

India and New Zealand Emerging Challenges

Edited by

**Rajaram Panda
Pankaj Jha**



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New Delhi**

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Brian Lynch has had forty years of experience in the New Zealand public and private sectors. Almost half that time was spent in the New Zealand diplomatic service, including postings in New York, Singapore and London. Subsequently he was the Deputy Secretary of the Ministry of Transport. From 1992 to 2003 he was CEO of the Association of New Zealand Meat Companies. In 2004 Mr Lynch was made an Officer of the New Zealand Order of Merit for public service and service to the meat industry. He is Chairman of the Refugee Services Aotearoa, Education Wellington International and New Zealand Horticulture Export Authority, a Government appointee on the New Zealand Meat Board. He is currently Director of the New Zealand Institute of International Affairs. In addition he is a Director of two private companies. Earlier this year Mr Lynch recently stepped down as Alternate New Zealand Member of the Asia-Pacific Business Advisory Council (ABAC), a position he held for five years.

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H.E. Mr Rupert Holborow took up his duties as New Zealand's High Commissioner to India at the beginning of 2008 and presented his credentials to Her Excellency Smt. Pratibha Devisingh Patil, President of the Republic of India, on 13 February. Mr Holborow, who is also cross accredited to Sri Lanka, Bangladesh and Nepal, has worked for the New Zealand Government for over 25 years - most recently in Wellington as 'New

Zealand Senior Official for APEC' where he was closely involved in efforts to promote stronger habits of collaboration and cooperation between the 21 member economies in APEC. Mr Holborow has spent a good part of his career deepening New Zealand's links with Asia having served both as Deputy Head of Mission in Indonesia as well as, at different times, Deputy in the Ministry of Foreign Affairs' North Asia Division and Deputy in its South/South East Asia Division. In addition to this focus on Asia, Mr Holborow has devoted over eight years to the bilateral relationship with Australia - New Zealand's largest and most multi-faceted relationship - having served twice in Canberra; first in 1986-1989 and more recently as Deputy High Commissioner 2000-2003. At other times in his career Mr Holborow has served as Private Secretary to the Minister of Trade Negotiations and headed up the Ministry's Economic Division.

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She has received a number of international fellowships. She was a Visiting Fellow at the Department of International Relations, Dhaka University in 2004 and 2007, Kodikara Fellowship in 1999 (RCSS, Colombo), and undertook field trip to Pakistan. She was a Post-doctoral Fellow at MSH

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Introduction

The present book is the outcome of a two-day Track II dialogue held in December 2009 in New Delhi between scholars from the Institute for Defence Studies and Analyses and from New Zealand. A six-member delegation was led by Richard Grant, Executive Director of Asia-New Zealand Foundation. The Indian delegation was led by Arvind Gupta, Lal Bahadur Sashtri Chair, IDSA. The opening address was made by N.S. Sisodia, Director-General of the IDSA. While the special address was made by H.E. Mr. Rupert Holborow, New Zealand High Commissioner to India, the keynote address was given by Richard Grant. There was unanimous view that the Track II dialogue process is the appropriate route to take India-New Zealand bilateral relations to a higher plane.

The dialogue had six business sessions and covered a range of issues such as Multilateralism in Asia, Global Financial Crisis, Development and Security in Asia Pacific, Security Issues in Asia, Concerns and Challenges, and Bilateral Relations.

The First Section of the book contains two essays on the issue of evolving East Asian institutional architecture in the context of multilateralism. Rajaram Panda argues that the world witnessed two simultaneous developments: globalisation and regionalism and these two developments have not been mutually contradictory. Indeed, the thesis of his paper is that the basic driving force behind both the mega-features in international politics during the last five decades had been the market only.

His paper highlights the definitional issue of what East Asian regionalism actually means, necessary for understanding the movement towards multilateralism. According to him, there could be two ways of defining East Asia: either by applying traditional geographical approach or following deeper political-economic strategic trends. The paper argues that a universally acceptable definition of East Asia remained blurred and for all practical purposes, the whole of Asia Pacific makes East Asia. Indeed, this definitional blurredness made East Asia a region where multiple types of political processes existed and strategic choices exercised. Therefore, the

European model of regionalism, the European Union for example, cannot be expected to be evolved in East Asia.

As the countries in the region get increasingly interlocked by linkages in multiple areas of economic activities, they find themselves confronted with challenges to manage strategic complexity. The absence of any threat, real or perceived, on the scale that Europe was confronted with and which propelled it to opt for the EU model, simply do not exist in the Asia Pacific. Instead, the region has got a host of intra-regional political and strategic tensions, which can be used as impetus to create community consciousness. The shifting dynamics of community building enmeshed in market fundamentalism as well as non-state actors are the two main drivers behind East Asian regionalism. The role of China and the US can in no way be overlooked in examining this process of evolving regionalism.

At the moment, regionalism in East Asia remains less institutionalised and legally unbinding and therefore difficult to predict its possible future course. The truism is that no initiative would yield any result, if it did not take regional dynamics into account. Therefore, major stakeholders such as Japan, China, Australia and the US need to show serious interest in building East Asian institutional architecture.

David Capie's paper takes a micro view of Asia's regional institutions in the last five years. The renewed debate is attributed on four factors: sense of frustration with the status quo, changing balance of power in Asia with China positioning itself as a major actor, leadership change in Washington, Canberra and Tokyo, and the current global financial crisis that questions the institutional status quo at the systemic level. According to Capie, the proposals for reform in regional multilateral institutions fall into two broad categories: small and exclusive arrangements like concerts of power and "a reorganised somewhat more inclusive Asia Pacific community" type of proposals. Capie argues that the process of regional multilateralism was going to be evolutionary, not revolutionary. He feels that regional institutions will maintain status quo and ASEAN will retain its importance. Though in the medium term, ASEAN may face stiff resistance, "hard" forms of regional security cooperation will not take place, "unless there is a transformation of the underlying normative structures, particularly ideas around sovereignty."

Section Two dwells on the global financial crisis and how both India and

New Zealand position themselves to face the challenges emanating from this. Richard Grant gives the New Zealand perspective on the global financial crisis. His paper highlights the fact that New Zealand entered recession in the second quarter of 2008 and emerged from recession officially at the end of June 2009. Grant says that New Zealand was not badly hit as others as its banking system depends on Australian banks which were well managed throughout the crisis. Since New Zealand's economy is not heavily dependant on exports to the US or EU, flow on effects was minimal. Yet, New Zealand took measures to stimulate the economy both by engaging in infrastructural programmes and by applying credit guarantees to banking industry. New Zealand also resisted trade protectionism. Grant saw hope in the emergence of G-20 which has replaced G-8. He states that emerging Asia remains ahead in coming out of recession and it is good news for New Zealand as its trade patterns are more focused than they used to be in the Asian region.

