicted as a new version of the post-World War II Marshall Plan or, alternatively, as China's reflexive response to the US 'rebalancing to Asia', seem to miss the point. Without doubt, for China the 'One Road' is serious business reflecting important long-term foreign policy and both domestic and external economic development objectives. Those interests are the main drivers behind the concept. The reception by countries along the western pathways contemplated has been positive but predictably tentative and likely to remain so until the 'One Road' shows signs of taking tangible form.

A sense of empire appears to have returned to the Middle Kingdom and the view from Beijing, backed by popular sentiment, is that China's time has come again.¹⁰⁵ The prospect of holding indefinitely the status of a subordinate power, even if acknowledged to be 'number two', is simply not acceptable to the current leadership. The country ranks at or near the top

¹⁰² On this theme see, for example, Economy, E.C. 'China's Imperial President'. *Foreign Affairs*, 93(6). November-December 2014.

¹⁰³ On the nature and number of China's objectives see O'Brien, T. *Regionalism and New Zealand's Choices*. CSS Briefing Paper, 7(2). Wellington. June 2012.

¹⁰⁴ *One Belt, One Road*. National Development and Reform Commission, Beijing. 28 March 2015. See also Brant, P. 'One belt, one road? China's community of common destiny'. *Lowy Interpreter*. 31 March 2015. And Stokes, J. 'China's Road Rules'. *Foreign Affairs*. 19 April 2015.

¹⁰⁵ On the need for 'deliberate and carefully planned responses' rather than 'knee-jerk reactions', see Powles, M. 'The Regional Security Environment and Architecture in the Pacific Islands Region', in Azizian, R. and Cramer, C. 'Regionalism, Security and Cooperation in Oceania', Asia-Pacific Center for Security Studies, Honolulu, June 2015.

of many reputable indices; responsible, for example, for 12% of global trade and GDP, being the world's largest exporter of goods and second-biggest importer, and the second largest spender on defence. Through that lens, centre stage is China's rightful place, a perception that has unavoidable implications for its relations with many others. That consequential effect is not always expressed as unobtrusively as it was by former Foreign Minister Yang Jiechi at the ASEAN Regional Forum in 2010: 'China is a big country, bigger than any other countries here, and that is just a fact'.

Not least, of course, are the implications for ties with the US. In that bilateral context, important to the two parties beyond all others, China's leaders have spoken of an undefined 'new type of great power relationship' for which the only candidates would be China and the US; jointly they account for one-third of the global economy and one quarter of world population. No mention is made of Japan, and China appears to have accepted that, while important to keep on side, globally and regionally Russia is a declining force. In a meeting with Secretary of State Kerry on 17 May 2015, President Xi Jinping asserted the Asia-Pacific is 'big enough for both China and the US.'¹⁰⁶ Foreign Minister Wang Yi has spoken of 'a new model of major country relations' based on 'win-win cooperation.'¹⁰⁷ There seems an unmistakable subliminal message here that Washington should be prepared to make room for the ascending power.

At the Boao Forum in April 2014 Premier Li Keiqiang recommended Asian countries establish their own security cooperation framework. President Xi did the same at the CICA in May 2014 and again in a visit to Seoul in July 2014. He envisaged 'a new Asian security architecture' devoid of US military treaties: 'it is for the people of Asia to run the affairs of Asia, solve the problems of Asia, and uphold the security of Asia.'¹⁰⁸ Xi perhaps saw the CICA nascent in that role. But significantly he also identified a list of current issues that, in his view, could only be settled bilaterally between the parties directly affected, foregoing the alternative path of multilateral or regional mediation. In a speech to the Australian Parliament in November 2014 President Xi remarked that it was only natural for small players 'to wonder how the big guy in the room was going to behave towards them'.

There is a pattern to these remarks and the inference is clear. China is set on wielding more authority and influence in the region. It accepts that this could only happen at others expense, notably Japan and the US. Yet there is no publicly stated intention on Beijing's part at this juncture to challenge and radically change the global order, rewrite the existing framework of established procedures and rules, or forcibly detach the US from its dominant

¹⁰⁶ Agence France-Presse and Rappler.com. 17 May 2015.

¹⁰⁷ Yi, W. *Towards a New Model of Major Country Relations Between China and the United States*. Brookings Institution. www.brookings.edu/events/2013/09/20.

¹⁰⁸ Quoted in Economy, E.C. 'China's Imperial President'. *Foreign Affairs*, 93(6). November-December 2014.

position of influence internationally.¹⁰⁹ Nor does China appear to harbour any territorial, land-based ambitions in the close neighbourhood.¹¹⁰

On the other hand, it is abundantly evident through repeated proclamations and assertive actions that China is not happy with aspects of the Asian-focused regional order it has inherited in its newly assumed major power role. Beijing appears determined to put things to right, from its viewpoint, in ways that advantage its core concerns. What stimulates regional unease is that no 'blueprint' has yet been offered from Beijing that would identify the 'remedial' steps required to accommodate what China sees as its 'legitimate national interests'. For instance, the creation in 2013 of the China Coast Guard with a fleet larger than that of Japan and the ASEAN navies combined was a significant operational move and raised regional concerns. Could this major new defence asset be deployed to reshape the region's maritime power balance?¹¹¹ Did its arrival reinforce a message that Beijing aspired to be the custodian of neighbouring seas in a manner comparable to American stewardship of the Caribbean?

There is no indication yet of a 'grand scheme' or strategy designed and driven by the central government to promote its core national interests.¹¹² A tempering consideration is that the current order enshrines a set of norms of sovereign statehood, such as freedom of navigation, respect for borders and open markets, from which China undoubtedly benefits. That said, there is little ambiguity about China's dislike of many other features of the existing regional regime as it applies to the close neighbourhood. This has been amply demonstrated, notably in China's continued attachment to the ill-defined 'nine dash line' that first appeared in 1914 and was modified in 1947 and again in 2009. The 'line' encircles more than 80% of the South China Sea. Since 1949, the related map (see Figure 2) has been used to support China's unspecified but generic claims to sovereignty over islands in the South China Seas, the Paracel and Spratly Islands, the surrounding waters and seabed.¹¹³ The 'historic waters' claim from Beijing lacks certain crucial specificity; does it apply to all the waters inside the 'line' or just to the territorial waters?

¹⁰⁹ Vice-Premier Wang Yang was reported to have told the China-US Joint Commission on Commerce and Trade on 17 December 2014 that Beijing was neither willing nor able to challenge US dominance of the global order. See Hu, A. 'A Chinese view of the World's Most Important Relationship'. *Foreign Policy*. 30 December 2014.

¹¹⁰ There are, of course, contrary views. For example, Krepinevich, A. 'Archipelagic Defence, How to Deter China'. *Foreign Affairs*, 93(2). March-April 2015.

¹¹¹ Liff, A.P. and Ikenberry, G.J. 'Racing towards Tragedy? China's Rise, Military competition in the Asia-Pacific, and the Security Dilemma'. *International Security*, 39. 2014.

¹¹² Jakobson, L. *China's Unpredictable Maritime Security Actors*. Lowy Institute, Sydney. December 2014.

¹¹³ Haddick, R. *Fire on the Water: China, America and the Future of the Pacific*. Naval Institute Press, Annapolis Maryland. 2014. Hayton, B. *The South China Sea: The Struggle for Power in Asia*. Yale University Press. 2014. Kaplan, R. *The South China Sea and the End of a Stable Pacific*. Random House. 2014.

