

TRACK TWO DIALOGUE WITH TAIWAN'S PROSPECT FOUNDATION
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ASIA-PACIFIC SECURITY CHALLENGES AND SECURITY AND STABILITY IN THE SOUTH CHINA SEA

Introduction

Conscious that the fourth topic today is China's behaviour which will be covered much more ably by my colleague, Bo Zhiyue, I will endeavour to avoid crossing over into his territory as much as possible. That said any discussion today of the region's security challenges cannot avoid a significant Chinese dimension.

I propose to discuss the rapidly changing strategic landscape, regional rebalancing, the Korean Peninsula, Japan's new defence measures, the South China Sea, non-state actors, and finally a few comments about our South Pacific neighbourhood.

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

For several decades Asia Pacific geopolitics have 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 shaping a new geopolitical order in the Asia Pacific. India is emerging as a major economic centre and military power, intent on growing its own 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, but the gap is narrowing. The 2014 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. That report concluded that the balance of military power is shifting in China's direction.

China's rising military and economic power and assertive political leadership have injected a complex dynamic into the region's geopolitics. Regional countries are having to adjust to a new strategic order in which there is less certainty about the continuation of US-led regional stability.

These developments signal a massive shift in the distribution of wealth and power in the region. It raises serious questions about how United States-dominated multilateral institutions will be able and willing to adjust to the scale of changes in the distribution of global power.

The US Congress is in no mood to recognise the new global realities. Congress has consistently blocked proposals to increase China's voting power in the International Monetary Fund which remains at just 4 per cent. The US Administration's unwise and ultimately unsuccessful attempt to discourage its allies and partners (although Japan hewed loyally to the US line), from becoming founding members of the AIIB, demonstrated that the White House also is having significant adjustment issues.

The US approach to the AIIB which appears to be a constructive effort by China to increase investment in badly needed Asian infrastructure, highlights US ambivalence towards China. On the one hand the US has regularly called for China to play a constructive role in regional and global affairs. It seems, however, that the US still wants to set the parameters for such a role.

A highly dysfunctional political system, and the absence of a coherent foreign policy characterised by the strong international leadership that we had come to expect from Washington, have created the impression of a superpower whose ability and capacity to lead are waning. This has caused some in the region considerable anxiety.

The profound changes in the strategic landscape call for Beijing and Washington to devote much more attention to building their relationship so that it is fit for purpose in managing major issues especially military miscalculation by one side or the other. There were some welcome outcomes from Xi Jinping's recent visit to the United States in the form of agreements on climate change, cyber-security (although expectations in that area are unlikely to be high), and finalisation of the long-awaited agreement on rules around military air and naval encounters. But as noted below there is no meeting of minds on issues such as the South China Sea, or on their respective roles in the Western Pacific.

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 fundamental not only to peace and economic security in the wider Asia-Pacific and beyond. There will be no immunity from conflict between them. Regional countries would face a choice that very few would wish to make. Cooperation is hampered by distrust on both sides. While both China and the US want to be in the same Asia-Pacific bed, they have very different dreams about their respective roles. Beijing advocates a new model emphasising 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 brought peace and stability for the last six-plus decades, enabling the region to prosper economically.

What worries me is the harsh rhetoric being directed at China by the large field of Republican presidential aspirants. I acknowledge that once elected, political realities weigh more heavily, but such is the antipathy of many Republicans towards China at the present time, a Republican president might have neither the room nor capacity for the sort of creative diplomacy that will be necessary to manage the relationship in the years ahead.

Whatever way it is dressed up, the US pivot to Asia is largely a response to China's rise. As originally conceived by then Secretary of State, Hillary 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 is encumbered with problems. The United States had never left the region. For decades it has had a strong set of alliances with regional countries, along with major military bases in the Western Pacific. This created a credibility issue unless the US could demonstrate that it was embarking on a wide-ranging effort to strengthen all the pillars of the US presence in the region. Its scorecard is mixed.