I.N. Mukherji traces the genesis of the crisis to the 2003-07 booms when the declines in risk free interest rates precipitated a search for high yielding risky assets. Gradually the financial sector far outstretched the real economy and the sub prime borrowers started defaulting, thus making the boom go bust. Mukherji highlights the impact of it on India and examines various measures taken by India to deal with the crisis. India was initially unaffected but with the collapse of Lehman Brothers in September 2008, its adverse impact spread to emerging economies through their current and capital account route of their balance of payment. The impact of the financial crisis can be determined by India's export dependence, but that has been changing away from the developed economies towards the OPEC nations and economies in East Asia. India's growth rate started declining even before the global financial crisis hit the world economy towards the end of 2008; the global financial crisis only accelerated the slackening. Mukherji notes that the global economy was on the path to recovery. The Indian government also adopted fiscal stimulation measures given by tax cuts, increased in planed expenditure, farm loan waivers and schemes like NREGA, PMRRP, etc, which shored up rural demand for both consumer durables and non-durables. The Reserve Bank of India also reduced the repo rate, reverse repo rate and CRR to half since 2008. Mukherji argues that so long as the US dollar continues to remain weak, capital inflows will remain high as witnessed by the surge in foreign investment flows to India in spite of global slowdown. He further argues that the inflationary potential of growing liquidity as

reflected in the increasing consumer prices fuelled by growing fiscal deficit cannot be taken lightly. How this can be curtailed without dampening the green shoots of recovery remains a challenge for the Indian government, is argued by Mukherji.

Section Three examines the development and security issues in Asia and the Pacific. While Brian Lynch gives a New Zealand perspective of the Pacific Islands, he paints a picture of hope and stability as the situation ordained in the Pacific is drastically different than the South Asian region. He identifies four main reasons why the Pacific matters to New Zealand: geography, culture, constitutional and integration. He says that geography never changes and therefore New Zealand is permanently and inescapably in and of the Pacific. Culturally, above six per cent of the New Zealand population are of Pacific origin. The historical ties bind the island's people with New Zealand. There is also a mix of integrative factors that play an important part and in this commerce, education media, politics, religion, sport and remittance are key variables. According to Lynch, the present and future of New Zealand are going to be intrinsically tied with the Pacific Islands and the long term destiny of New Zealand lies in Asia.

Smruti Pattanaik offers an in-depth analysis of the fragile democracy in Pakistan, Bangladesh and Nepal, brittle peace in Sri Lanka, instability in Afghanistan-Pakistan region, assertion of rights by various ethnic groups in Nepal, the BDR mutiny in Bangladesh, growing religious radicalism, marginalisation of civil society voices due to violence perpetuated by the state actors and extremist elements, use of terrorism as an instrument of foreign policy, political intolerance, etc. The paper delineates how these factors have contributed towards general insecurity in the South Asian region. Smruti also discusses how the fragile socio-political environment has led to a volatile economic situation in the region. Although the democratic transition in the neighbourhood has been able to bring about certain political stability in South Asia, security situation has not seen any significant improvement.

Section Four covers security issues in Asia. While discussing the issue, Air Cmde Phadke identifies two major objectives of rising China in the Asian region: to prevent the emergence of any other unmanageable competitor well before it actually becomes so, and second, to redouble Chinese efforts to challenge the US global primacy without fundamentally upsetting the rules of the game at present. According to Phadke, India will have to prepare itself

to face multiple challenges from China and its many surrogates. However, this task has been made extremely difficult by the rising power differential with China and the increasing significance of China in international affairs. While discussing how India can mitigate the current situation, Phadke suggests that India's reliance on soft power, strengthening of its economy, agriculture and defence, more engagement with other countries in East and South East Asia can prove instrumental.

In contrast, Xiaoming Huang argues that China's bilateral relations with the US and Japan have received significant boost in recent times. According to him, the new relations are expected to forge a higher level of strategic trust among the three nations, which in turn will provide a less rigid strategic environment. Huang identifies three internal conflicts in the region (Myanmar, Pakistan and Afghanistan) which currently concerns China deeply. Huang observes that China seems to be cautious on major initiatives in the region and wants to continue to focus its efforts on great power relations and relations with 'surrounding countries'.

Section Five addresses concerns and challenges of major powers in the region. The two papers in this section, one by Mark Rolls and the other joint paper by Rajaram Panda, Pranamita Baruah and Shamshad Ahmad Khan dissect the new orientation of US policy towards the East Asian region under President Obama's dispensation. Rolls opines that in US foreign policy, no matter which party sends a President to the White House, nothing changes, except "tone and tenor". Such a position suggests that no major policy change can be envisaged under Obama towards the East Asian region. According to him, addressing new emerging global challenges such as climate change, terrorism and great power relations would be Obama's primary foreign policy focus.

Rajaram Panda and his colleagues argue that while China would figure in Obama's foreign policy radar dominantly, Japan and South Korea would continue to remain as major allies in the US' foreign policy strategy in East Asia. Though the paper touched upon the controversial Futenma airbase issue and stressed for its early resolution, the issue still remains unresolved. Hatoyama's self-imposed deadline of May 31, 2010 for its resolution could not be met and led to his resignation. The North Korean issue captured the aspect of real concern and also challenge. Though the paper speculated three possible policy choices for Obama to adopt – appeasement, coercion and regime change – none of them have proved to be successful. Pyongyang's

intransigence continues to remain a challenge for the major powers in the region, including the US. The paper concluded that the challenges being faced by Obama are huge and requires extraordinary maturity to handle the sensitive and critical issues that continues to unfold with frequent regularity. An assertive China and a Japan clamouring for more independent foreign policy are real headache for any US President, not only Obama.

The last Section Six dwells on bilateral issues. New Zealand Ambassador to India Rupert Holborow gives a New Zealand perspective of the bilateral relationship. According to him, relationship has been warm but not yet deep, though beginning to change. Holborow argues that until 2002, it was a case of mutual neglect until Prime Minister Clark's visit to India in 2002 and New Zealand began to look and think India differently. As such, New Zealand is embarrassingly a late player but is trying to catch up lost ground. It is a truism that India has enormous brand recognition in New Zealand than New Zealand in India. According to Holborow, the relationship has changed for the better during the last five years largely because of the 120,000 Indian communities in New Zealand. There is also more visibility in trade and commercial areas. Merchandise trade between the two is rather small at \$500 million in 2008 and reached \$700 million in 2009. Tourism is another area for growth: 25,000 people from India travel to New Zealand. India enjoyed the ninth position in total share of New Zealand tourism in 2009 as against 19th position in 2009, a jump of ten in seven years. This indicates that portends for the future are good. As many as 7,000 Indian students study in New Zealand universities and centre of higher education. This shows that both are getting out of the long mutual neglect. If Prime Minister Clark's visit in 2002 put New Zealand-India relationship in the first gear, the relationship reached the third gear in 2009. With FTA negotiations on, bilateral relationships seem to be already in the third gear in 2010. It is redeeming that New Zealand has identified India among the five to ten select countries with which it wants to develop relationship. The year 2009 saw some fruitful initiatives: Track II dialogue, visit of Science Mission, Chief of Defence Force's visit, etc. A New Zealand Consulate office was opened in Chennai in 2010. Now New Zealand realises that India is changing fast and therefore the onus lies on it to make the needed adjustments.

