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## CSS STRATEGIC BACKGROUND PAPER – 22 / 2015

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### INDIA- NEW ZEALAND TRACK TWO DIALOGUE GEOPOLITICAL TRENDS IN THE ASIA PACIFIC INCLUDING MARITIME SECURITY

#### **Geo-political trends point to the decline of the Post-Cold War order**

For several decades Asia Pacific geopolitics has been dominated by the strategic primacy of the United States. That is changing. New economic and strategic power centres are emerging. China is well on the way to major power status which it feels justifies a major say in the shape of a new geopolitical order in the Asia Pacific. India is emerging as a major economic centre and military power intent on growing its relations in East Asia.

China is not yet able to claim superpower status for itself. It is making a significant investment in its military, but American military power still far exceeds that of any other country and US defence expenditure is more than the combined total defence expenditures of the next dozen or so countries with significant defence budgets. And China is yet to demonstrate the ability to form international coalitions to respond to security threats.

Nevertheless, China's rising military and economic power and assertive political leadership have injected a complex dynamic into the region's geopolitics. According to the latest IMF figures China's economy when measured by purchasing power parity has surpassed that of the United States unseating the latter as the world's largest economy, a position it had held for 142 years. India has moved into third place.

The United States economy has bounced back from recession, but a highly dysfunctional political system, and the absence of a coherent foreign policy characterised by strong international leadership that we had come to expect from Washington, have created the impression of a superpower in decline. United States influence appears to be waning even though there has been no perceptible decline in US power. Republican successes in the November elections could accelerate this trend as they will likely intensify rather than heal dysfunction and further weaken a beleaguered President's standing in Asia where he has not enjoyed the same popularity as in Europe.

President Xi Jinping, on the other hand, is China's strongest ruler since Deng Xiao Ping. He is only two years into a likely ten year tenure as head of state. He has been resolute in his determination to seek the international respect to which he feels China is now entitled given

its economic power, but recognises that great power status carries international expectations of demonstrated willingness to play a greater role in support of global economic stability and security.

Since Xi Jinping assumed the presidency China has significantly stepped up its UN peacekeeping commitments with the decision earlier this year to contribute for the first time combat troops to the UN mission in Mali. China is also to commit a 700 strong infantry battalion to UN operations in South Sudan. That decision has attracted criticism that it was taken to protect China's oil interests. This has been denied both by China and the UN. There may be an element of truth in such commentary, but the same accusations have been levelled at the United States in the past for its deployments to the Middle East. It could be argued therefore that China was following American practice.

China has continued its six year-long counter-piracy role in the Indian Ocean, and contributed PLA Navy ships in support of the destruction of Syria's nuclear weapons. The PLA is increasingly active in its engagement with foreign forces, not just those in the Asia Pacific. China has also contributed medical teams to three African countries ravaged by Ebola.

Those are positive developments, but Xi Jinping's tenure is also notable for a growing regional assertiveness, particularly in the South China Sea where China seems set on making its ten dash line a fait accompli, and in the East Sea where tensions have risen over the contested claims for Senkaku/Diaoyu. China's and United States' security interests collide in both seas and the US worries about China's development of anti-access/area denial capabilities. China is also increasingly projecting naval power into the Indian Ocean as demonstrated by the temporary addition of a submarine to its counter-piracy task force. Claims that China is exploring basing opportunities there is causing alarm in India.

China's ambition for new regional security architecture arrangements is underlined by Xi Jinping's proposal for the Conference on Interaction and Confidence Building Measures known as CICA (launched back in 1992) to be transformed into a "new regional security cooperation architecture". China proposes taking a leading role in developing a "code of conduct for regional security and an Asia security partnership program" to provide "Asian solutions to Asian problems".

In doing so China's President took direct aim at what he termed an outdated Cold War alliance system aimed at a "third party". Such a system, he asserted, is not "conducive to common regional security". Just as there is no role for China in the US alliance system so there would be no role for the US in a strengthened CICA. China holds the chair of CICA for the next two years, and will no doubt want to pursue its vision during that term. China's desire to play a lead role in a new regional order should not surprise given that both the Cold War order and the post-Cold War order were largely western constructs, developed well before China's rise and Asia's economic transformation. Xi Jinping followed his call for a new

Asian system of regional security with an undertaking at the Communist Party's end November foreign affairs conference to forge a new global network of partnerships.

