

Challenges in the Asia-Pacific Strategic Environment & Imperatives for Cooperation

By Murray McLean



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Introduction

As the primary engine of global economic growth, the Asia-Pacific region's critical importance to global prosperity is paramount, so ensuring this can continue must be policy-makers' top priority in the region. Policy management will not be easy, because the region faces manifold challenges, both internal and external. The region continues to undergo enormous economic growth and development and is enjoying the benefits derived from it, but its members must also be capable of dealing effectively with all the consequences that such dramatic changes have for the region's peace, stability and prosperity.

The core factor giving rise to many of the challenges and opportunities facing the Asia-Pacific region is that the strategic and national interests of the newly-emerged and still-emerging economic powerhouses intersect and sometimes clash with the established global and regional order. The region also has a significant number of unresolved territorial and boundary disputes, with historical and nascent rivalries adding further complications. These differences and disputes exist not only between the new economic powerhouses and the established order but also amongst the newly-emerged and emerging countries themselves. This complex mix of historical issues, ambitions, interests and competition for influence means a highly fluid situation is likely for the foreseeable future potentially causing serious tensions in the region. All countries must bear a responsibility to constructively approach the building of multilateral mechanisms and institutions to maximize the benefits of economic growth and to enhance openness, integration and habits of cooperation.

This short article outlines some of the key players and strands in the region's strategic environment and how the interrelationships amongst them may impact on regional peace and security over coming years. In this context, note is made of the contribution which initiatives on trade and economic matters, notably the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), may make to enhancing regional cooperation and prosperity.

Key Strands in the Asia-Pacific Strategic Environment

1. The United States' forward defense posture in the Western

Pacific has underpinned peace and security in the Asia-Pacific region since the end of the Pacific War in 1945. Its network of formal defense alliances with Japan, South Korea, Australia, Thailand and the Philippines and its bilateral defense relationships with many of the other Southeast Asian countries, together with those of its allies, have laid a base for promoting strategic stability, open societies and economies, and economic integration. Countries in the region have been able to focus primarily on their economic development and prosperity. In parallel with security support from the US and its allies, massive investment and technology transfer from the US and other developed countries was also instrumental in assisting Japan initially, then South Korea, to leap ahead economically. Then, following those two countries, many countries of Southeast Asia as well as other newly-emerged or emerging economies, especially China and now India, have been undergoing tremendous economic growth. This was due significantly to the stable environment provided in the Asia-Pacific and the benefits of investment and transfer of technology from the developed world.

Despite major security preoccupations and distractions beyond the Asia-Pacific, the US role as the principal force for security in the Asia-Pacific region has been a constant since 1945. The "pivot" to Asia by the administration of President Barack Obama, while patchy in its implementation, shows the US intends to remain strongly engaged in the region for the long term, in both security and economic terms, including in the latter case through its focus on trade liberalization and the TPP in particular.

2. Since the late 1950s, Japan has consistently played a crucial role contributing to regional peace and economic prosperity, in its position as the closest ally of the US in the Asia-Pacific region and the largest Asian economy for 50 years, until China surpassed it at the time of the global financial crisis. While no longer the largest regional economy, Japan's mature economy and its active and positive engagement supporting economic growth and openness will remain crucial to sustaining regional prosperity. Japan has for decades demonstrated its commitment to maintaining its position as a constructive and influential leader in regional affairs. Just as US investment helped Japan's rapid postwar recovery, Japan's own large-scale investment in, and technology transfer to, Southeast Asia and China was critical in assisting such countries in their development stages to bridge the technology gap. Today, Japan's constructive role in Asia remains strong and its business houses

increasingly regard their expanding investments overseas as critical to their revenue.

Japan's large development assistance program, directed primarily at Southeast Asia and China (Japan no longer provides soft-loan aid to China), made it for many years the largest donor globally after the US, commensurate with its position as the then second-largest world economy. Together with other like-minded countries, Japan has played a leadership role in initiating, supporting and helping build regional institutions and architecture, such as APEC, ASEAN, the Asian Development Bank (ADB), the East Asia Summit and the Chiang Mai Initiative, as well as negotiating economic partnership agreements with a range of countries and groupings within the region.