Pankaj Jha's paper attempts to reconfigure India-New Zealand relations in perspective. Pankaj unearths the embarrassingly unknown fact that there exists huge knowledge gap between the two countries about each other.

Whatever complementarities exist between the two countries in political and economic realms remain unexploited. New Zealand's unexpected reaction to India's nuclear programme pushed the relations backward, until recently when interdependence has begun to reassert its worth. Pankaj's paper ends with an optimistic note when he says that a lot of space for mutual cooperation in the field of peace and collective security, non-traditional security, etc exists.

The book encapsulates the developments in the international stage and gives different perspectives from India and New Zealand and looks for the areas of convergence in the issues of regional peace, security and also addresses the emerging challenges in different regional theatres of South Asia and Pacific. While the emphasis has been on the areas to enhance partnership but issues like China have not been ignored. The book creates awareness about the developments in the periphery of the two countries and how the two nations are catering to the increasing demands of active participation at the global stage.

1

Evolving East Asian Institutional Architecture

Rajaram Panda

Introduction

The developments in the world since 1960s have seen globalisation gaining momentum, though not exactly reaching its zenith, while regionalism as a parallel development also became stronger. The integration process in Europe has also led to the expansion of its traditional boundaries. The North America Free Trade Agreement (NAFTA) has brought the two Americas and the inevitable destination towards the eventual Free Trade Agreement of the Americas (FTAA). This is a clear demonstration of the example that globalisation and regionalism are two sides of the same coin, driven by the same powerful market forces.

The collapse of communism did not spring a viable alternative to the market. For example, Brazil resists the FTAA while France and the Dutch reject the European Constitution. Such reservations in some quarters, however, have not reversed the basic strategic trend towards greater regionalism. The definition of East Asian regionalism is somewhat blurred as compared to regionalism in America or Europe. Since there will be multiple political decisions and strategic choices in the Asia-Pacific region, the future evolution of East Asian regionalism is likely to remain unclear for some time. The construction of East Asia for the future will depend much on how the Americas, Europe and East Asia conduct their relations among themselves as multiple macro-strategic issues will have profound influence on these dynamics.¹

In the era of deepening economic integration, the need for constructing an East Asia institutional architecture is felt more now than ever before. For example, there was no effective and collective Asian response to the global financial crisis. Its regional structures were still not up to the task of effective global participation. The developments since the beginning of 2009 have

1. "Constructing East Asia", Speech by Goh Chok Tong, Senior Minister of Singapore delivered at the Asia Society Conference in Bangkok, June 9, 2005. http://app.mfa.gov.sg/2006/press/view_press_print.asp?post_id=1354

changed the drivers of regional initiative on the global stage. The Asian 6 (Japan, Korea, China, India, Indonesia, and Australia) within the G-20 have emerged as a regional leadership group. Coordination among the Asian 6 has been an important feature in their approach to the global dialogue. Together with the US and perhaps Canada and Russia, the Asian 6 appear like the potential core of an Asia Pacific Community (APC) for security dialogues.

Defining East Asia

Ever since the East Asia Summit (EAS) has come into existence in an unorganised way, defining East Asia has becoming a contentious issue when discussions on the modalities and membership take place. In the initial years, the argument centred on whether East Asia would have a traditional geographical definition, encompassing only the ASEAN countries, China, Japan and South Korea or look beyond physical geography to take into account deeper political trends and economic driving forces. It was also argued if it was prudent not to include the dynamic India with burgeoning economic and political links with East Asia and an Australia that has been politically and economically engaged in the region for many decades.

Therefore, when ASEAN foreign ministers agreed in April 2005 on a set of criteria to allow the inclusion of India, Australia and New Zealand into the EAS, it meant that East Asian regionalism was going to be inclusive, forward-looking and open. It underscored the importance of adapting to new developments and not being trapped by narrow and outmoded geographic notions. It would be a mistake to define the EAS's agenda too narrowly and the EAS needs to evolve a kind of framework that manages and contains the diverse realities of East Asian regionalism. Not only widest possible participation is desirable but it is also expected to deal with the widest possible range of issues. Accordingly, the range of issues cannot remain confined to economic or functional one but it needs to embrace and confront sensitive security concerns.

Deepening Economic Integration

The broad outlines for East Asian regionalism are already evident. Regional economic links have expanded as a result of the growing web of Free Trade Agreements (FTA). Singapore has signed an FTA with Japan, concluded one with South Korea. India has also concluded FTA with the ASEAN and signed Comprehensive Economic Partnership Agreement (CEPA) with South Korea and negotiating one with Japan. ASEAN is also working to

form an economic community, with the aim of creating a single market with free flow of goods, services, and investment by 2020. Increasing economic integration is reflected by the rapid expansion of intra-Asian trade. From 20 per cent in 1980, intra-Asian trade as a share of the region's total trade doubled to 41 per cent in 2004. Between 2000 and 2005 alone, intra-Asian trade grew by 17 per cent on average, well above the average growth rate of five per cent for intra-NAFTA trade and nine per cent for intra-EU trade.

More recently, trend towards greater economic integration in Asia has gathered speed. However, East Asian regionalism will be far less institutionalised than in Europe. New patterns of trade and investment, business decisions, production chains and webs of FTAs are drawing the region together. As compared to the EU model, a looser and less bureaucratised structure seems to be more appropriate for the region, which is very diverse.

As the Asia Pacific region is getting integrated to the international system, a new regional architecture is needed to help frame cooperation with the Asia Pacific core as well as shape regional strategies towards global issues.² A Pacific Economic Cooperation Council (PECC) report suggested that so long as the multilateral architecture fails to incorporate Asian economies in a manner central to systemic issues, these economies will remain secondary players on global issues and sometimes even regional issues.

Managing Strategic Complexity

Apart from the drivers stemming from economic development and the flurry of FTAs, a great deal of attention is also being focused on security architecture in East Asia, if the economic dividends arrived from robust growth are not to be lost as the region also presents many areas for potential conflicts. So far, a stable international institution is conspicuously absent in the region. The region has three nuclear powers - Russia, China and North Korea - and there is no credible or stable mutual deterrence mechanism to speak of among them.