The map showing the ‘nine dash line’ has been carried in Chinese passports since 2009 and it encompasses a larger expanse of the South China Sea than the original version. Inevitably this evokes, perhaps unintentionally but probably not, near-forgotten concepts of ‘spheres

Figure 2—China’s 9/10 dash line



Source: Thanhnien News, Vietnam, 19 July 2014.

of influence’. China’s sweeping ‘historic claim’ in respect of the South China Sea is challenged by several ASEAN members, and also by Taiwan, which argues that part of the disputed area lies within its own waters. A US State Department study issued in December 2014 did not take a position on the question of rival sovereignty claims but concluded that China’s unilateral declaration was not

consistent with the UN Convention on the Law of the Sea (UNCLOS).¹¹⁴ There was some irony in Washington attaching the Convention to this finding, because the US has yet to ratify UNCLOS but China already has.¹¹⁵

Beijing’s resolve has been unflinching. It dismissed a US-Philippines call for a ‘freeze on provocative actions.’¹¹⁶ And it continued through mid-2015 to undertake large-scale construction work, including troop accommodation and air strips, on disputed atolls and reefs that carry evocative names such as ‘Fiery Cross’ and ‘Mischief’. There have been as well PLA Navy exercises and the positioning of oilrigs on or close to some contested sandbanks, shards of rock, isolated shoals and underwater shelves.¹¹⁷

Having evicted Vietnamese forces from the Paracel Islands in 1974 and the Philippines from the Scarborough Shoal in 2012, the Spratly Islands are the sole area of dispute in the South China Sea over which China does not yet exert complete physical control.¹¹⁸ It must be

¹¹⁴ US State Department. *Limits in the Seas*. Washington DC. 5 December 2014.

¹¹⁵ It has been argued the State Department’s analysis is wrong on the basis of earlier rulings; see Gupta, S. ‘Why US analysis of China’s nine-dash line is flawed’. *East Asia Forum*. 11 January 2015. This view is challenged by Duong, H. and Pham, T. ‘China’s nine-dash line still infringes international law’. *East Asia Forum*. 27 February 2015.

¹¹⁶ Tiezzi, S. ‘China rejects Proposed Freeze on Provocative South China Sea Moves’. *The Diplomat*. 5 August 2014.

¹¹⁷ Complaints by neighbours and the US that China’s actions alter the ‘status quo’ is not as straightforward an application of the term as may seem. See Chubb, A. ‘The South China Sea; Defining the Status Quo’. *The Diplomat*. 19 June 2015.

¹¹⁸ A detailed official explanation of China’s South China Sea activities has only recently appeared. For the first time it identified a specific military objective, ‘safeguarding territorial sovereignty and maritime rights and interests’, as well as enabling China to better perform a range of humanitarian responsibilities. Chunying, H. Ministry of Foreign Affairs, Beijing. 9 April 2015. See also Lean, C. K. S. ‘Beijing’s *Fait Accompli* in the South China Sea’. *The Diplomat*. 16 April 2015.

noted here that other claimants—Malaysia, the Philippines, Taiwan and Vietnam—have also carried out reclamation work in the Spratlys but on a much smaller scale. Sub-regional temperatures have been stirred as well by the uninvited incursion of ‘swarms’ of civilian Chinese fishing vessels, at times with protective para-military escort, into waters that countries such as Brunei, Indonesia, Malaysia, the Philippines, Thailand and Vietnam regard as their own territorial seas.

There is also an accompanying intent publicly stated on China’s part to dominate the waters within the ‘first island chain’ that Chinese maps depict running south from Okinawa to the Spratly Islands and include Taiwan. Part-way along that chain lie the Senkaku-Diaoyu Islands. They are largely under Japanese control and are a point of noisy contention between Japan and China. Tokyo maintains there is no basis for a dispute to exist as history supports its position, but this stance is in part reliant on post-war arrangements in which China played no part. It is arguable whether Tokyo would push its claim beyond the point of no return. For the time being the dispute adds to persistent bilateral strains over historical grievances, notably China’s refusal to absolve Japan from blame for atrocities committed in World War II and, from Beijing’s standpoint, Japan’s lack of adequate remorse.¹¹⁹ The disputed islands fall within the Air Defence Identification Zone (ADIZ) that China declared without advance notice on 23 November 2013 and that overlaps with Japan’s own air defence zone and those of South Korea and Taiwan.¹²⁰

Asked to explain the motives behind China’s actions Chinese scholars, like their US counterparts, do not have a common view but are prone to adduce issues of continuity and intention, change and capability. The first of those pairings—continuity and intention—is the case for arguing there has been no alteration in China’s fundamental approach to these subjects over the past 60 years. The second—change and capability—is a reference to the fact that China is now much better placed militarily to enforce its point of view should it choose to do so.

China’s annual defence spending is around US\$130 billion and has not been affected by the recent relatively slower economic growth. The regional asymmetry is glaringly obvious. Total Asian defence funding of US\$344 billion showed a real increase of 16% between 2010 and 2014, of which China’s budget lift, consistent with the rapid pace of expansion of the economy, was two-thirds of the total and now exceeds that of India, Japan and South Korea combined.¹²¹ Priority has been given to the acquisition of credible anti access/area denial (A2/D2) capabilities and to building the core components of a blue-water navy whose extended surveillance and patrol reach has already been displayed as far as Antarctica and

¹¹⁹ Prime Minister Abe’s Statement of ‘apology’ on 14 August 2015 on the eve of the anniversary of the end of the Pacific War was found wanting in Beijing and Seoul but the official response from both capitals was measured.

¹²⁰ China PLA. *Statement on Air Defence Identification Zone (ADIZ)*. 23 November 2013.

¹²¹ *The Military Balance 2015*. Institute of International Strategic Studies, London. 2015.

the Gulf of Aden. The first ever white paper on China's military strategy, released ahead of the 2015 Shangri-La Dialogue and widely read, speaks of a determination to strengthen 'strategic management of the sea' and highlights a significant shift in focus for the PLA from offshore waters defence to 'open seas protection'.¹²²

The US was underwhelmed by China's ADIZ announcement. Its immediate response was to despatch two B-52 bombers through the zone without prior notification. Since then, for all practical military purposes, Beijing's declaration has been ignored by Washington. Civilian aircraft have not been dissuaded from filing flight plans with the Chinese authorities but to date US surveillance close to Chinese territory and naval transits have continued without serious interference, although the incidence of near miss encounters has risen. The US has also made clear its unshakeable position that continued freedom of passage through the international waters involved is non-negotiable.¹²³ A critical factor is that half the global mercantile tonnage carried by container fleets passes through the South China Sea, including most of the bulk oil destined for the US's North Asia allies.

The US has accused China of 'aggressive' behaviour over land reclamation and 'exorbitant' claims.¹²⁴ It has given strong counsel to all parties against 'militarisation' of the South China Sea disputes.¹²⁵ Washington has not studiously followed its own advice but held to a carefully nuanced approach, reiterated in the December 2014 State Department analysis *Limits in the Seas*, and not overtly taken sides in the competing maritime claims. Despite that hands-off approach, China took exception in July 2010 to then Secretary of State Hillary Clinton's firm endorsement at an ASEAN Regional Forum meeting of freedom of navigation, respect for international law and, especially, the utility of the relevant UN instruments, notably UNCLOS. 'Unjustified interference' was Beijing's reaction to the Secretary's advice that the South China Sea had become a 'diplomatic priority' for the US and that Washington was prepared to join multilateral efforts to ease tensions. The December 2014 State Department report drew the accusation from Beijing that Washington was 'turning a blind eye to basic facts and international jurisprudence.'¹²⁶ Responding to the testimony of Admiral Harry Harris (see footnote 122 below) there was a warning that China would oppose 'any country trying to challenge China's territorial sovereignty and security

¹²² *China's Military Strategy*. State Council Information Office, Beijing. 26 May 2015. See also Biasko, D. 'Maritime Missions Require a Change in PLA Mindset'. *China Brief*. Jamestown Foundation, Washington DC. 29 May 2015.

¹²³ US Defense Department. *2014 Quadrennial Defence Review*. Also Locklear, Admiral S. J., Commander US Pacific Command. *Speech to Surface Navy Association*. 15 January 2014.

¹²⁴ Clapper, J., Director of National Intelligence. *Remarks to Senate Armed Services Committee*. Washington DC. 26 February 2015. Also testimony of US Pacific Commander, Admiral Harry Harris, before Senate Armed Services Committee on 17 September 2015; 'The South China Sea is no more China's than the Gulf of Mexico is Mexico's, we must exercise our freedom of navigation throughout the region'. *Washington Post*. 17 September 2015.

¹²⁵ Carter, A., US Secretary of Defense. *Press briefing*. Tokyo. 8 April 2015.