While not officially acknowledged by Washington, the US pivot to Asia is largely a response to China's rise. As originally conceived by then Secretary of State, Hilary Clinton, the pivot was to set a strategic course that would harness Asia's growth and dynamism to provide unprecedented opportunities for the United States for investment, trade and access to technology, while ensuring the ability to play a lead role in regional security and prosperity. But the pivot or rebalancing as the US now prefers to call it, came under attack in Beijing where it was seen as a policy of containment that reflected a desire to maintain the status quo ante. Washington insists otherwise, but the pivot's defence-heavy implementation exacerbated Beijing's suspicions.

US alliance relationships, in particular those with Japan and the Philippines both of which have tense relations with China over contested territory, have been boosted. Washington is also strengthened defence relationships with a number of other regional countries, especially Vietnam which has persuaded the US to ease its ban on the sale of combat equipment.

In contrast, however, other key elements of rebalancing have languished at a time when economic power trumps military power as the predominant influence in the region. US diplomatic staffing in the region and aid levels have flat-lined. President Obama could not convince his own party to agree to "fast-track authority" for the Trans-Pacific Partnership Agreement which the pivot promoted as a major contribution to Asia-Pacific economic integration. Given their greater affinity with free trade arrangements the electoral success of the Republicans may help here, but will they be magnanimous enough to give President Obama a victory of any sort?

Rebalancing has been welcomed by the US's treaty partners, and for the most part by the ASEAN countries. There is nonetheless growing scepticism in the region even among close US allies about Washington's ability to deliver given current and planned budget cuts which will have a pronounced impact on the Navy in particular, evident for instance in the likelihood of the USN being unable to deploy a single aircraft carrier to the region for one-third of 2015, and a planned reduction in the size of the USN fleet.

Several senior US defence officials are already on record this year expressing concern that there are significant capability shortfalls for the missions they are expected to undertake. By contrast the most recent annual report to Congress by the US-China Economic and Security Review Commission estimated that the Chinese navy could be larger than its US counterpart by 2020. The report concludes that "the balance of power and presence in the region is shifting in China's direction".

Regional scepticism will likely be reinforced now that the US is being unwillingly dragged back into yet another Middle East war, and risks being caught in the vortex of the Sunni-Shia divide. Yet the pivot was supposedly an acknowledgement that its Middle East preoccupations had

led the US to pay less attention to the Asia Pacific despite the centrality of its interests in the region.

Nor is it all plain sailing for some US treaty relationships. Washington must manage fractious relations between its two key allies Japan and South Korea, and will also be hoping that neither Japan nor the Philippines provoke an incident with China in the expectation that the US will intervene. In the longer term lurks an even larger issue should events lead to a unification of the Korean Peninsula. With its primary security threat removed and a comfortable relationship with China in place, Korea's main security preoccupation will be with Japan and that would raise questions over the purpose of US forces on the peninsula.

China has now joined the US as a mainstay of the international system. A stable and wherever possible cooperative relationship between China and the US is therefore fundamental not only to peace in the wider Asia-Pacific and beyond, but to the region's continued economic prosperity. There will be no immunity to the fall-out from conflict between them. Regional countries would face a choice that very few would wish to make.

For a range of reasons both countries need to cooperate with each other. But cooperation is hampered by distrust on both sides. In 2013 President Obama and President Xi Jinping agreed an opportunity existed to create a new model for the relationship. Since then Washington appears to have backed away from this Chinese formulation.

As perceived in Beijing the new model would emphasise mutual respect for its "core interests". That would require the US to adjust its presence, policies and military activities in the Western Pacific. The US counters that its military presence and alliance relationships have bought peace and stability for the last six-plus decades which had enabled the region to prosper economically.

Despite this distrust, however China and the US demonstrated at APEC that they can work together on urgent global challenges when they reached agreement on a joint climate-change commitment to curb global warming. From a security viewpoint equally important were agreements reached on rules of behaviour for military sea and air encounters and on measures designed to avert military confrontations in Asia. It is in the region's interests that Asia Pacific countries encourage similar cooperative endeavours to build a habit of cooperation which over time would encourage the two countries to talk to each other rather than past each other on key security issues.

### **Others are rebalancing too**

Under Putin, Russia, like China, has embarked on a muscular posture supported by a more professional and better-equipped military. Over the past decade Russia has doubled its defence spending and had planned a further substantial increase this year, although spending levels are still considerably lower than during the Cold War. After an absence of many years, Russia's Navy is once again active in the North Pacific.