East Asian regionalism can develop only in an environment of greater strategic complexity. Europe's initial impetus to integrate stemmed from the

2. Hadi Soesastro, "Architectural momentum in Asia and the Pacific", *East Asia Forum Quarterly*, Canberra, vol. 1, No. 2, July-September 2009, p. 4

need to bury the past in order to face the Soviet threat. In East Asia, there is no such stark strategic imperative. Nor is there, unlike in the US, a single dominant power asserting an irresistible gravitational pull. In fact, China's rise is being feared than seen as a benign power with a possible stabilising role. East Asian regionalism is likely to assume a multi-polar dimension. Apart from China's rise, India's emergence as another significant power is a new dimension to East Asian regionalism. Though China is likely to emerge as the second largest economy in the world, driving Japan to the third place, by 2010, as is being projected, Japan will still continue to remain as a crucial player in this 21st century and will continue to maintain its status of an economic heavyweight.

There are in existence some basic challenges that work against the construction of regional security architecture in East Asia. Developing credible and long-standing international institutions is a tall order in any area, but institution formation in the security area is, without doubt, the most challenging. Building East Asian security architecture faces several hurdles as the prevailing circumstances are not congenial to such institution formation.

Firstly, Japan was the dominant economic power in the region just a decade ago but now China is threatening to dethrone Japan's status as the world's second largest economy. With the Lost Decade behind, Japan presents the look of an ailing old man. With the location of regional capital shifting from Tokyo to Beijing, building credible institution becomes difficult as there will be a significant shift in the distribution of power. New forms of anxieties stemming as a result would make institution formation more difficult.

Secondly, relationships among India-China and China-Japan are historically uneasy. Beijing, New Delhi and Tokyo understand the benefits of cooperating with each other but the adjustments as they grow and redefine their places in the region will not be comfortable for any of them. True, market forces are stitching the region together but the matrix of their interests gets more complex as shifting patterns of competition and cooperation take the centre stage.

Thirdly, Sino-Japanese tensions over the interpretation of the history of World War II are real and worrying, since they engage domestic politics and will to arouse nationalism on both the sides. Popular right wing movements in Japan are challenging national history textbooks as distorting the past, while public protests on the history issue in China are now addressed not

only to Japan but to their own government. In the East Asian relations, when history issue intermingles with the domestic public opinion, this leads to the merger with other areas of contestation, such as territorial issues. Tackling this historical interpretation and public outburst that take place with disturbing regularity is a huge challenge.³ There has never been a period in East Asian history when China and Japan were simultaneously strong powers. Their search for a new *modus vivendi* will be fraught with anxieties. As two major economically interdependent countries, setting aside their acrimonious relationships is a challenge for both.

Fourthly, India and China fought a short bloody war in 1962, resulting in India's defeat. Though economic ties between the two are growing exponentially, in the politically front, territorial disputes continue to lurk and threaten to negate the economic gains so far achieved. In view of the Chinese policy of extending its strategic reach far across the Asia-Pacific region, some sort of competition between the two seems real as both scramble to acquire resources to pursue their wider strategic interests. Accommodating their perceived conflicting interests in the Asian contest is a foreign policy challenge for both.

Fifthly, Japan's relations with India are less problematic than Sino-Japanese relations or Sino-Indian relations. If China perceives the growing bonhomie between India and Japan as a counterbalancing strategy to its growing power, the foundation to build a stable relationship will remain weak. As all the three Asian countries India, Japan and China grow and assume new roles, all three will loom larger on each other's radar screens. The process of a loosely multi-polar East Asian integration will be incapable to erase differences of national interests. How to ensure that competition does not lead to conflict is an arduous task. The success of ASEAN, for example, can be seen as a success model to be planted in the larger East Asia. The deep political, ethnic, cultural and religious diversity that exists in Southeast Asia have not prevented the ASEAN to flourish. Can that be possible?

Sixthly, the tensions of the Cold War period may have waned but the political structures in the countries of Asia remain complex. The region exhibits a

3. Kiichi Fujiwara, "Northeast Asia and the chance of a new security architecture", May 1, 2009, <http://www.eastasiaforum.org/2009/05/01/northeast-asia-and-the-chance-pf-a-new-securi...>

variety of regime types, including de facto one-party rules both in Communist states (China, North Korea, Vietnam, Laos) and in capitalist states (Myanmar, Singapore, Mongolia, Brunei), and regimes with formal democratic political procedures. Compelling market forces are unlikely to remove political differences and this may elude the construction of a broad framework.

In view of the above, expecting a regional institutional architecture that crosscuts political diversity and heterogeneity in political regimes does not appear to be credible in the short term. This does not mean to suggest that efforts to make an institutional mechanism evolve be abandoned.

Community Building Shifting Dynamics

Notwithstanding the impediments mentioned above, there has been a greater readiness now than ever before for community building in the Asia Pacific region. Some of the stumbling attempts made in the 1960s to construct some sort of formal regional community proved premature. The APEC-centred trade liberalisation schemes paved the way for regional community building when the gravity shifted towards East Asia. The Asian Financial Crisis (AFC) of 1997-98 prompted a new wave of efforts aimed at more tightly connecting the countries in the region. The AFC seriously undermined East Asia's confidence in IMF and APEC-based regionalism. The AFC provoked a short-term retreat from trade liberalisation but led to the creation of far-reaching consequences for reorganising regional political economy. Yet, it failed to produce an institutional response to regional economic problems.⁴ The new wave of regionalism in East Asia has served as a catalyst to jump-start and re-orient the direction and format of East Asian regionalism.

Since then a numerous community building initiatives, such as ASEAN+3+3, the Chiang Mai Initiative, and the EAS, has been implemented. Moreover, the region has also seen a flurry of FTAs and Economic Partnership Agreements (EPA). Consequently, the leaders in the region have become more determined to build a framework for greater

4. Vinod K. Aggarwal and Charles E. Morrison, (eds.), *Asia-Pacific Crossroads: Regime Creation and the Future of APEC*, St. Martin's, New York, 1998.

cooperation and integration.⁵

What would then be the nature of future regional architecture? How would the different region-building projects be accommodated? How the different dynamics in the community building process will be balanced within a diverse Asia? What will be the shape and look of the future Asia Pacific regional architecture? An attempt will be made below to examine some of these questions and try to find answers.

As mentioned, some forums in existence are still at an embryonic stage, while some are reasonably successful. Yet, it is unlikely that any of these will eventually grow to be strong candidates for regional institutions and even the leading institution in the region. What are the driving forces of community building?