The pivot's implementation has been defence-heavy, exacerbating fears in Beijing that its real purpose is to contain China. That view is unhelpfully strengthened by those in Congress who proclaim that the pivot's purpose is all about containment and support it for that reason. As Henry Kissinger has said "the fear of strategic encirclement plays a key role in China's strategic thinking". On the positive side of the ledger 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 has also strengthened defence relationships with a number of other regional

countries, especially Vietnam which has persuaded the US to ease but not rescind its ban on the sale of combat equipment. Rebalancing has been welcomed by the US's treaty partners, and for the most part by the ASEAN countries.

TPP will also be a positive factor provided it passes through the US Congress. Hillary Clinton's opposition is very unhelpful. It is a reversal of her position in 2011 when she declared it would be an important pillar of the pivot. And while President Obama has said that TPP is not about containing China, comments by senior Administration officials paint a somewhat different picture, for instance, Defense Secretary Ashton Carter who described it as being as important as another aircraft carrier. Such unhelpful comments even if intended for a domestic US audience do nothing to allay Chinese concerns.

On the negative side of the ledger, there is growing scepticism in the region even among close US allies, about Washington's ability to deliver given cuts to the defence budget that will have a pronounced impact on the US Navy in particular. Several senior US defence officials over the past eighteen months have expressed concern that there are significant capability shortfalls for the missions they are expected to undertake in the region.

Other key elements of rebalancing (economic, diplomatic and aid) 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. While most of the ASEAN's welcome the US presence for balance of power reasons, I am informed by ASEAN colleagues that there is little likelihood that this will translate into the US being given strategic partner status by ASEAN in the near future because of a US preference to operate bilaterally.

And doubtless to Washington's dismay events in Europe and the Middle East continue to divert its attention from the Asia-Pacific. Unlike their predecessors Secretary Kerry and National Security Adviser, Rice, have largely focussed their attention on the Middle East and Europe. A further concern is what Aaron Connelly of the Lowy Institute describes as the decline in Asia expertise in Congress. 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 the Philippines does not provoke an incident with China in the expectation that the US will intervene.

Others are rebalancing too

Under Putin, Russia, like China, is promoting a more muscular posture supported by a more professional and better-equipped military. Over the past decade Russia has doubled its defence spending and is planning further substantial increases, 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. Its new nuclear missile submarine facility on the Kamkatcha Peninsula will soon be ready for operations.

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. 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. In any event as Ralph Cossa stated last year "when China and Russia get into the same bed they each sleep with one eye open".

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. Such a step was overdue. The removal of geographical limitations on the activities of its Self Defence Force is a major development. The new defence posture will be captured in revised Japan-US defence guidelines, but has raised Beijing's blood pressure another notch.

The dispute over Senkaku/Daiyou is another major fracture line in the relationship with China and has been the scene of some close naval and coastguard encounters. History is a third. And Japan's willingness to involve itself in the South China Sea is a fourth. There have been recent signs of a thaw in the relationship but like the US/China relationship suspicion runs deep.

There are suggestions that PM Abe oversold the more robust defence policy while in Washington and undersold it at home. He has successfully ensured the passage of the necessary legislation but at some political cost with large sections of the Japanese public remaining unconvinced about the need for what Abe called a more normal defence policy. Much has been made of a significant rise in Japan's defence budget but the reality is that after many years of successive budget trimming, this year's budget is equivalent in real terms to 2002 levels.

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 with an emphasis on strengthening maritime surveillance and offshore protection capabilities.

I note the number of meetings between PM Abe and President Putin with whom Abe seems more comfortable than do other US allies, and the several meetings of the two Foreign Ministers. For their part Russians close to their Government say in private that they support the enhanced Japan-US defence relationship on the grounds that it deters Japan from greater security ambitions which I read as code for ensuring it does not resort to the development of a nuclear weapons capability. I suspect they might also say in private that it helps to preserve a military balance in the Western Pacific.