¹²⁶ China Ministry of Foreign Affairs. *Matter of Jurisdiction in South China Sea, Arbitration Initiated by Philippines*. Beijing. 7 December 2014.

under the pretext of safeguarding navigation freedom'.¹²⁷ To President Obama's most recent public expression of concern that China's reclamation activities 'makes it harder for countries to resolve disagreements peacefully', Xi Jinping's unambiguous response was that 'we have the right to uphold our own territorial sovereignty and legitimate maritime rights and interests ... the construction does not impact or target any country, and China does not intend to pursue militarization.'¹²⁸

The earlier displays of irritation from China did not stop Beijing from hosting in April 2014 a session of the WPNS. It was attended by naval representatives from 18 countries on both sides of the Pacific, including the US and New Zealand. They agreed and signed a 'Code for Unplanned Encounters at Sea' (CUES).¹²⁹ The stated purpose of this accord was to improve communication and reduce misunderstanding or the risk of inadvertent collisions (although the code's non-binding status lessens its practical effect). Nor did China decline an invitation that Washington extended for the first time to take part in July 2014 in the non-military aspects of the annual RIMPAC naval exercises off Hawaii, and did so with 22 other Asia-Pacific countries, including New Zealand. China's fulsome response was to be represented by four of its first-tier naval vessels. It also despatched without invitation an auxiliary general intelligence ship to shadow the exercises. The US took no umbrage at the deployment of that vessel but claimed collateral benefit. Its presence was welcomed by Admiral Locklear, head of the US Pacific Command, who was reported to have said the action was a sign that Beijing now supported Washington's position that surveillance activity and other military operations within the EEZ of another country did not contravene international law.¹³⁰ Across the expanse of China-US relations, calls from a spectrum of domestic US interests for 'a more coherent, strategic' response to China's rise are likely to grow in number and volume.¹³¹ They may appeal to a more interventionist inclined US president.

Japan: Beyond the 'lost decades'

Whither Japan and its aspirations after emerging from the two 'lost decades' is an important ingredient in this complex regional equation. The overt nationalism displayed by Prime Minister Shinzo Abe's government loses nothing by comparison with that of the administration of President Xi Jinping (although, fortunately, there is no Chinese equivalent of the Yasakuni shrine and the inflammatory impact in neighbouring countries of official visits to it).

¹²⁷ China Ministry of Foreign Affairs Statement, Beijing, 18 September 2015.

¹²⁸ Davis, J.H. and Sanger, D. in *New York Times*, 25 September 2015.

¹²⁹ Bodeen, C. 'Asia-Pacific navies sign communication agreement'. *Yahoo News*. 22 April 2014.

¹³⁰ Tiezzi, S. 'China's RIMPAC Spying; Having your Cake and Eating it Too'. *The Diplomat*. 1 August 2014.

¹³¹ Blackwill, R. D. and Tellis, A. J. *Revising US Grand Strategy Toward China*. Council on Foreign Relations Special Report, Washington DC. April 2015.

The burnishing of the Japanese profile under the Abe Government has been manifest in a number of ways, including measures to 'normalise' the role of the Japanese military (JSDF). In 2013 the defence budget was raised for the first time in a decade although still, as a policy decision, maintained around 1% of GDP. That year's national security strategy explicitly accused China of 'attempts to change the *status quo* by coercion'. The 2015 defence budget will be the highest ever but still barely 40% of China's. It will continue the focus on advanced aerial, amphibious, maritime and surveillance platforms. A National Security Council was established in December 2013 and in April 2014 Japan announced the ban on the export of weapons would be lifted and Japan would develop weapons jointly with other countries; since 2011 it had already been doing so with the US. The most controversial move came in July 2014 when the Abe government announced it would 'reinterpret' Article 9 of the Constitution to abandon the purely self-defence orientation of the JSDF that had prevailed since 1947.

The intent behind this package of security-related measures was well received by some ASEAN neighbours even where painful wartime memories persist, and by Taiwan. The measures were taken to indicate a determination on Japan's part to re-involve itself more fully and constructively in regional security affairs. Tokyo's agenda of 'active pacifism' was also 'welcomed' by Australia, which termed its strategic partnership with Japan 'the closest and most mature' it had in the region.¹³² After taking office for a second term, Prime Minister Abe visited over 50 countries but not China, although the two leaders met briefly at the November 2014 APEC meeting in Beijing and for longer in Jakarta in April 2015 for what was described as a positive exchange. Their defence representatives have since been together to consider better means of communication to avert crises in and above the East China Sea that could endanger the bilateral trade of US\$340 billion. Returned comfortably for a third term in December 2014, Prime Minister Abe reaffirmed that economic recovery was his first priority, but that further reinforcement of national security policy and active regional engagement would remain high on his agenda.

It was no surprise that Japan's early 'revisionist' measures under Prime Minister Abe incurred wrath from the near capitals, Beijing and Seoul, and a hostile media reaction in those countries.¹³³ An immediate fallout from anti-Japan demonstrations was a drop of around 40% in new Japanese investment in China but this proved to be of short-duration. Tokyo's defence rethinking also attracted considerable criticism from those domestic quarters that still favour an unqualified pacifist stance for Japan.

Undeterred, in August 2014 Japan's annual defence white paper again had harsh comment on China's 'coercive' activities in the East and South China Seas and criticised Beijing's

¹³² Rolfe, J. 'The Abe and Abbott show: a meeting of minds and interests'. *East Asia Forum*. Canberra, Australian National University. 9 July 2014.

¹³³ A cautious assessment of Japan's new profile is contained in Berger, T. *Abe's Perilous Patriotism*. Centre for Strategic and International Studies (CSIS), Washington DC, 2014.

ADIZ move as 'profoundly dangerous.'¹³⁴ The theme of that white paper, continued in the 2015 version approved by Cabinet in July 2015, was that moves to modernise the JSDF's posture, endowing it with enhanced fire power and greater mobility, represented predictable and responsible contingency steps to be understood in the prickly sub-regional contexts. The 2015 defence budget further strengthened the focus on 'grey zone' incidents that would involve periodic unwelcome intrusions into Japan's territorial air and sea spaces but fall short of full-scale frontal assaults. Legislation to make effective the 'reinterpretation' of Article 9 was approved by the Diet in September 2015. Accordingly, Japan's defence forces are now permitted to respond to 'grey zone' incursions, and to engage in collective self-defence with allies, with the stipulation that step would be taken only if Japan's essential security interests and its citizens safety were deemed at risk.

It can be assumed another motivation behind the thrust of the recent defence white papers was an underlying if unstated concern over how much faith could be placed in the long-term resilience and regional dominance of a US perceived to be war-weary and resource-strapped, and expecting greater efforts from its allies. Prime Minister Abe's visit to Washington in late April 2015 produced endorsement of enhanced guidelines for the US-Japan defence partnership, reaffirmed that the Senkakus are covered by the security Treaty, broadened the scope of functional cooperation and complied with Washington's request that allies do more to help themselves.¹³⁵ In the wider regional context, Japan has responded with an increasing number of security cooperation agreements in Southeast Asia with countries such as Indonesia and Vietnam and in May/June 2015 with Malaysia and the Philippines. Further afield there are new agreements with Australia and India.

Those who prepared Japan's latest defence white papers would have been conscious, too, of the country's long-running territorial dispute with Russia. Since 1945 their argument has been over ownership of islands north of Hokkaido in the Kurile chain, what Japan calls its 'Northern Territories' and is no closer to settlement. In August 2014 the bilateral strains were exacerbated by Russian military manoeuvres off the Sakhalin Peninsula, which may have been prompted by Moscow's reaction to Japan's participation in anti-Russian sanctions over the Ukraine crisis. Prime Minister Abe has invested considerable personal effort in contacts with President Putin, to little avail so far. This particular bilateral relationship of Japan's obviously remains fraught.

As already noted above, events surrounding the 70th anniversary in August 2015 of the end of the war in the Pacific inevitably focused regional attention on how the occasion is remembered in Japan and on the country's refurbished defence posture. Notwithstanding the pointed comments from some nearby capitals, there are no persuasive signs that Japan

¹³⁴ 2014 Defence White Paper. Ministry of Defence, Tokyo. 2014.

¹³⁵ Green, M. *The Abe-Obama Summit*. Centre for Strategic and International Studies (CSIS), Washington DC. 28 April 2015. See also Cook, M. 'US-Japan defence guidelines: pushing the rebalance'. *The Strategist*. Australian Strategic Policy Institute (ASPI). 29 April 2015.

has embarked on a course that could threaten to take it back to the aggressive militarism of the 1930s. Severe resource limitations would curb any provocative inclinations and there would be strong domestic opposition.