There are two driving forces in Asia Pacific for regionalism to blossom.⁶ The first is market forces and non-state actors. East Asia has witnessed economic dynamism, which is unparalleled elsewhere in the world, and enjoys one of the highest growth rates in the world. This dynamism is a major driver for regional integration.⁷ The numerous political impediments could not prevent the market forces to make possible to the creation of a complex transnational web of linkages across political boundaries among regional states. Indeed, the rising intra-regional trade, investment, production networks, banking and financial links, technology transfer, communication, cultural and personnel exchanges have all helped to increase regional cohesiveness, connectedness, and interdependence in East Asia.⁸

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5. See the East Asia Vision Group report, *Toward an East Asian Community: Region of Peace, Prosperity and Progress*, p.2. The EAVG was commissioned by the ASEAN+3 leaders in 2000 on a proposal by South Korean President Kim Dae-jung to produce a blueprint for future East Asia community building. The EAVG report, *Toward an East Asian Community: Region of Peace, Prosperity and Progress*, was submitted and endorsed by the ASEAN+3 summit in Brunei on October 31, 2001. The full text of the report is available online at the ASEAN Secretariat's website, http://aseansec.org/pdf/east_asia_vision.pdf.
 6. T.J. Pempel, (ed.), *Remapping East Asia: The Construction of a Region*, Cornell University Press, Ithaca and London, 2005, pp.12-24.
 7. See, for example, Edith Twerry, *How Asia Got Rich: Japan, China and the Asian Miracle*, M.E. Sharpe, Armonk, N.Y., 2002.
 8. For a deeper perspective on transnational regional economic linkages, see Edward J. Lincoln, *East Asian Economic Regionalism*, N.Y. Council on Foreign Relations, New York and Brookings Institution Press, Washington, D.C., 2004; Katsuhiro Sasuga, *Microregionalism and Governance in East Asia*, Routledge London and New York, 2004; "Asian Development Bank, Toward a New Pacific Regionalism", an ADB-Commonwealth Secretariat Joint Report, Asian Development Bank, Manila, 2005.

The second driving force is the role of multinational corporations, NGOs, private citizens engaged in Track-II dialogues, cross-border media, individual workers, students, rock bands, sports, cultural troupes, etc. who are real key spinners of East Asia's web of cooperation and occasional conflict.⁹ The region is highly diverse and governments remain suspicious of each other and therefore serious community building efforts are needed to strengthen and deepen the region-wide networks of cooperation.¹⁰

The state-sponsored community-building in the region in the form of bilateral trade agreements, which grew from 12 in 1995 to 64 in 2005, APEC, ASEAN, ASEAN+6, ASEM (25+), and Shanghai Cooperation Organisation (SCO) are working to be the precursor for the evolution of a larger institutional architecture in the region. These organisations have created a multi-layered web of political and economic ties across the region. And yet, the larger institutional architecture that most of the countries would like to have to address the region's issues in a comprehensive manner remains undefined. This complex structure of multilateral cooperation bodies is what Paul Evans calls a “noodle bowl” effect. In his words, this “noodle bowl of Asian regionalism ASEAN, ASEAN PMC, ARF, SAARC, SCO, APEC, PECC, CSCAP is not quite as thick or rich as its spaghetti-bowl counterparts in Europe. But in a post-Cold War setting, the noodle bowl is filling quickly.”¹¹

The dynamics of community building in East Asia is not the same as in European Union (EU). While the EU is highly an institutionalized community, what the East Asian countries are looking for is a neighbourly type of regional cooperation using the ASEAN way as modality and operational code. The ASEAN countries have been successfully engaging with each other at a level of comfort, leading to a unique trajectory of intra-regional diplomacy between ASEAN, China, Japan, and other East Asian states. Unlike the EU, in East Asia the small states (ASEAN and South Korea) have motivated and empowered China and Japan to participate in an

9. Pempel, n. 6, p. 12.

10. Richard Weixing Hu, *Building Asia Pacific Regional Architecture: The Challenge of Hybrid Regionalism*, The Center for Northeast Asian Policy Studies, The Brookings Institution, Washington D.C., July 2009, p.5.

11. Paul Evan, “Between regionalism and regionalisation: policy networks and the nascent East Asian institutional identity”, in Pempel, *Remapping East Asia*, n. 6, p. 14.

ASEAN-led institution building.¹²

Compared to the European and North American standard, the emerging East Asian Community (EAC) is still loose but the dynamism behind community building is quite spirited and energetic. But the ASEAN way of diplomacy works and this includes informality, consultation, consensus building, and an incremental approach to conflict resolution.¹³ The number of meetings that are held between the ASEAN heads of states and government, ministers, and senior officials numbering between 300 and 350 annually to consider political, economic and social issues is a demonstration of their deep commitment to foster regional unity.¹⁴ Peter Katzenstein and Takashi Shiraishi call the initiatives for community building in the Asia Pacific and evolution of a regional architecture as “hybrid regionalism”.¹⁵

Taking Katzenstein and Shiraishi's concept further, Weixing identifies hybrid regionalism in the Asia Pacific into three categories: regionalism, trans-regionalism, and inter-regionalism.¹⁶ According to him, regionalism is a geographically-focused multilateralism in a commonly accepted “political region”. For him, ASEAN and ASEAN+3 are good examples of the East Asian regionalism.

Inter-regionalism, on the other hand, refers to the institutionalised relations between different regions in the world. The Asia-Europe Meeting (ASEM) is a good example of inter-regionalism. Founded in 1996, ASEM has been the main multilateral channel for communication between Asia and Europe.¹⁷ Transnationalism, different from the above two categories, describes the relationships among a broader set of actors in a region. According to Vinod

12. Weixing Hu, n. 10, p. 7.

13. See Hussin Mutalib, “At Thirty, ASEAN Looks to Challenge in the New Millennium”, *Contemporary Southeast Asia*, vol. 19, no.1, 1997, p. 79.

14. Kusuma Snitwongse, “Thirty Years of ASEAN: Achievements Through Political Cooperation”, *Pacific Review*, vol. 11, no. 2, 1998, p. 184.

15. Peter Katzenstein and Takashi Shiraishi, (eds.), *Beyond Japan: The Dynamics of East Asian Regionalism*, Cornell University Press, Cornell, N.Y., 2006, p. 2

16. Weixing, n. 10, p. 10.

17. Vinod Aggarwal, “Analysing Institutional Transformation in the Asia Pacific”, in Vinod K. Aggarwal and Charles E. Morrison, (eds.), *Asia-Pacific Cross-Roads: Regime Creation and the Future of APEC*, St. Martin's Press, New York, 1998; Also see, Jurgen Ruland, Heiner Hanggi, Ralf Roloff, (eds.), *Interegionalism and International Relations: A Stepping Stone to Global Governance?* Routledge, New York and London, 2008.