India has signalled its intention to strengthen its relations with the members of ASEAN with its new "Act East" policy, a significant enhancement of its "Look East" predecessor. Like Japan, India has identified the development of maritime capabilities in South-east Asian countries as an area in which it can provide needed assistance.

Increased naval cooperation between Japan and India and revived talk of an Australia/Japan/India/US nexus is another cause of alarm in Beijing where it is seen as a device to contain the growth of Chinese naval power. The advent of a new Prime Minister in Canberra, however, may set aside ideas about advancing such a nexus given PM Turnbull's likely more instinctively cautious approach to any course of action that could unnecessarily provoke Beijing.

Korean Peninsula

Three weeks ago I attended a conference organised by CIIS in Beijing to mark the 10th anniversary of the 2005 joint statement issued on the conclusion of that round of Six-Party talks. The statement was a roadmap towards de-nuclearisation and ultimately a peace treaty that would bring to an end the last remaining vestiges of the Cold War. The organisers were seeking ideas on how to re-start the long-stalled process.

That is a daunting proposition. In 2012 North Korea embodied its nuclear weapon status in its Constitution. It has increased its nuclear weapon stockpile, accumulated additional fissile material

and extended the range of its submarine-launched ballistic missiles. In recent weeks it has announced it is planning a satellite launch, possible nuclear tests and further testing of its submarine-launched ballistic missiles. It has also moved additional patrol craft closer to the Northern Limit Line which marks the maritime boundary of the two Koreas that the North has never accepted. What are the reasons for this unwelcome upsurge in activity? Is it attention seeking? Is it a surly reaction to the red carpet treatment President Park received on the occasion in Beijing of the 70th anniversary of the end of the Pacific War? That was the 6th time Park and Xi Jinping have met and this time President Park was accompanied by the largest ROK corporate delegation ever assembled for an overseas mission. This no doubt reflects the expansion of two way trade which now exceeds the combined total of two trade with both Japan and the US. There were 31 summits between China and the ROK between 1991 and 2014, compared with just four between China and the DPRK. Of particular interest is the inclusion by China in the statement on President Park's meetings of China's support for the peaceful unification of the Korean Peninsula by the Korea people. I understand that this is the first time China has included such a comment in a statement with South Korea.

Kim Jong-Un did not attend the anniversary. He and Xi Jinping have never met. There is apparently little contact between China's Ambassador in Pyongyang and senior North Korean officials, and Chinese journalists are not exempt from the restrictions placed on foreign media in the DPRK. The ROK's growing ties with China have not exactly been welcomed in Washington either. But given the ROK's close relations with both China and the US, perhaps Washington should explore opportunities to use the ROK as a mediator when problems emerge in relations between the two super-powers.

The conference I attended unsurprisingly threw up few fresh ideas. To the evident frustration of the Chinese, Pyongyang declined to send anyone – a significant step back from its high-level attendance at a similar conference in 2013. The Russians present admitted defeat in their attempts to strengthen economic ties with the DPRK noting they could readily attest to how difficult it is to deal with the North.

In the coming restructure of PLA commands it will be very interesting to see what the PLA does with its military command in Shenyang, which is the closest command centre to North Korea, and which recently conveyed a strong message to Pyongyang with the deployment of tanks to the DPRK border. The re-structuring of this command may provide an indicator as to the degree of concern in Beijing over the situation in the DPRK.

The DPRK remains a country largely disengaged from the international community, paying little heed to its long-time friends in Moscow and Beijing, set on expanding its WMD capability, seemingly impervious to sanctions and with an unpredictable leadership. This a dangerous cocktail.

South China Sea

Concerns over China's full court press in the South China Sea, including the construction of the so-called Great Wall of Sand and of military bases, 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.

It seems odd that in pursuing this course of action that China had not anticipated the consequences. These include the return of US troops to the Philippines after being ignominiously expelled in 1992, at a time when China would like to push the US military presence further east. There is also the

incentive China's actions have given to Japan to deepen its engagement in that region particularly with other claimant states through assistance with the development of maritime capabilities. But China shows no sign of relenting. The South China Sea has become a worrying friction point both in terms of China's relationship with the US and with some, but by no means all, of the ASEAN's. The US has signalled that it will now claim the right of innocent passage through Chinese-claimed territorial waters.