Another consideration is that Japan is confronted by what seem irreversible demographic trends, an ageing and declining population that already has more people over 60 than under 20. In addition, there are stubborn structural and fiscal constraints in the economy that to date have obstructed realisation of the vision of economic reform embodied in the 'three arrows' of 'Abenomics': monetary easing, fiscal stimulus, and structural reform. It is in the context of the last 'arrow' that hopes are held a successful TPP outcome would have the potential to contribute to reenergising the Japanese economy.

However, it is just as undeniable that Japan remains unchallenged as Asia's second most powerful nation; qualitatively if not numerically it has the strongest navy after the US. Its energy levels and capacity for innovation seem unimpaired. Where the Abe Administration has clearly shifted into a higher gear is in its active promotion of the image of Japan as a regional security provider. All this means that Japan cannot be expected to meekly concede to China's regional leadership ambitions.

As a result the Asia-Pacific faces a situation without historic precedent. It now hosts both a strong China and a still strong Japan. In similar fashion to the dynamics of the China-US relationship, Beijing and Tokyo must find a formula that would allow the two of them to constructively co-exist and resist temptations to indulge in dangerous manoeuvres that could precipitate disastrous outcomes. It is a modest beginning that they have both accepted the non-binding 2014 CUES accord. More broadly, the entire Asia-Pacific has a huge vested interest in taking steps to help effect a China-Japan *rapprochement*. This specific bilateral challenge highlights the issues raised above about the efficacy of the current regional security structures as mechanisms for promoting solutions to tense situations and the reconciliation of conflicting national interests.

Republic of Korea: Middle power in the making

South Korea is the nearest neighbour with the greatest third-party stake in the restless fortunes of the China-Japan relationship. The country has made extraordinary economic progress; it now ranks as the world's 13th largest economy and seems destined to climb higher. With good reason, Seoul aspires to be more engaged and accepted as a serious middle power contributor to regional and global affairs. Understandably the country's concern above all others is with the political standoff on its peninsula; most everything that matters to South Korea is filtered through that lens. There is unease, not just in Seoul but across the region, that the DPRK has shown no willingness to step back from a recalcitrant position over its ongoing nuclear enhancement programme that includes development of long-range delivery systems. Pyongyang has done little through its constant bellicose utterings to assuage concern in the South or among close neighbours, much less show any

convincing interest in denuclearisation. In that regard it has frustrated even China, although Beijing remains equivocal on the issue of reunification.

It is primarily in the context of the peninsula's future political configuration that South Korea has been obliged to build closer if not intimate ties with China, which has become the country's main trading partner. Seoul continues to dispute with China the ownership of the Socotra Rock in the Yellow Sea but noticeably has been silent on Chinese claims and reclamation activities in the South China Sea. President Park Geun Hye's decision to attend the Beijing military parade on 3 September 2015 aroused some concern among allies and domestic controversy.¹³⁶ However, her sixth visit to the Chinese capital in three years could be understood as part of Seoul's ongoing policy to try to exert influence on the patron-client relationship between China and the DPRK.

And, as with China, South Korea's relationship with Japan is a mass of deep-rooted mistrust and historic hurt. Its grievances include conflicting territorial claims that date back to when Japan occupied the peninsula from 1910 to 1945. But deliberately irritating behaviour or threats that could severely harm the bilateral relationship have to be kept in check. Whatever impulses might exist on either side to annoy the other party, there are solid reasons that work in favour of restraint between Japan and South Korea, including their substantial economic links.

There is also another compelling incentive. Neither party could afford to allow their bilateral relations to deteriorate to a point that would seriously trouble the US, the ultimate guarantor of their mutual security interests. For its part, there is no doubt of Washington's view that continuing friction between Seoul and Tokyo should not be permitted to become a serious strategic liability.¹³⁷ A move to ease tensions was made in a late 2014 agreement among the three partners to enhance their exchanges of military intelligence on North Korea.¹³⁸ In April 2015 Japan and South Korea held their first high-level security talks since 2009. Seoul will want to manage carefully its relations with Beijing and it is hard to imagine South Korea of its own choice being drawn into China's strategic orbit.¹³⁹

India: Look east or act east?

Alongside China, but not yet as advanced or influential, the other Asia-Pacific country entitled to be termed 'an economic powerhouse in the making' is India. The country is still a low income one by any measure and is home to 30% of the world's population that lives in

¹³⁶ President Park was a lone presence from the democratic world at the massive parade in Beijing to mark the anniversary of the end of World War Two.

¹³⁷ Smith, S.A. 'President Obama and Japan-South Korea Relations.' *The Asan Forum*. Council on Foreign Relations. 25 March 2014.

¹³⁸ *The Tokyo Times*. 29 December 2014.

¹³⁹ For an explanation of the complex issues South Korea has to balance see Schreer, B. 'Whither Australia-South Korea defence relations'. *The Strategist*. Australian Strategic Policy Institute (ASPI). 4 September 2014. See also Kelly, R.E. 'Relax, Korea is not about to drift towards China.' *The Interpreter*. Lowy Institute. 16 July 2014.

extreme poverty. But it hosts an economy that has grown substantially in the past decade and in purchasing power parity terms is already not much different in size from that of Japan. On all current projections, within the next two decades India's population will exceed that of China. Provided deeply entrenched structural and governance impediments are overcome and the plight of the poor relieved—challenges that have defied the efforts of earlier governments—by the middle of the century the Indian economy could be among the top four globally.¹⁴⁰

To its advantage, India also is now under energetic new political leadership in the government of Prime Minister Narendra Modi. The approach that made Modi's term as Gujarat Chief Minister so successful is reflected in the determination he and his colleagues have expressed to make the Indian economy more competitive, outwardly focused and welcoming to foreign investment. The crucial test still to be passed is whether a pro-business philosophy in the domestic setting can be translated into effective steps to transform the economy into one that is truly liberal and market-based. One that is open to the outside world and that nurtures the skills and experience required by regional supply networks.¹⁴¹

The Modi Administration will need to tackle that set of challenges if the country is to maintain growth around 7% thereby avoiding the 'middle income trap', and inject more energy into and extract more return from the several bilateral trade agreements India currently has in place with Asian partners. These include the agreement with ASEAN that became effective in 2009 but that, like others India has signed, has borne less fruit than expected and generated barely one-fifth the trade that China has built with the sub-region.¹⁴² Through another prism, the abiding feature of India's foreign policy, beyond perennial concerns over Pakistan, has been, since the days of self-proclaimed 'non-alignment' in the 1950s, a decision not to become formally allied with any single major power. This led in practice to the equivocation that was the traditional hallmark of India's external relations behaviour, and impaired New Delhi's efforts in the past 60-plus years to extract benefit from the country's engagements across the Indo-Asia-Pacific. The country has fallen well short of being able to exercise real influence alongside China, Japan and the US. Today in contrast and to the Administration's credit, there is scant ambiguity around Prime Minister Modi's foreign policy statements; the firm message seeming to be that the country may have allowed itself to be outmanoeuvred in the past but there will be less of that marginalising allowed to happen in future.¹⁴³

¹⁴⁰ Goldman Sachs. *BRICS and Beyond*. Washington DC. November 2007.

¹⁴¹ Shah, S. and Chadha, R. 'Why India's policymakers need to fire on all cylinders'. *East Asia Forum*. Canberra, Australian National University. 8 September 2015.

¹⁴² See Rajendram, D. 'India's new India-Pacific Strategy: Modi Acts East'. Lowy Institute, Sydney. 18 December 2014.

¹⁴³ See, for example, Cronin, P. and Baruah, D. 'The Modi Doctrine for the Indo-Pacific Maritime Region'. *The Diplomat*. 2 December 2014. Also *US-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region*. Ministry of External Affairs, New Delhi. 25 January 2015.