Seventy years on, since the end of the Pacific War, the Japanese government has begun adopting measures enabling its contribution to regional peace and security to be more direct than previously allowed under the constraints of its constitution. From Japan's perspective the evolving changes in its defense and security posture are consistent with a legitimate and responsible regional leadership role. Japan takes into account the rapid rise of China in its near region, the constant uncertainty due to North Korea's errant nuclear weapons and missile programs and its own greater readiness to participate in multilateral efforts such as peace-keeping operations and combatting transnational crime. China and some others are critical of Japan's defense and security changes, however modest they may be, with China regularly expressing the view that Japan has still not adequately come to terms with its wartime past and is bent on revival of militarism. Despite national sensitivity about this issue in both Japan and China, the sensitivity does not prevent Japan and China having a huge and productive trade and investment relationship that offers substantial mutual benefits.

3. China's rapid rise over the past 20 to 30 years, to become the world's second-largest economy, and potentially the largest economy, is unquestionably the most important change in the Asia-Pacific and the global order in recent decades. Its standard of living has dramatically improved and its stellar economic growth has contributed hugely to regional and global economic growth and prosperity. But its rise has also posed a major challenge to the established order. China is finding that converting its new global economic might and influence into the broader status of a global superpower alongside the US is a rather more complex challenge.

China would like the world to regard it as a global superpower already equal with the US. In reality, China may take some time to achieve widespread respect for that status, given its inclination for unilateral action on issues, its assertiveness on certain sovereignty issues and its reluctance at times to take a clear stand on critical international developments. Taken together these factors mean that, although the US and China have good cooperation in many fields, there are deep and significant issues of difference between them needing constant prudent management by both sides to maintain the

good health of the US-China relationship, so critical to the region's peace and stability.

As Deng Xiaoping, the architect of China's opening up, made clear back in 1978, China's prospects for economic development depended on the maintenance of a peaceful environment conducive to economic growth. China's ability to pursue its economic reform program without significant interruption since 1978 was greatly assisted by the peace and stability provided by the US security presence in the Western Pacific and by the massive flow of investment and technology transfer from the US, Japan and Europe. These facts, while well understood in China, are not always readily acknowledged.

China's economic growth was also promoted by its long-negotiated accession to the GATT/WTO, because China undertook major economic structural reform in order to meet the conditions of entry to the WTO. China recognizes that further structural reform is needed to reduce the level of state involvement in the economy and to encourage greater domestic consumption by stimulating growth in its services sector. Some steps have been taken, but implementing further reform in such a vast country is highly complex and may take place only very gradually. While China has negotiated a number of bilateral free trade agreements it would need to take on much deeper structural reforms in order to be eligible to become a party to a fully comprehensive free trade arrangement like the TPP. In the meantime, China is keen to press ahead with its involvement in the RCEP as a less demanding arrangement, given that reform is essential to both its own and the region's economic health.

China's need to implement structural reform is also driven by the painful process of transitioning its economy from being investment- and export-driven, to one that is consumption-driven. Commentary is often preoccupied with the issue of whether China's slowing rate of economic growth will continue to provide strong stimulus to the regional and global economies. China's economy will undoubtedly continue to slow as it goes through its transition, but it will still grow significantly over the foreseeable future. Its economy can, however, only become more efficient and able to sustain steady long-term growth if structural reform is deepened.

More broadly, modern China has long been driven by an anxiety to make up for what it sees as "lost time", or the 150 years from the early to mid-19th century onwards, when it was weak and backward and subjected to foreign invasion, civil war and decadent governance. "Making up" means not only restoring its economy, as it has done so well already, but restoring its national self-esteem and respect. For example, even though China has benefited greatly from the current global rules-based system and has signed on to many international conventions and laws, by which it generally abides, national respect in China's view also means it would prefer not to be subject to rules which it was not a party in formulating. It also wants to avoid domination by any country or group of countries. These views run deep, and when China takes actions based on restoring its national self-esteem, this can sometimes raise sensitivities and

concerns in its dealings with other countries.