China has made it clear that such passage will be opposed, heightening the risk of a serious incident. There are options on both sides for mounting such a deployment and responding to it short of conflict and it is to be hoped that those options are taken. It is unclear, however, whether the agreement between China and the US on rules of behaviour for military patrols at sea and in the air would be considered by China to apply to such a situation. Perhaps the US might heed the call for caution urged by Singapore's Defence Minister Ng Eng Hen in August when he said "it does no good for the region if there are incidents".

Another result of developments in the South China Sea is the rapid expansion of military capabilities by many of the ASEAN's particularly in the maritime domain, notably involving sub-surface elements. ASEAN states with South China Sea claims have in recent years been boosting defence expenditure at around 10 percent a year. This swift build-up of sophisticated maritime capabilities is concerning given current tensions, particularly given the rapid growth of submarine fleets whose operations in the often confined waters of the South China Sea increase the risk of incidents that can have serious consequences.

While there have been welcome developments in the form of an agreed code setting out rules of behaviour during encounters at sea for naval forces, this is at a tactical level. There is an urgent need to develop measures at the operational and strategic levels to manage the risks of a much more militarised region and make the maritime commons more secure.

There is another side to the South China Sea story. Some of the claims by the Philippines, Malaysia and Vietnam to parts of the Sea don't stand up to close scrutiny and they, too, are inconsistent with UNCLOS. They also, although not to the same extent, have reclaimed land and built infrastructure. As a speaker at this year's Asia-Pacific Roundtable held in Kuala Lumpur said, ASEAN needs to learn not to do today what China will do tomorrow.

We are seeing at least two of the South China Sea claimants engaging in a balancing or hedging strategy. Malaysia has just undertaken a large bilateral exercise with the PLA which included live firing drills at sea. During this exercise reports emerged of discussions between Malaysia and the US about the possibility of US maritime surveillance patrols over the South China Sea being conducted from Labuan Air Force base.

Next month Vietnam will juggle visits by Xi Jinping and Barak Obama within a few days. Vietnam has signed comprehensive joint partnerships with both China and the US, and has sent high level political, party and military delegations to both countries. The Philippines, however, has chosen to put all of its eggs in the US basket. Time will judge if that was prudent. The South China Sea will undoubtedly feature on the agenda of the first meeting between the ASEAN Defence Ministers and their Chinese counterpart to be held in China later this week.

The more uncertain geopolitical situation has prompted ASEAN to strengthen its resilience through the drive to achieve a political and security community. It was a factor in the earlier than expected establishment of the ASEAN Defence Ministers plus forum, a group 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.

The rise of non-state actors

The rise of non-state actors or would-be state actors is of growing concern to the region. 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. The lure of Islamic State is causing growing concern for countries with both majority and minority Muslim populations.

The South Pacific

Boundary demarcation is not really an issue in the South Pacific other than occasional incidents along PNG's border with Indonesia. The main challenges facing this region are:
Climate change which is a major threat to low-lying island countries, and is already adversely affecting food and fresh water supplies.

Illegal fishing – fish are a major income source for many in the region and the depletion of fish stocks further afield will almost certainly lead to increasing intrusions by distant water fishing nations. The collapse of commodity prices which has hit PNG in particular very hard. The Asian Development Bank has cut growth estimates for PNG from 15% this year to 9 % this year and from 5% to 3% in 2016. The 2016 prediction bodes badly for by far the largest South Pacific island country as it will barely keep pace with high population growth.

High population growth and demographic imbalances. Many countries in the region are experiencing high population growth with those under 20 years of age representing in some instances more than 50% of the population, a major social issue in countries with fragile economics and limited labour prospects.

The prospect of trans-national crime seeking to take advantage of inexperienced Police and other enforcement services.

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.

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