Russia's closer relationship with China has raised concerns in the West, but mutual suspicion over each other's intentions is never far from the surface as was evident in President Putin's irritation over the joint China-US climate change commitment at APEC. Hampered by a deteriorating economy, a problem largely of its own making which will necessitate a revision of defence spending plans, Russia holds few cards in the relationship, and lacks the range of strategic options available to China.

Japan has responded to China's rise by significantly revamping defence policy to cast aside some of the constraints imposed on defence activities overseas and its self-imposed ban on military exports. The removal of geographical limitations on the activities of its Self Defence Force is a major development for Japan. The new defence posture will likely be captured in revised Japan-US defence guidelines, but this will reinforce Beijing's paranoia about containment.

The new geopolitical complexities have seen the development of new security relationships as well as the reinforcement of existing ones. Japan has been active in ramping up its relations with many of the ASEAN countries including by placing an emphasis on assistance to strengthen maritime surveillance and offshore protection capabilities.

India has signalled its intention to strengthen its relations with the members of ASEAN with its announcement of an "Act East" policy, a significant enhancement of its "Look East" predecessor. Like Japan, India has identified the development of maritime capabilities as an area in which it can provide needed assistance. India is well-placed to further strengthen its relations in the region, and take a more active role in the regional forums that seek to build the habit of cooperation. That would provide opportunities for India and New Zealand to work together where our interests coincide. Closer to home India has embarked on the development of civil and military infrastructure along its often troubled land border with China.

Concerns over China's more muscular interventions in the South China Sea, glacial progress in implementing the Declaration of Conduct, and the strong headwinds facing forward movement on the Code of Conduct, have led to greater ASEAN receptivity to external assistance. Another feature of collective regional insecurity is the rapid development of military capabilities by many of the ASEAN's particularly in the maritime domain, notably involving sub-surface elements. This swift build-up of sophisticated capabilities increases the risks of conflict if miscalculation occurs and calls for greater regional efforts to adopt mitigation measures, an objective on which India and New Zealand could work together.

The more uncertain geopolitical situation has also prompted ASEAN to strengthen the Association's resilience through the drive to achieve a political and security community. It was also a factor in the earlier than expected establishment of the ASEAN Defence Ministers plus forum that includes both China and the US and which focusses on developing habits of practical defence cooperation in non-contentious fields. This is one of the most significant

developments in the regional security architecture in recent years. India and New Zealand are both members and there is the opportunity to work together to achieve the objectives set for this important forum.

### **Economic integration and growing interdependence**

Just as China has a central role in the evolution and resolution of Asia Pacific security issues so is it central to the various regional processes of economic integration. Some of these processes highlight the divide between China and the US. A number of China's initiatives while welcome in much of the Asia Pacific region, pose a challenge to the ideas behind the US pivot.

China's support for the decision to expand membership of the Shanghai Cooperation Organisation (which excludes the US) to include India and Pakistan has both regional security and economic integration objectives. China also played a key role in setting up the New Development Bank which involves the BRICS countries (Brazil, Russia, India, China and South Africa) and has an initial capital of US\$50 billion.

The 'Silk Road Economic Belt' initiative bolstered by a US\$ 40 billion Silk Road fund seeks to build on growing trade between western China and central Asia and to connect parts of South Asia with Europe, by improving infrastructure linkages across the region. There is a companion Maritime Silk Road concept that would boost China's trade and economic ties with ASEAN and Indian Ocean states. China's two-way trade with ASEAN is already very close to US\$500 billion (two and half times greater than ASEAN-US two-way trade). The agreed goal is to double this figure to US\$1 trillion by 2020.

The Maritime Silk Road concept also includes the establishment of the Asian Infrastructure Development Bank (AIDB). Twenty countries have signed up including India, which will be the second largest shareholder, and nine members of ASEAN. The AIDB highlights East-West leadership cleavages. Washington sees it as a challenge to the US-led IMF and World Bank, and has attempted to pressure Australia (apparently unsuccessfully) and South Korea not to join. Japan has also lobbied Australia as it considers the AIDB to be a challenge to the Japanese-led Asian Development Bank.

But would China have established the AIDB if the US Congress had not for the last four years blocked an increase in China's voting power in the International Monetary Fund? In continuing to limit the voting power in the IMF of the largest economy in the world measured by purchasing power parity to the derisory level of just four percent, the US effectively invited China to establish an Asian bank, and the US Congress demonstrated its failure to recognise the new global realities.