Aggarwal, trans-regionalism is the link across a region and APEC is an example of this.¹⁸ APEC is built on a loosely defined geographical concept and a good example of a trans-regional institutional architecture across several sub-regions in the Pacific. Trans-regional institutional architecture is a product of the merger between different regional institutions in all sub-regions of the Asia Pacific region. Therefore, if two or more regions are linked, this will bring greater balance to the work of the future regional architecture.¹⁹

The membership issue is a thorny one in community building on which there is no unanimity in the region. The way a 'region' is defined is related with the membership issue to the community. The political intervention also has a role in determining the membership issue. When the EAS summit was held in December 2005, there was a lot of political manoeuvring.²⁰ While the EAS was expanded to include India, Australia and New Zealand, thereby making it ASEAN+3+3, the US was excluded. This has constrained the EAS from defining its objectives clearly as it is perceived that the EAS is only a new layer in the regional dialogue structure. Though the ASEAN+3 process started in 1997, differences between some of the members Japan and China for example in their visions of East Asian regional community building has prevented tangible progress other than inaugurating and confirming a new pan-Asian dialogue platform within the ASEAN+3+3 framework.

How to Build a Larger Regional Architecture?

Though several organisations already exist in the region, none of those can address to all the issues concerning the countries in the Asia Pacific region. The Asia Pacific region finds itself at a crossroads for regional architecture building. It could be a historic opportunity now to reshape the region and build a regional architecture but it is a huge challenge as overlapping and

18. Vinod K. Aggarwal, "APEC and Trade Liberalization after Seattle: Transregionalism without a Cause?" in Maria Weber, (eds), *Reforming Economic Systems in Asia: A Comparative Analysis of China, Japan, South Korea, Malaysia and Thailand*, Elgar, Cheltenham, 2001.

19. Vinod K. Aggarwal and Min Gyo Koo, "Beyond Network Power? The Dynamic of Formal Economic Integration in Northeast Asia", *Pacific Review*, vol. 18, no. 2, May 2005.

20. According to the East Asian Study Group (EASG)'s recommendations to the ASEAN+3 leaders, holding an East Asian Summit was a long term objective. See "Final Report of the East Asia Study Group" to the ASEAN+3 Summit, November 4, 2002. "Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit", p. 50, the EASG report is available at <http://www.aseansc.org/viewpdf.asp?file=/pdf/easg.pdf>.

sometimes competing interests have to be accommodated.

Regional architecture is a concept that is not the same as community building. Regional architecture should be seen in the context of how a region can be projected in a longer term. Regional architecture could be designed to provide a more structural and holistic view of regional community building and the major powers' role in it.²¹ While policy practitioners utilise it to refer to a vague regional structure or a system of alliances, academics use it interchangeably with terms like regional system, infrastructure, framework, and structure. The issue of different geopolitical boundaries and regional functional cooperation inexorably impinges on the definition of the term “regional architecture”. Though most academics use the terms “East Asian regional architecture”, “Asian architecture” or “Asian Pacific architecture” as and when it suits them, little attempt has been made to distinguish one from another.

Professor Zhang Yunling, a leading Chinese scholar on Asian regionalism, argues that East Asian community building moves in a four-wheeled process. The first wheel is the ASEAN+3 process, which covers the entire area of East Asia. The second wheel is the ASEAN+1 process, that is, ASEAN's cooperation with China, Japan and Korea. The third wheel is the “plus 3”, i.e. cooperation between Japan, China and Korea. Finally, the fourth wheel is the cooperation within ASEAN itself.²² According to Zhang, in the initial stage of East Asian institution building, development of multiple mechanisms are precondition for the success of long term community building in the Asia Pacific region. Fortunately, the existing mechanisms are moderately successful.

Australian Initiative

In response to the emerging redistribution of power and the influence in the region after the Cold War, multiple forms of community building initiatives have sprung up but the search for an over-arching institutional structure to tackle challenges of regional and global import remains a far cry. Some initiatives towards that end have come from Australia and more recently from Japan.

21. Weixing, n. 10, p. 13.

22. Zhang Yunling, “East Asian Cooperation and its Implications”, *Journal of Current Asia-Pacific Affairs*, (2002), available at <http://iaps.cass.cn/english/articles/shocontent.asp?id=374>

After assumption to office in late 2007, then Australian Prime Minister Kevin Rudd put forward the concept of forming an Asia Pacific Community (APC) during a speech to the Asia Society Australasia Centre on June 4, 2008, just days before he left on a week-long visit to Japan and Indonesia. Titring his lecture “It's Time to Build an Asia Pacific Community”, Rudd proposed a regional architecture for the wider Asia Pacific region. He argued that there is a need for strong and effective regional institution to “underpin an open, peaceful, stable, prosperous and sustainable region”. He stressed the importance of regional institutions in addressing collective challenges that no country can address alone.

Rudd's vision for an APC embraces “a regional institution which spans the entire Asia Pacific region including the US, Japan, China, India, Indonesia and the other states of the region” and “a regional institution which is able to engage in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges related to security”. Rudd appointed foreign affairs secretary and one-time ambassador to Indonesia Richard Woolcott as Australia's envoy to visit the capitals of the wider region to discuss his proposal.

This is the beginning of a serious intellectual discussion of what the necessary elements of this might be for a region whose defining characteristic is pluralism pluralism of political systems of intuitions religions, and of course stages of economic development. Thirty years ago, the economists concerned about securing politically the growing economic integration within a pluralist East Asia and Pacific economy, struggled with the same issues from this perspective.

The new architecture can be built on two main pillars. The one pillar is that of a revitalised APEC with a strong ASEAN plus Three (APT) as its core East Asia. This forms the economic pillar of the regional architecture. The immediate question is how to involve India in this process. The other, political security, pillar is that of a transformed East Asia Summit (EAS) that is supported by the ASEAN Regional Forum (ARF) at the working level. The EAS is already proclaimed as a leaders-led forum to discuss strategic issues.

The central issue is whether it is possible to construct a concert including the new powers in Asia to engage with established power centred on the United States, as the structure of regional power undergoes dramatic change. This is important to the future of regional political stability in the intrinsically

unstable process of transition in the balance of regional political power.

During the APC Conference of December 2009 held in Sydney no one thought that the region needed a new Asia Pacific institution but there was overwhelming consensus of the need for institutional innovation or reconfiguration to achieve roughly what Rudd had in mind. The message received and confirmed is that 'no-one wants more meetings' and that 'there is no appetite for additional institutions'. But it transpired that there is strong and widespread support for developing more effective alignment of regional strategic purpose through one or a combination of institutions that already exist.