India's core international linkages are with its two large nearest neighbours, China and Russia, and with the US and Japan. Following his election Prime Minister Modi made early visits to some of those capitals and received leaders from the others. Economic and security ties with Japan have assumed special importance and a new wave of Japanese investment in India's commercial sector has been foreshadowed. Links with the US have returned to a more even keel in their often testy bilateral relationship, after successful reciprocal visits by the two political leaders in 2014 and early 2015 that placed emphasis on a civil nuclear agreement, climate change and stronger defence ties. Observers noted that the leaders made a point of affirming the importance of freedom of air and ocean transit, especially in the South China Sea.¹⁴⁴

The Modi Government has attempted to revive an arrangement for regular strategic consultations among India, Australia, Japan and the US.¹⁴⁵ A formal security arrangement involving India with the other three countries, which had alliance overtones, would probably be a step too far for New Delhi to contemplate. But, increasingly in recent years, closer links have also been built between India and some ASEAN members, such as Indonesia, Singapore, the Philippines and Vietnam, to give greater substance to India's 'Look East' policy, which under Prime Minister Modi has been rebranded 'Act East.'¹⁴⁶ The aim here would be to rejuvenate the 'Indian imprint' that has been left by past centuries of contact the subcontinent and the sub-region have had.¹⁴⁷ South Korea and Australia have emerged as other bilateral priorities for New Delhi. The always-troubled relationship with Pakistan has particular features deeply embedded in mid-20th century history; from New Delhi's standpoint this is a critical factor, close to an obsessive one, in the mix of India's ties with its big neighbours and the US.

There are other specific points of security concern for India that have driven a new military build-up. Not least of these are periodic armed intrusions over the Agreed Line of Actual Control that demarcates the 4,000km frontier with China along the Himalayan heights. India is rapidly establishing military capabilities in that remote region but this work is a long way behind the interlacing network that China has already constructed. There is also trepidation in New Delhi over China's talk of a 'maritime silk road' and Beijing's promotion since 2013 of the concept of a 'string of pearls' bases to which its expanded navy would have access across the vastness of the Indian Ocean.¹⁴⁸ That concern lies behind India's own 'rebalancing' of its naval resources towards the hitherto neglected Bay of Bengal where

¹⁴⁴ See, for example, *Prime Minister Modi's US Visit: Towards a More Balanced Agenda*. Centre for Strategic and International Studies (CSIS), Washington DC. 1 October 2014.

¹⁴⁵ White, H. 'A second look at Obama's India Visit.' *Lowy Interpreter*. 6 February 2015. See also Medcalf, R. and Mohan, C.R. *Responding to Indo-Pacific rivalry: Australia, India and middle power coalitions*. Lowy Institute. August 2014.

¹⁴⁶ Prime Minister Modi. *Statement to India-ASEAN Summit*. 12 November 2014.

¹⁴⁷ Mohan, C.R. 'India in the Emerging Asian Architecture'. In Tow and Chin. 2009.

¹⁴⁸ The usefulness as a strategic concept of the 'string of pearls' model has been questioned: see Yung, C. and Rustici, R. *Chinese Overseas Basing Requirements for the Twenty-first Century*. Washington DC, Institute for National Strategic Studies, National Defense University. October 2014.

India projects the image of being the 'regional security provider'.¹⁴⁹ There is strong support for the Indian Ocean Rim Association in which Australia too is actively engaged.

In pursuit of its 'Neighbours First' policy, the sub-regional body of closest interest to India and its own creation is the eight-member SAARC (the South Asia Association for Regional Cooperation). An attempt by China at the November 2014 SAARC meeting in Kathmandu to become a full member was endorsed by other countries but rebuffed by India. Of significance, India's annual trade with China (US\$75 billion) is barely 25% of that which China has with Japan (US\$310 billion). This is a reflection of the diffidence and legacy of distrust that has long impeded relations between Beijing and New Delhi. A minor manifestation of their rivalry was the undertaking of separate visits and offers of development assistance by President Xi Jinping and Prime Minister Modi to the South Pacific in November 2014 following the Brisbane G20 meeting.

A question mark remains over the depth of engagement New Delhi aspires to have in the power politics of East Asia and the Western Pacific.¹⁵⁰ For all its economic and cultural strengths and growing strategic weight, and to the frustration of its many friends, India has for decades remained inwardly focussed and self-absorbed. That preoccupation may be waning. There have been mixed displays of pragmatism and nationalism, but the active new leadership under Modi has encouraged an expectation the country will come to grips more determinedly and address the image of being always a Leader-in-Waiting, rather than a nation sure of itself beyond any sliver of doubt and mindful of its rightful place in the world.

Russia: Not to be overlooked

If there are aspects of India's actions that puzzle observers, they pale alongside those of Russia. Moscow's approach to the Asia-Pacific, notwithstanding talk by President Putin of 'going East to that dynamic region,'¹⁵¹ is as difficult to fathom today as befitted Churchill's famous description.¹⁵² Russia has every right to expect recognition as being still a formidable power by virtue of its geographical sweep across many time zones, huge energy reserves, nuclear weapons stock, and its permanent place on the UN Security Council. Moscow relishes that top-table role and would not willingly tolerate second-class status, as its recent unilateral intervention in the Syrian crisis has shown. In the regional setting, Russia is an important energy source and weapons supplier for countries like China, India and Vietnam. It is also growing in importance for Japan to help meet that country's energy

¹⁴⁹ Mohan, C.R. *Sino-Indian Rivalry in the Indo-Pacific*. Washington DC, Carnegie Endowment for International Peace. 2012. See also Brewster, D. *India as an Asia-Pacific Power*. Routledge. 2012.

¹⁵⁰ White, Hugh. 'India's role in Asia may not fit the 'Indo-Pacific' agenda'. *East Asia Forum*. Canberra, Australian National University. 31 August 2015.

¹⁵¹ See *Russia: A Euro-Pacific Power? Goals, Strategies and Perspectives of Moscow's East Asia Policy*. German Institute for International and Security Affairs. September 2014.

¹⁵² Churchill, W. 'Russia is a riddle wrapped in a mystery inside an enigma', *BBC Broadcast*. London. 1 October 1939. Available at <http://www.churchill-society-london.org.uk/RusnEnig.html>

requirements despite the tenacity of their historic territorial differences. In turn, Russia needs the understanding and cooperation of neighbours, especially China and Japan, to develop successfully its remote East Siberian region. The newly formed 'Eurasian Union' of Russia and some central Europe states has been promoted as a platform for closer interaction with 'the dynamic east.'¹⁵³

In hard power terms the Russian defence budget has increased by over 50% since 2007, one-third dedicated to the upgrading of nuclear weaponry. There has been a marked increase in the Russian naval presence in East Asian waters as far south as the Coral Sea, and the Pacific Fleet is being modernised. The air force was more visible in North Asian skies in 2014 than for all the previous decade. However, for compelling reasons, it seems unavoidable that Moscow's main area of focus and distraction will lie to the West, highlighted by the trade and financial fallout from its activities in Crimea and Central Europe. It is hard to find evidence of a coherent, well thought out and consistent regional policy underpinning links with the Asia-Pacific. Russia's term as APEC Chair in 2013 was more successful than anticipated but its participation in regional economic and security institutions is usually low-key. A distinct Russian perspective is rarely articulated and realises little influence. However, none of that means the world's largest nation, nearly double the size of any other, can be lightly dismissed or ignored as a regional player.

ASEAN: Adjusting the security focus

What of ASEAN? During and immediately following the regional financial crisis of the late 1990s, when they were burdened with sharply constrained budgets, most ASEAN members turned their focus inwards to concentrate on internal security issues. This reinforced a trend in place even before the 1990s in countries such as Indonesia, Malaysia, Myanmar, the Philippines, Singapore and Thailand. The only common ASEAN concern in the late 20th century was to build 'resilience' in tackling non-traditional security challenges, such as drug trafficking, maritime piracy and people smuggling. There was some very limited bilateral coordination; for example between Malaysia and Singapore in the FPDA context. However, there were meagre attempts to form a joint ASEAN threat perception. No serious effort went into intra-ASEAN defence capability or cooperation towards common objectives in areas such as force modernisation and weapons procurement. Without exception, ASEAN members reduced their allocation of public funds to defence.

All that minimalist security conduct has been reversed in the past decade. The dramatic turnaround in their economic fortunes has allowed most ASEAN countries to respond with some vigour to the two big seismic shifts they observe in the region's geopolitical environment. The first is seen as China's deliberate policy of 'incremental encroachment' or,

¹⁵³ Wyne, A. 'Putin is not a strategic grand master', *The Strategist*. 31 July 2014. Also Klete, M. *Russia: a Euro-Pacific Power?* German Institute for International and Security Affairs. 8 September 2014.

more colloquially, 'salami slicing' in the South China Sea.¹⁵⁴ It is a contentious point that the joint *Declaration of Conduct of Parties in the South China Sea* agreed between ASEAN and China in 2002 has not been followed up with substantive discussions on an actual Code of Conduct.