China is actively engaged in the Regional Comprehensive Economic Partnership negotiations which would liberalise regional trade, but is currently excluded from the US-led TPP negotiations. It has now signalled its interest in participating in the TPP, and in a deft and

creative piece of diplomacy successfully pushed at APEC to revive the concept of a Free Trade Area for the Asia Pacific that would amalgamate the two regional free trade pathways.

Beijing is also about to conclude a FTA with the ROK which has much greater potential than the FTA Seoul recently signed with Washington, and which will create the largest economic block in Asia.

The initiatives to strengthen regional economic integration underline Xi Jinping's determination to demonstrate that his "Asia-Pacific dream" does not rest on rhetoric. A set of explicit plans and the allocation of substantial resources underpin his vision of a global leadership role for China. They also serve to highlight the unbalanced implementation of the US pivot and the fact that US pre-eminence in the region is facing headwinds as a lame duck President wrestles with a range of challenges that present extremely difficult policy choices. Xi Jinping may have also had another motive in mind as the integration impulses and processes he is promoting differ from earlier models given their extended supply and value chains. This will have the effect of making conflict more problematic.

While China is rapidly expanding its global reach, domestic issues are likely to loom larger in the years ahead. The price of stellar economic growth is serious environmental problems and growing inequality. Will a rising middle class remain satisfied with the realisation of its economic aspirations or broaden those aspirations to include the ability to choose its leaders, taking their lead from recent events in Hong Kong? How China's leadership tackles these issues will have significant bearing on its future place in, and ability to influence events on, the global and regional stage.

### **Maritime Security**

The tensions referred to earlier in this paper in the South China and East Seas underline the importance of moving ahead with measures that will make the maritime commons more secure. India and New Zealand share a vital interest in this outcome. The recent adoption by the Western Pacific Naval Symposium of the Code for Unalerted Encounters at Sea is a useful start embracing as it does some of the principles of earlier bilateral incidents-at-sea agreements.

But there is scope to do much more. Incident prevention and mitigation could be improved by the development of bilateral and multilateral hotlines, including at the operational level between Navies and Coast Guards, with the aim of preventing a minor incident from escalating into something more serious.

There has been some recent progress in establishing bilateral hotlines, for instance between China and Vietnam to resolve fishing incidents and the Coast Guard hotline between the Philippines and Vietnam intended to share information on incidents at sea and on a range of trans-national crimes. More such hotlines are needed.

Improvements to regional maritime domain awareness are also necessary. The establishment of the International Fusion Centre at Changi, Singapore, was an important step forward in



promoting collective awareness of trans-boundary maritime security threats The Centre was established to serve as a regional maritime information hub, to enhance maritime situational awareness, and to act as an early warning system. India and New Zealand both contribute liaison officers to the Centre.

Also headquartered in Singapore is the Regional Agreement on Combatting Piracy and Armed Robbery against Ships in Asia known as ReCAAP. Its information sharing centre promotes information sharing and capacity building arrangements to strengthen regional cooperation in combatting piracy and armed robbery. ReCAAP and the Changi centre now work closely together. The challenge, however, is to broaden the mandate of these Centres to encompass all trans-national maritime crimes and to develop multilateral arrangements that can meet trans-boundary challenges while preserving national sovereignty, and to establish mechanisms for the security of the numerous offshore oil and gas installations in the region.

One idea is coordinated patrolling. India is already leading the way in this regard with joint patrols with Thailand and with Indonesia, the latter along the maritime boundaries of the Andaman and Nicobar islands. Malaysia, Singapore, Indonesia and Thailand conduct coordinated sea and air patrols of the key Malacca Strait waterway.

New Zealand currently co-chairs the ASEAN Defence Ministers plus forum's expert working group on maritime security and could work with India and others to consider the prospects for wider coordinated patrolling in the region. India and New Zealand also participate in the Expanded ASEAN Maritime Forum where there are opportunities to work together to strengthen maritime security cooperation.

### **The rise of non-state actors**

A geopolitical trend causing growing concern is the rise of non-state actors or would-be state actors. Trans-national criminal and terrorist activities are challenging conventional responses to security problems. The ever increasing sophistication of military technology provides few answers to Islamic jihadists' skilful but brutal use of asymmetric warfare, suggesting that a wider range of policy options needs to be brought into play rather than reliance on military means alone. Moreover, recent military interventions in Iraq and Libya while appearing initially to be successful have created a wider set of problems that are proving just as difficult to resolve.