Soon after President Xi Jinping took office, China announced grand plans under its “China Dream” which, if implemented fully, will effectively expand its influence to a level it believes is appropriate for a country of its own huge economic scale. Its “one belt, one road” strategy is designed to give effect to a number of ambitious objectives aimed at fulfilling China’s specific national interests, but some of these plans are not necessarily popular with affected countries. Some of its objectives are:

- i. to “reclaim its national pride” under its so-called “China Dream”;
- ii. to enhance the opportunities for further external expansion of its economy at a time when its domestic economy has significant over-capacity;
- iii. to position itself in charge of, or at least in a position of significant influence over, institutions as alternatives to the US-led established order;
- iv. to secure its access to vital energy sources;
- v. to draw itself into closer relationships with the countries of central Asia, Southeast Asia and South Asia, so that those countries are increasingly dependent on China’s economic largesse and patronage and more amenable to Chinese influence.

China’s successful creation of the Asian Infrastructure Investment Bank (AIIB) is part of this strategy and the AIIB looks set to contribute significant funds to pressing infrastructure needs, bringing about a greater level of connectivity between East and Central and South Asia. So, if implemented as planned, this will be beneficial to the region. However, even though many developed economies joined the AIIB and expect its banking practices and decision-making to be impartial, based on international standards, some countries including the US remain concerned that the AIIB will be a Chinese-influenced bank competing with and undermining the high standards of accountability set by the IMF, the World Bank and the ADB.



The opening ceremony of the Asian Infrastructure Investment Bank (AIIB) in Beijing on Jan. 16, 2016

In 2013, China aroused much international interest when it launched, with great self-confidence, its sweeping “one belt, one road” initiative. But in some quarters interest turned to concern because the launch of the ambitious infrastructure strategy coincided with China openly taking assertive action to consolidate its claims to sovereignty over contested islands in the South China Sea and the East China Sea. China strongly denies any expansionist aims but many see it as acting unilaterally on these territorial issues without full regard for other regional countries concerns.

In a region where it is important to work openly and cooperatively with other regional countries to promote peace and stability, China’s assertiveness and, above all, regional countries’ perceptions of its behavior may delay the realization of China’s ambition to be respected as a responsible global superpower alongside the US.

4. India’s emergence as another potential Asian economic powerhouse will further enhance economic growth in the Asia-Pacific region. Official Indian statistics show its GDP growth rate was 7.5% for 2015, faster than China’s 6.9% GDP growth rate. Whether India can hold to a trajectory with consistently high growth rates is unclear, but this growth and its huge, much younger workforce suggest it may increasingly compete for economic space and influence with China in the Asia-Pacific. China is sensitive about India’s growth, as was made clear in an op-ed article in the semi-official Chinese newspaper *Global Times* (Feb. 14, 2016) which said Indian statistics, showing a faster growth rate than China, were “manipulated”.

Prime Minister Narendra Modi has created, through a series of highly successful foreign visits, a new buzz about India, already attracting significant new foreign investment. However, while India is predicted to be the third-biggest global economy within 15 years, it is still only the 10th largest economy at present, well behind China in terms of size, infrastructure development and structural reform.

Independence remains India’s guiding principle. Despite a cooperative relationship with China, long historical rivalry and territorial issues suggest India may not easily link into China’s “one belt, one road”. Moreover, Modi’s close connections with Japanese Prime Minister Shinzo Abe and good links with the US are meanwhile helping India attract developed-country investment and support.

5. Despite the Asia-Pacific’s relative stability, several issues could adversely impact the region’s peace and security and its capacity to maintain a strong growth trajectory, if they were to get out of control.