The second key dimension for ASEAN is the uncertainty over the long-term depth of US commitment to the region, to which Washington has added its unambiguous expectation that friends and allies will absorb more of the defence burden. Whereas in the previous decade there had been a primary security focus on ASEAN domestic issues, this has now been redirected towards perceived external threats. The funding commitment involved is substantially less than in North Asia but a significant expansion of military hardware upgrades and new procurement programmes is underway in all ASEAN countries as ageing inventories are phased out. Indonesia and Singapore are responsible for more than half of total ASEAN military expenditure. Malaysia, the Philippines, Thailand and Vietnam are other major arms purchasers.¹⁵⁵

ASEAN defence enhancement strategies have a heavy emphasis on strengthened capacity to deter aggression or inflict measurable damage if conflict occurred. This is evident in the acquisition of sophisticated air and naval equipment, such as stealth platforms and pre-emptive strike assets, disruptive technologies and state of the art ordnance.¹⁵⁶ ASEAN does not resemble an armed camp. But at current rates of increase in sub-regional spending that are in step with economic growth, by 2020 ASEAN's combined annual defence effort is projected to be between US\$60-70 billion. That would nearly equal what is forecast to be Japan's near-term defence target and 40% of that expected of China.¹⁵⁷

In parallel with the procurement surge, there has been a significant expansion of joint exercises on ASEAN's part, framed around a range of military simulations. This collective activity has included a growing number of non-ASEAN participants: Australia, India, Japan, South Korea and the US and, on a modest scale, New Zealand.¹⁵⁸ All the same, there are divergent policy preferences apparent within ASEAN's ranks. They reflect the group's inherent lack of robust togetherness on security issues and the pull of competing interests. Some members, such as the Philippines, Singapore and Vietnam, have openly aligned themselves with the US rebalancing and the forceful approach favoured by Australia¹⁵⁹ and

¹⁵⁴ Dyer, G. and Sevastopulo, D. 'US faces dilemma in South China Sea', *Financial Times*. London. 10 July 2014.

¹⁵⁵ 'The Military Balance'. *ASEAN Defence Spending*. London, Institute of International Strategic Studies (IISS). 2014. Also Lee, S. on 'action-reaction' dynamics. Australian Strategic Policy Institute (ASPI). 2015, *op cit*.

¹⁵⁶ See Frost and Sullivan. *ASEAN Defense Procurement*. 2012.

¹⁵⁷ See Frost and Sullivan. *ASEAN Defense Procurement*. 2012.

¹⁵⁸ The Singapore Armed Forces have had access to training grounds in New Zealand for ordnance practice for nearly 20 years.

¹⁵⁹ Australia's next Defence White Paper now in preparation is reported to have a strong 'navy-first' approach which would reflect the depth of concern over jostling in the South China Sea and the surety of

Japan. Others, like Indonesia and Malaysia, Brunei, Myanmar and Thailand, have been circumspect about appearing to lean too obviously one way or the other. Little is heard publicly from Laos and Cambodia, but their reluctance to be party to a group position that might upset Beijing has been manifest within ASEAN's closed meetings.¹⁶⁰

Regional security outlook: Caution prevails

The portrayal above offers no more than a fleeting glimpse of the febrile nature of the Asia-Pacific security scene. It does show there is ample scope for debate about whether and to what extent the region's fluid landscape is a reflection of issues with a long history to them, or a response to new dynamics that represent systemic change and are propelling irreversible paradigm shifts. No conclusive answers can yet be given. What can be said is that the region is not prey to the profound ideological and moral rifts that beset 20th century Europe. Less reassuring, on the other hand, an embittered sense of national grievance, unrequited sovereignty claims and territory perceived to be under threat, coupled with the possession of serious hard power assets, could prove an incendiary regional mix.

As a matter of customary risk management, there seems one obvious message. It is understandable that business as usual without the distraction of serious security concerns should be the preferred operating environment for commerce and the husbandry of national well-being. The preceding survey leads to a more cautionary conclusion. That is, it would be imprudent for any Asia-Pacific government or its business community to assume that, as the foundation of future external policy initiatives or a long-term export strategy, a stable regional environment favourable to investment and growth will assuredly prevail.

Is that not a bit pessimistic given the advances made in so many regional settings? It is tempting to believe that the parties to any gravely inflammatory situation would readily see that they had too much to lose to allow things to get out of hand. Perhaps so, but there would be more persuasive grounds for that level of confidence were it not for the ongoing tension, repeated low intensity exchanges and other muscle-flexing behaviour in and around regional flashpoints. Heightened emphasis on 'hedging of bets' is shown in substantial policy shifts, such as the greater attraction of joint military exercise and the rise in defence spending commensurate with economic expansion. These moves suggest that an overwhelming measure of comfort about the region's security outlook is not commonly shared among policy planners and decision-makers—let alone embraced as an infallible strategic assumption.

maritime transit. Stewart, C. '\$70bn boost builds sea defences'. *The Weekend Australian*. 12-13 September 2015.

¹⁶⁰ Illustrated by the absence of the normal Communiqué from the ASEAN Summit in July 2012, when Cambodia was in the Chair, because of failure of Leaders to agree on references to China. Similar problems arose over settling the 2015 agenda of the ASEAN Regional Forum.

Regional security instruments: Limited utility

Despite the obvious 'trust deficit' bedeviling East Asia, it could be reasonably anticipated that parties to a bilateral or wider regional dispute would want to resolve their differences well short of actual conflict, enlisting the good offices of those available agencies for whom mediatory activity is part of their mandate. That avenue might be at hand in other settings; examples are the conciliatory efforts of the Organisation for Security Cooperation in Europe (OSCE) and the African Union. The difference is the constitutions of those agencies permit them to intervene. The extensive network of security-focused forums in the Asia-Pacific does not possess that level of authority. So how well placed are they to tackle issues that cause regional disquiet?

The problem for the Asia-Pacific is two-fold. First, there is a strong inclination among most of those with vested interests towards non-intervention in any concrete manner; and secondly, the existing security infrastructure is not yet adequately well-formed or widely accepted as a first-recourse vehicle for the tempering of national aspirations. Nor is the present security framework equipped to address the root causes or overt manifestations of regional tensions. Typically, their proceedings highlight problems rather than hunt for solutions. Priority is accorded to bilateral means of resolving differences but only if the parties can agree on that approach. The ASEAN TAC is equipped with a dispute settlement provision but it is little known and hardly ever invoked. It was significant that the Philippines preferred, with Vietnam as a co-complainant, to take its case against China over maritime differences to the Permanent Court of Arbitration (PCA) in The Hague rather than appeal to regional instruments for peaceful resolution of their dispute. China has pointedly rejected the PCA option.¹⁶¹

As forums for reconciliation, the available mesh of security apparatus compares poorly with the mechanisms for integration and collaborative conduct that the Asia-Pacific regional economic counterparts have in place. The Asian Development Bank (ADB) has called the latter network 'a dense web of overlapping regional and sub-regional institutions that are largely intergovernmental and focus on specific functional goals.'¹⁶² It is important not to exaggerate the actual level of achievement and influence exerted by the economic integration agencies. But nothing yet present in the security context offers the interaction opportunities provided by the focused agenda of the annual APEC Leaders meeting, the work of the ADB and, potentially, the AIIB, accessibility to reserve funding through the Chiang Mai Initiative, or the proactive role in regional economic dialogue being played by the ASEAN group.

¹⁶¹ Rothwell, D.R. 'Will China accept international law in the South China Sea?'. *East Asia Forum*. Canberra, Australian National University. 13 December 2014.

¹⁶² *Institutions for Regional Integration: Towards an Asian Economic Community*. Asian Development Bank (ADB), Manila. 2010.