The 21<sup>st</sup> century has been notable for the almost continuous need in the Indian Ocean for the costly deployment of naval forces to prevent passage at sea by Islamic terrorists and to counter piracy. India and New Zealand both participate in this mission. Coalition counter-piracy missions have had some success in suppressing this activity around the Horn of Africa, but any linkage between Islamic State and Al-Shahab, would raise more serious concerns in respect of this vitally important strategic seaway. Islamic State has already established a presence in the Sinai Peninsula and has identified "ungoverned areas" as in Libya as fertile soil for its expansion. Somalia could present another opportunity. The welcome reduction at



least for now in piracy in the north-west Indian Ocean has been offset by an escalation of such incidents off the west coast of Africa and a resurgence in piracy and robbery-at-sea in the South China Sea.

### **Climate change**

One of the most disconcerting longer-term trends is climate change and its accompanying food and water shortages. The most recent US National Intelligence Strategy commented “many governments will face challenges to meet even the basic needs of their people as they confront demographic change, resource constraints, effects of climate change, and risks of global infectious disease outbreaks”. The US Defence Department added climate change to the list of threats facing the US in its 2010 Quadrennial Defence Review.

The scramble to take advantage of the potential for resource extraction as the Arctic ice cap melts is another consequence of climate change. It will lead inevitably to the further militarisation of the Arctic. Further south some Indian Ocean and Pacific Ocean countries face sea water inundation and at least one of our South Pacific neighbours could disappear entirely, and another faces crop devastation from rising seawater.

### **Cyber-security**

Cyber threats both state-sponsored and those generated by criminal enterprises are an increasing threat to the security of governments and legitimate commercial activity. Critical infrastructure such as banking, finance, communications, transport and energy are key targets and are vulnerable to cyber threats unless adequately protected. Criminal groups indulging in cyber-crime are often well-funded and well-organised. Some have connections with terrorist groups which seek not only to finance their activities through cyber-crime, but also to entice recruits. This threat is here to stay and requires not only national vigilance in responding to new cyber-crime initiatives, but also regional and global responses.

### **South Pacific**

While geographically remote from the major power centres, the South Pacific is not immune from the geopolitical trends outlined in this paper. Aside from the potential impact of climate change in the South Pacific mentioned above, recent attention has focussed on China’s presence in the region. That presence is part of a long term strategy of Chinese diplomacy. Until a few years ago there was legitimate concern over the rivalry between China and Taiwan for the affections of South Pacific states as this was undermining already fragile governance, and was the subject of regular representations in Beijing by both NZ and Australia. A welcome agreement between Beijing and Taipei brought this to an end and there has been no recent interference from either country in the political affairs of the island states.

China is a generous provider of aid to the region, but at a level that remains well below that of Australia. The most recent figures available place China as the fifth largest aid provider after Australia, the EU, New Zealand and Japan. Chinese aid is highly visible but often not

well-targeted. Both New Zealand and Australia are now undertaking joint aid projects with China in the region. China provides limited defence aid to the three South Pacific states that maintain defence forces, but has refrained from providing any form of lethal assistance.

Political leaders and key officials are regular recipients of invitations to visit China. China's presence in the South Pacific has prompted the US to take more interest in the region, but budgetary pressures are likely to limit its role. There is, however, a degree of competition between China and Japan for influence, and South Korea now holds an annual meeting with South Pacific foreign ministers. China is also a significant provider of soft concessional loans which has caused serious difficulties for Tonga whose appetite for such superficially attractive loans has created a serious debt burden. Chinese companies are active in PNG in the resource extraction business.

While New Zealand has not been concerned at the level of Chinese engagement in the South Pacific, a recent deal signed by Kiribati with China (and interestingly Taiwan), has given those countries almost exclusive rights to fish for skipjack tuna in the Kiribati EEZ. This is a significant development as the far-flung nature of Kiribati generates a huge EEZ of almost 3.5 million square kilometres. It is the largest tuna fishery globally. In this year's access negotiations the US had agreed to a substantial increase to US\$90 million for annual access to the fishery. The figure agreed with China and Taiwan has not been disclosed. Both American and New Zealand fishing companies will now have very limited access to this key fishery.

Finally mention should be made of PM Modi's and President Xi Jinping's visits to the South Pacific in November 2014 reflecting a new development in the competition for geopolitical influence in the region. Both had separate summits with 13 South Pacific nations. This is the first South Pacific summit in which an Indian Prime Minister has participated. The interest shown by India in the South Pacific is very welcome. Given the emphasis at that summit on development cooperation, there may be opportunities for India and New Zealand to work together in the region, just as we are now doing in the Cook Islands with China.

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