It was also felt that a forum needed to be there for regional leaders to address the full range of regional and global issues, issues of economic integration, trade and investment, including its financial and macro-economic dimensions, and most importantly issues of political change and security.²³ As India and Australia are looking ahead to forge a strategic partnership, a possible APC could provide a forum for both the countries to engage in constructive security dialogue.

Japanese Proposal

After assumption to office in September 2009, then Prime Minister Hatoyama Yukio of the Democratic Party of Japan (DPJ) visited China and South Korea and floated his idea of an East Asian Community (EAC) along the lines of the EU. This effectively sparked off a leadership race between Japan and China in shaping the future of one of the most quickly developing regions of the world.²⁴ Indeed, the movement towards realising such a community is primarily a game played between the two regional powers, China and Japan, not China and the US.²⁵ Hatoyama's EAC idea represented Japan's middle power diplomacy and Japan is unlikely to allow the EAC idea to be used by China to impose a China-led regional order.

23. Peter Drysdale, "What Prime Minister Rudd's Asia Pacific Community Conference delivered", Special editorial, East Asia Forum, December 6, 2009. www.eastasiaforum.org.

24. Ko Hirano, "China wary of Hatoyama's 'East Asian Community'", *The Japan Times*, October 3, 2009.

25. Aurelia George-Mulgan, "Hatoyama's East Asian Community and regional leadership rivalries", October 13, 2009, <http://www.eastasiaforum.org/2009/10/13/hatoyamas-east-asia-community/print/>

During the Trilateral Summit in Beijing between Hatoyama, Chinese President Hu Jintao and South Korean President Lee Myung Bak in early October 2009, the three leaders avoided the sensitive membership issue. But it transpired that unlike many of his predecessors, who primarily sought to strengthen Japan's alliance with the US, Hatoyama stressed forging a closer relationship with other Asian economies.

For obvious reasons, China was not enthusiastic and in fact the EAC idea put Beijing on alert. According to Chinese experts, it was China, not Japan, was among the first batch of countries to advocate and support the building of an EAC. Zhao Yongsheng, an expert in Japanese studies at China Foreign Affairs University says that Japan was not interested in the plan at first, but after the global financial crisis it realised that the impetus of its economy lies with China and some newly emerging countries in the region.²⁶ Other Chinese researchers saw in Hatoyama's initiative a move by Japan to establish a "Japan-led order in Asia" driven by a sense of rivalry with China.

On the membership issue, there remained conceptual gap between Japan and China. Beijing envisages a grouping of 13 countries,²⁷ while Japan wants EAC to involve India, Australia and New Zealand. Though Japan did not want the US in the EAC, Foreign Minister Okada Katsuya said that in view of the alliance with Washington, Japan can serve as a "connector" between the US and the envisaged 16-member community. Japan's interest to include India in the group is to see India as a counterbalance to China, which is expected to overtake Japan as the world's second-largest economy sometime in 2010. The truism, however, is that unless either of the two drop the idea of seeing the issue as a "zero-sum-game" and Asia's two economic giants cooperate, the leadership rivalry issue will only accentuates the division of perceptions.

As regards South Korea, its position is similar to Japan, but being sandwiched between China and the US, its options are severely curtailed. Like Rudd in Australia, Hatoyama seemed to be ahead of Japanese popular sentiment, and without a domestic consensus (*nemawashi*), he was unlikely to

26. "China open to unified East Asia proposal", *China Daily*, September 29, 2009, <http://english.people.com.cn/90001/90776/90883/6772134.html>

27. The 13 nations include Japan, China and South Korea, plus the ASEAN members of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

be in a position to close a deal.

Appraisal

Both the proposals from Japan and Australia seemed to be timely and the fourth EAS in Thailand in October 2009 will be remembered as the venue for seemingly competing ideas for reorganising regional cooperation in Asia. Does it mean that the course of Asian multilateralism has been altered?

The advent of such grand ideas of multilateral institution building in the Asia Pacific region puts the very concept of a wider architecture at a crossroad. It is argued that APEC has outlived its usefulness and purpose. The positives that flowed from APEC's 20 years of existence are that it provided a platform for 21 members, without coercion, to have a sense of common regional interests and priorities. It accommodated first Japan's rise and now the rise of China and fostered a habit of cooperation at the highest levels of government around some awkward times. It is also likely to welcome India when the 10-year moratorium on memberships ends in 2010. It also provided a greater measure of political confidence within the region. However, where it floundered is the absence of a hard alliance-guaranteed mutual security, though there is a measure of economic and political security beyond what one hoped when the idea of APEC was conceived in the 1970s and early 1980s. Will Rudd's APC idea provide some measure of strengthening political security for the region?²⁹ It is unclear at the moment, especially as Rudd is no longer in power. EAS has not set any clear and concrete goals. ASEAN is active but its capacity to lead wider regional institution remains limited.

The two proposals were spurred in part by regime change in Japan and Australia. Both Rudd and Hatoyama wanted to do something different from their predecessors. Both want to maintain some distance from the US to demonstrate to the domestic audience that their governments are different. Advancement of multilateralism in the region was chosen as one route to do this. Both left the political scene as quickly as they had entered, leaving behind some concepts whose future now seems uncertain.

28. Joel Rathus, "East Asian Community: Little Chance of a Breakthrough at the Trilateral Summit", October 11, 2009, <http://www.eastasiaforum.org/2009/10/11/east-asia-community-little-chance-of-a-breakth...>

29. Peter Drysdale and Shiro Armstrong, "Does APEC Matter?" November 8, 2009, <http://www.eastasiaforum.org/2009/11/08/does-apec-matter/print>.

Amitav Acharya of Washington-based University identifies four issues that will decide which of the two proposals survives and in what form.³⁰ Firstly, Rudd's APC idea means a rationalisation of the existing institutions rather than setting up a brand new one. Australia argues that there is no existing institution that covers the whole region, including India, and includes different issues such as economic, security, and environment. Though APEC, an Australian initiative, did discuss security issues such as East Timor and 9/11 attacks, there are many more regional security issues that are left out from the table.

Former PM Hatoyama's idea of EAC was more confusing than Rudd's APC idea. The Vision document of October 2001 had already mentioned about the EAC idea. Hatoyama's ideas seemed to contain some contradictions and elements of uncertainty. First, in his UN speech in September 2009, he envisaged a EU style grouping. Later in an article in *The New York Times*,³¹ he said that the era of US-led globalism is coming to an end. Then again in Thailand in October during the EAS summit meeting, he said Washington remained the “cornerstone” of Japanese policy. It may be difficult for Japan to undermine its alliance relationship with the US but how it makes adjustments in this while pursuing to secure Chinese support for the EAC idea would remain a challenge for Japan.