Nor do the current security forums espouse the level of deep integration commitment explicit in some bilateral and broader trade contexts, for example in the ANZCER, the ANZ-ASEAN, China-New Zealand and South Korea-New Zealand trade agreements, the TPP and somewhat less so the RCEP negotiations, or in the ambitions of the Pacific Alliance. There is no goal existing or contemplated in the regional security theatre as visionary as the objective endorsed by APEC Leaders of an eventual free trade area for the entire Asia-Pacific region. The closest example of a credible security framework is to be found in the web of US-fostered alliances and partnerships. They function discretely and have limited aims, but the dominant objective of achieving ‘deterrence through accrued strength’ provides an underlying coherence to them. The challenge for the Asia-Pacific at large is to agree on the parameters of, then construct and comply with, truly effective institutional means of tackling contentious security problems. That course would avoid the alternative spectre of an unbroken, unscheduled, unpredictable and nerve-racking series of regional crises.

Economic and security integration: Moving along different paths

To lighten that seemingly dismal picture, discernible incentives and instruments in the Asia-Pacific are nudging its member countries towards greater integration. They can be observed at work in the two most elementary fields of external preoccupation for all states in the region: trade and economic engagement; and political and security interaction. The downside is that, while intrinsic and hugely important synergies are to be expected between those two fields of fundamental importance, efforts to foster collaboration or common understandings are presently moving in discordant directions. Progress along each path is not being made at the same pace, if that was ever to be expected. The upshot is that, at this point, dual integration processes, driven by a shared regional purpose, mutually reinforcing and complementing each other are not underway.¹⁶³

It must be acknowledged that, notwithstanding the litany of their flaws, the security institutions in place have offered useful settings for formal and informal exchanges. Those discussions have contributed to the Asia-Pacific region escaping in recent decades any altercation remotely approaching a zero sum conflict. Also, in the political arena the EAS is still in its formative stage and definitely a constructive work in progress. In the context of the EAS’s 10th anniversary in 2015 and if the political will exists, Summit leaders have the opportunity to reconcile differences over the EAS’s primary roles and to endow it with credible resources. If those steps were to be taken and respected, the EAS has the potential to realise the stated goal of being the pre-eminent regional setting for high-level exchanges

¹⁶³ ‘... patterns of integration are not converging in a simple linear sense nor are they diverging in some sort of inevitable way ... there are elements of integration and fragmentation in both spheres ... there is cooperation and competition in both ...’. Capie, D. CSS/NZIIA Seminar on Asia-Pacific Integration, Wellington, 13 November 2013.

on economic development, human security, mediatory influence, security interaction and trust building.¹⁶⁴

Implications for New Zealand: Challenges and opportunities

So where does all this leave New Zealand? Over the years, actions by successive governments to promote the profile and pursue the agenda of an independent-minded participant in the international arena have not been rare or frivolous occurrences. Resistance to aspects of American and British policies towards the Pacific in World War II went beyond the point of merely irritating the two large allies.¹⁶⁵ The UN Charter sections on Trusteeship owed much to New Zealand's interventions. Opposition to the privileged use of a Security Council veto by the five Permanent Members was also firmly put to the UN founding conference in San Francisco, and this position has not changed.¹⁶⁶ Against its wishes at the time, the country was driven further towards independence by Britain's decision to join with Europe and, a decade later, by the severance of the ANZUS connection.

In today's complex and fluid world New Zealand has been wary of entering into formal alliance-style arrangements beyond the collegiality encouraged by common interests, shared values, binding trade rules and the membership obligations of multilateral organisations. After early misgivings this approach has attracted broad bipartisan support.¹⁶⁷ The approach has not implied any weakening of traditional adherence to principles such as the norms of international behaviour, respect for law and the rights of the individual, which New Zealand is committed to alongside old world partners. But the independent posture has called for strong emphasis on the country's ability to think for itself and to apply even-handed deliberation before major decisions are made.

There has been a reluctance to take sides when the interests of major powers are engaged, unless the argument favouring a particular course of action has been unassailable and unambiguously consistent with declared New Zealand beliefs. A classic, contemporary instance of this was a timely and carefully worded statement by the Minister of Foreign Affairs in June 2014 outlining New Zealand's concern at that point about events in the South China Sea.¹⁶⁸ Regrettably, it escaped public attention. An example in late 2014 was the decision to be among the first developed countries to indicate readiness to accede to the China-sponsored AIIB. A further case was the affirmation publicly of willingness in the

¹⁶⁴ Bisley, N. and Cook, M. 'How the EAS can Achieve its Potential'. *ISEAS Perspective*, 56. 2014. Also, Council for Security Cooperation in the Asia Pacific. 'Towards Effective Regional Security Architecture for the Asia Pacific'. *CSCAP Memorandum*, 26. June 2014.

¹⁶⁵ Hensley, G. *Beyond the Battlefield New Zealand and its Allies 1939-45*. 2009.

¹⁶⁶ Templeton, M. *An Eye, An Ear and A Voice*. 1993. Also remarks by McCully, Hon M. to *Otago Foreign Policy School*. University of Otago, Dunedin. 26 June 2015.

¹⁶⁷ Although, within the country, not without vestiges of geographic and generational bias and hesitation.

¹⁶⁸ Ayson, R. 'Asia's Maritime Order and New Zealand's Response', *New Zealand International Review* 39 (5). September-October 2014.

Security Council to be even-handed on intractable Middle East issues, especially those involving Israel and Palestine. An illustration of careful deliberation in early 2015 was the weighing of arguments for and against a controversial choice to provide modest training to the Iraq defence forces in the struggle against the 'Islamic State'.¹⁶⁹ To date, governments of all political persuasions have regarded active participation in the 'Five Eyes' intelligence sharing arrangement with Australia, Britain, Canada and the US as being in the country's interests and not incompatible with an even-handed balanced perspective.

Comprehensive, carefully crafted public statements of New Zealand's position on significant foreign policy or security issues are infrequent occurrences; the venue, audience, content, timing and tone are not randomly chosen. Deservedly, a recent address by the Defence Minister attracted considerable attention. To a Beijing audience the speech reaffirmed New Zealand's commitment to the bilateral Comprehensive Strategic Partnership. It noted, as confirmation of the close relationship, that the Five Year Engagement Plan between the PLA and the New Zealand Defence Force was the first agreed between China and a Western military. That did not stop some clear messages about China's relations with neighbours. The Minister called on China to act as a 'big country' over disputes in the South China Sea and to take steps to lower tensions. 'While we take no position on the various claims in the South China Sea, New Zealand opposes actions which undermine peace and erode trust ... All big countries are made much bigger by recognising their strengths, and confidently defuse concerns of smaller countries.' It was the mark of 'a big country' to recognise those concerns and seek dialogue in dispute settlement. In cases where differences had been submitted to international mechanisms for resolution it was important that the outcomes were respected by the parties to the dispute. Consistent with a theme of this paper, the Minister was apprehensive that '... developments have outstripped regional efforts to manage tensions.' To reinforce the foundations of respect for the rule of law and international norms he recommended closer integration with regional multilateral institutions, more confidence-building measures, stronger military to military cooperation, and improved people-to-people links.¹⁷⁰

The balanced approach to external issues, evident over the past 80 years and more so since the mid-1980s, has served New Zealand well and sustained a reputation for active engagement, moderation and reliability. It has meant maintaining continuity of presence in a variety of forums, and constancy of purpose and performance. These are respected qualities that underpinned the successful Security Council campaign in 2014. Overall, and generally around the Pacific Rim, it has been New Zealand's latter day *modus operandi* to align itself with the community of smaller players and a selection of middle powers, without any sense of discomfort or being out of place.

¹⁶⁹ 'Prime Minister announces contribution to coalition against ISIL'. Wellington, New Zealand Government. 24 February 2015.

¹⁷⁰ Brownlee, Hon G. *New Zealand and Security in the Asia-Pacific Century*. Address to National Defence University, Beijing. 28 September 2015.