One is North Korea’s willful disregard for the international community’s concern over its nuclear weapons and missile development programs.

Second is Taiwan where, although the relationship between Taiwan and the Chinese mainland is currently quite calm, the question of when, how and whether Taiwan is formally “reunited” with the mainland remains hanging.

Third are the many territorial sovereignty issues and disputes

Photo: EPA=JJI



Indian Prime Minister Narendra Modi (right) and Japanese Prime Minister Shinzo Abe exchange agreements after signing them in New Delhi on Dec. 12, 2015.

especially between China and individual Southeast Asian claimants in the South China Sea and between Japan and China over the Senkaku/Diaoyu Islands.

Regional Economic Architecture & Trade Agreements

The many differences and countless cross-currents at play in the Asia-Pacific, plus its inherent great diversity, make any degree of regional cooperation a high priority. But economic integration will be a highly complex task. The “noodle bowl” of overlapping regional architecture and regional and bilateral trade agreements provides some foundation for further cooperation and greater integration. Each arrangement plays its role, but none so far brings all countries of the Asia-Pacific together. The bilateral relationships countries have with each other in the region and the groupings and arrangements already established are important, but to build anything like comprehensive integration which minimizes differences while benefitting regional peace and prosperity will take a long time.

Existing arrangements, notably ASEAN, have engendered habits of regional cooperation. ASEAN plays a core role in consolidating strategic stability in the Asia-Pacific, through the ASEAN plus dialogues, the ASEAN bilateral and other free trade agreements (FTAs), and the East Asia Summit (EAS). EAS can play a growing role addressing the full range of regional issues, because it includes all major regional powers, plus ASEAN, and its agenda embraces economic and regional security. APEC also brings together leaders in a consultative mechanism and proposes strategies to promote trade facilitation and cooperation.

The TPP, signed in February 2016 by 12 countries (but not including China or India), is a high-quality agreement, which the US government hopes will become the regional and global standard and stimulate further WTO plus, modern trade agreements. The TPP has already stimulated interest from non-signatories, but while welcome,

adding new members may take some time. Signatories have two years to process accession domestically and TPP members, equating to 85% of the total GDP of signatories, must have completed accession for the TPP to come into effect. The Obama administration remains optimistic but a presidential election year guarantees a tortuous congressional process, with the possibility the TPP may fail to gain approval. If so, this would undermine US interests in the region and be a significant blow for Asia-Pacific trade liberalization and the prospects for regional economic integration.

The RCEP, currently under negotiation with no clear end in sight, includes seven TPP signatories amongst the 16 negotiating countries – China, India, ASEAN, Australia, Japan, South Korea and New Zealand – but not the US. While ambitious in scope, the many intractable differences amongst some parties (India, China and ASEAN) and the difficulty in achieving hard commitments from a number of less-developed ASEAN countries indicates any final outcome will be a rather weaker agreement than the high-quality TPP.

China is actively driving RCEP negotiations with support from Australia and others. Some see China’s approach as its wanting to emulate the US success in concluding the TPP. While competition between the US and China certainly exists, it should not be overstated, given the significant overlap in membership and the general support across the region for opening regional markets which informs both the RCEP and TPP negotiations – albeit that some countries support deeper liberalization and commitments than others.

In time, given the general support for greater market openness, regional countries may find it possible to use the two agreements as a platform for a pan-Asian agreement, the Free Trade Area of the Asia Pacific (FTAAP). However, the unfinished RCEP negotiations and the incomplete accession process by TPP signatories mean no realistic progress can be made for some years. OECD countries like Australia, New Zealand, Japan and South Korea which already have many high standard FTAs amongst themselves, as well as with ASEAN and China, might also be able to help bridge differences between the TPP and the RCEP over time.

Important above all, given the many cross-currents and rivalries in the Asia-Pacific, is that all countries need to work on minimizing unilateral actions and maximizing opportunities for cooperation amongst them, and to work together to guarantee regional peace and security. **JS**

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