The reality of New Zealand's position has required assiduous cultivation of contacts and joint pursuits with small nations with shared interests, notably individual ASEAN members and that group collectively as it progresses at its own pace to acceptance of a common set of core values.¹⁷¹ The close relationship New Zealand has built with ASEAN can be expected to continue and evolve as it moves beyond the 40th year of formal dialogue partnership. A formal strategic partnership could be the next incremental advance. There are aspects involved in delivering the ASEAN vision of harmonisation and connectivity where New Zealand's experience has direct relevance and could contribute options for the group to consider. For example, in exploring cross-sector remedies to the annoying 'behind the border' issues that trouble efforts to foster deeper economic integration. New Zealand could help identify the means whereby in economic development terms the risk of a 'two tier' ASEAN emerging might be averted. Or to find how to cope with the shift in the group's dynamics that will inevitably occur as Indonesia takes on the increasingly dominant regional role that appears its due. Or, again, to assist in locating ways, without damaging important bilateral relationships, to withstand the attempts of outside players to determine the position that ASEAN takes on its own sub-regional security concerns.¹⁷²

In the last context, there is a similar redoubtable challenge looming for New Zealand as the shaping of the wider regional order unfolds. This will be to devise strategies and the means of their delivery for managing its response to the measures that major and perhaps muscular middle powers may try to use to influence the stand that New Zealand adopts on particular issues. Inescapably, as the narrative above foreshadows, future situations can be expected to arise in the Asia-Pacific where it will be possible to say without fear of contradiction that New Zealand shares a mutuality of interest with a single or several regional partners. That likelihood could on occasions involve one or both the major powers, China and the US. Or it could mean engagement with one or more of the second echelon group, most notably with Australia but also with Canada, India, Indonesia, Japan, Mexico and South Korea. A common perspective in particular contexts may show that New Zealand's national interests converge with those of others and justify some form of joint response. This could be, for example, in collective action agreed by regional partners to deal with drug smuggling and other transnational crime, provide disaster relief, promote trade and further economic integration, or improve interoperability among defence assets.

However, the mix of common interests will not always be uniform and beyond argument. In specific situations there will be difficult calls and tough choices for New Zealand to make. Whether to stand up, as in the case of the current Iraq deployment or support for the AIIB, or on rarer occasions step back to the side-lines. A mutually agreed evaluation of issues with closest partner Australia can generally be anticipated but not assumed. These

¹⁷¹ Capie, D. *Mind the Gap: New Zealand and Regional Institutions in Southeast Asia*. Asia New Zealand Foundation. June 2013.

¹⁷² A proactive approach to ASEAN has also been recommended for Australia. See Evans, G. 'Australia needs to refocus on ASEAN.' *East Asia Forum*. 17 December 2014.

will not be minor considerations for the country to weigh as it pursues its regional destiny. The responsibilities that go with the 2-year Security Council term mean that New Zealand will be required to take positions on a host of issues relatively remote from its core concerns; there will be constant reminders that the country's political leaders and policy professionals have to deal in the real world, not take refuge in abstracts. That challenge is not finite; it will persist long after the Security Council term has finished.

Shepherding external engagement in all its forms in uncertain times is always a massive task for a small country and a messy undertaking. 'How did we deal with this sort of situation before?' is not a fail-safe guide because the dynamics around particular issues of long-standing have a perverse tendency to change over time. Similarly, the storehouse of institutional memory among the policy community may not be as well stocked today as it once was and there is no universal manual of best practice to fall back on. As experienced practitioners know, there is a vexing inclination among foreign policy permutations and the whirl of economic forces to divert on to less travelled paths as often as they are to adhere to a well-trodden and familiar route.

An extraordinary range of possible contortions and policy dilemmas for New Zealand is at large in the rapidly evolving Asia Pacific regional context. On any single issue there will be a cluster of partners to consult. But in the final count the decision on the best course for the country is for New Zealand to arrive at single-handedly. This will mean making its own judgements rather than accepting at face value the assessments of others. The challenge has been thrown into sharp relief by the emergence and manifold implications of a situation in which, uniquely in its history, New Zealand's leading export market is not also one of its intimate long-term security partners. Even if it is shared with many other countries, there is distinct unfamiliarity for New Zealand in being placed in such a dichotomous position. Indeed, a view has been advanced that the country is in danger of becoming misty-eyed over the China relationship, a mind-set that might tip the country into a state of over-reliance that could take many undesirable forms.¹⁷³

The riposte would be that New Zealand learned a lesson from its previous all-consuming ties with Britain, and through its extensive regional networks now has counter-weights in place to limit the risk of excess dependence. Moreover, the country has shown itself adept at managing big power relationships in the past, even when the ways have parted on particular issues. The challenge of shouldering that task in future is eased because there is no serious domestic anguish over whether it is possible for New Zealand to respect and continue to reap benefits from historic ties near and far, and at the same time come to terms with the contours of the country's regional economic and political geography.

¹⁷³ Shambaugh, D. Remarks to a conference on 'China at the Crossroads'. Victoria University of Wellington. July 2014. Reported in *The National Business Review*, Auckland. 18 July 2014.

In an earlier era that situation could have appeared as a painful either-or choice confronting the country with considerable emotional capital exposed. That is no longer the case. Without inflicting irreparable damage on the enduring Western linkages, the discourse around future opportunities has moved on to one of finding ways to maximise the comparative and competitive advantages New Zealand has been blessed with or can construct, that serve to acknowledge and consolidate its regional inheritance. A proactive stance will be the order of the day. It has never been New Zealand's way to merely turn up at international meetings and express an occasional opinion. That practice can be expected to continue. Creative and continuing influence on the region's modalities as they develop will call for close collaboration with like-minded counterparts. In specific areas, for example climate change, community building and human rights, it will be important that the New Zealand position is not beholden only to 'traditional friends' but constructed more broadly with understanding of and in consultation with old and newer regional partners of similar persuasion.

Considering the above complexities, how might the assorted strands of New Zealand's involvement with the Asia-Pacific be woven into a coherent strategic and policy whole? As a given, the 'package' must be one that has relevance and real world resonance for practitioners in all fields, including the export community. In truth, it is not too taxing to identify in general terms what the central elements of a credibly incorporated approach might be; one that would promote and protect New Zealand's interests in living within and maintaining a stable and economically successful region:

- Seeking out every reasonable opportunity to underscore New Zealand's credentials as an active, concerned and committed partner, unconstrained by any ambiguity over where its core national interests lie,
- Contributing creatively to regional integration forums, their agendas and work streams and with material support as resources permit, with the objective of achieving greater harmony between economic and security goals through improved integrative mechanisms,
- Easing the downsides for New Zealand of size and distance through energetic participation in regional connectivity initiatives, across the spectrum from humanitarian measures to infrastructure enhancement, to facilitation of exporter participation in the cluster of production networks most relevant to New Zealand, and
- Coping through regular and rigorous prioritisation with the pressures and sometimes competing demands of important bilateral and significant regional agency responsibilities.

Management of even as few as four primary areas of focus could be challenging. Within each core area there would be a cluster of exacting questions to guide decisions on the appropriate level of policy engagement and resource input:

- What developments and trends are beyond argument crucially important for New Zealand?
- Which could without damage be merely monitored, left untended or ignored?
- With whom among regional partners is there an existing or potential convergence of interest on particular subjects?
- Where and on what grounds is the choice to be made between collaborating with one, a few or many partners, or with the full regional congregation?

Looking ahead, the narrative above suggests that New Zealand's hierarchy of core interests will revolve around the challenges inherent in attempts to:

- successfully complete both of the mega-regional economic agreements,
- advance the concept of a free trade area for the Asia-Pacific, acknowledging that this will be an unhurried process,
- construct a more effective regional security architecture, while recognising this is unlikely to emerge from existing regional organisations, and
- implement broad-based efforts to tackle non-conventional scourges.

In pursuit of a peaceful and prosperous region for its own national interests and for the common public good, New Zealand will have to skilfully manage and balance its relations with the major players. It will need to place great store in its ability to work together with the cluster of smaller states and, most particularly, those of the ASEAN group.

The dual processes of regional economic and security integration underway are not inexorable, are currently on parallel not concordant paths and are not in step with each other. There is no clear-sighted outcome to indicate where and when either process might conclude and, if they do, what the final regional landscape and its overarching institutional framework could look like. It appears inevitable there will be periodic tensions between the two processes.

As in times past, the need to choose among a range of options will certainly arise. This will mean that, periodically, one pathway to closer regional integration rather than the other will have the greater claim for priority attention from New Zealand policy makers and practitioners. That is a complex but not unfamiliar challenge—it will not prevent the waka from continuing to 'sail in ever-widening circles'.

Discussion Paper 17/15

Published by

Centre for Strategic Studies: New Zealand

Victoria University of Wellington

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