Secondly, China's role and attitude will be crucial to the success or failure of the two ideas. A possible rivalry between Japan and China cannot be discounted. As mentioned earlier, Chinese academics are not supportive of Hatoyama's idea and China is unlikely to allow Japan to take the centre stage in Asian regionalism at its own cost of prestige and power. New Zealand Prime Minister John Key said it could be a good time to rethink about the membership and the progress that has been made thus far.³² But New Zealand is not a decisive player at the moment and likely to remain so for quite some time.

30. Amitav Acharya, “Competing Communities: What the Australians and Japanese Ideas Mean for Asia's Regional Architecture”, *PacNet*#70, October 27, 2009.

31. Yukio Hatoyama, “A New Path for Japan”, August 27, 2009, http://www.nytimes.com/2009/08/27/opinion/27iht-edhatoyama.html?_r=1&pagewanted=..

Also see, Yukio Hatoyama, “In Hatoyama's 'Fraternity', People the End, not Means”, *The Japan Times*, September 9, 2009, <http://search.japantimes.co.jp/print/eo2009090a1.html>

32. Rajaram Panda, “Community Building in the Asia-Pacific: Ideas, Concepts and the United States”, November 6, 2009, http://www.idsa.in/idsacomment/CommunityBuildingintheAsia-Pacific_RPanda_061109?

Thirdly, though Obama administration might welcome multilateral institution building initiatives in the Asia Pacific region, Obama has not indicated which institutional route it would opt for. Though the US would like to be invited to participate, the Australian proposal includes the US, while the Japanese proposal does not, or at least ambivalent at the moment. At the moment, it is hard to imagine an EAC or APC to emerge without the US participation. In the event of either an EAC or APC taking shape without the US membership but flounders for some reason, it will be seen as a historic blunder on the part of the proponents of such multilateral institution building in the Asia Pacific region.

Fourthly, ASEAN's position in such grand ideas will be crucial too. ASEAN would not like to be sucked into a leadership race between Japan and China for a multilateral institution where its own identity will be subsumed by a larger organisation.

At the moment, both Japan's and Australia's diplomatic resources are scarce. Both concepts have merits in their own ways but it will be premature to expect either of them to emerge functional in the next ten years' time. China's rise and suspicions over its intentions across the region will impede institutional architecture building mechanism initiatives, be it from Japan or Australia. The US is seen as a declining power. China's ultimate aim may be to be the number one global power, putting the US to the second place. Based on the current pace of China's development, this projection could prove to be realistic in the next ten years or so. If China emerges ultimately as the number one power in the world, as is being projected, it will be a matter to rejoice for Asia if the rise is peaceful and benign. But given the mistrust and historical baggage that exist in the region, compounded by China's belligerence posture in handling relations with many countries, one is tempted to draw disturbing scenarios. In the interest of regional peace and stability, engaging China constructively would be the appropriate option for other Asian countries and India would be the pivot in that engagement strategy.

2

Grand Designs? The Promise and Pitfalls of Asia's New Regionalism

David Capie

Introduction

The developments in the world since 1960s have seen globalisation gaining momentum. Over the last five years there has been a renewed debate about the efficacy of Asia's regional institutions. While the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum (ARF) and Asia-Pacific Economic Cooperation (APEC) have long had their critics, what is new in the recent discourse is vigorous advocacy on behalf of alternative - more exclusive - forms of regional cooperation. Various proponents have offered their own ideas about the need for a new 'regional architecture', with specific initiatives ranging from a small concert of powers in Asia to ambitious plans to create an over-arching 'Asia Pacific Community.' This chapter evaluates some of these new proposals, and briefly notes their prospects for success and what they might mean for the institutional status quo. It concludes with some thoughts about New Zealand-Indian bilateral relations in the context of these changing patterns of multilateral cooperation in Asia.

What is Driving the Change?

'Architecture' has become the buzzword of the moment in Asia's international relations. It is impossible to pick up an academic journal or open a book on Asian affairs without confronting demands for the reconstruction or repair of the region's institutional architecture. While the term is rarely defined, it is typically used to refer to the various institutional arrangements, bilateral and multilateral, for generating cooperation between regional states.¹ Architecture has gained attention, in part, because for the first time since the early 1990s the most important institutions have been called into question. A growing number of critics have not only taken aim at what they see as underperforming and inefficient organisations but they

1. For a thoughtful account that does discuss the meanings of the term, see Brendan Taylor and William Tow, "What is Asian Security Architecture?" *Cambridge Review of International Studies*, vol. 36, 2010, pp. 96-116.

have also begun to propose alternatives. What is driving this period of reformist zeal?

There are at least four factors driving the interest in new forms of regional cooperation. The first and most important is a growing sense of frustration with the status quo. Asia's multilateral institutions have been criticized for not matching talk with action. There is a large and often polemical literature critiquing ASEAN's failure to live up to its commitments.² APEC has been widely criticized for straying too far from its original role as a forum to promote trade liberalisation. Over the last decade its annual summits have focused less on trade and economic issues and more on terrorism, the threat of pandemics, and climate change.³ Even strong advocates now admit the organisation is "at a low ebb or at least is lacking in the dynamism which has sometimes characterized the process."⁴ Similarly, the ARF has been criticized by some members (notably the United States, but increasingly others) for failing to live up to the ambitious claims made in its numerous chairman's statements. It has been painfully slow in making the transition from 'Confidence-building' to 'Preventive Diplomacy' as anticipated in the original ASEAN Concept Plan and has been largely irrelevant when it comes to resolving region's most difficult security challenges, such as North Korea's nuclear programme or trouble across the Taiwan Straits.

Apart from a perceived lack of progress, there is a more fundamental problem with existing forms of multinational regional security cooperation and that is the lack of belief across the region that institutions are important in solving the most important economic, political and security challenges. Elite surveys suggest that regional elites have much greater faith in either global institutions like the United Nations or the International Monetary Fund, or in national self-reliance, than they do in regional bodies.⁵ Put simply, the abundance of meetings in Asia has not been matched with

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2. For example, Michael L R Smith and David Martin Jones, "Making Process not Progress: ASEAN and the Evolving East Asian Regional Order" *International Security*, vol.32, no.1, 2007.
 3. John Ravenhill, 'Mission Creep or Mission Impossible: APEC and Security' in Amitav Acharya and Evelyn Goh (eds.), *Reassessing Security Cooperation in the Asia-Pacific: Competition, Congruence, and Transformation*, MIT Press, Cambridge, MA., 2006, Chapter 7.
 4. Gary Hawke, Report on APEC Cluster Group meeting, August 20, 2009
 5. Michael Green, Bates Gill, Kiyoto Tsuji and William Watts, *Strategic Views on Asian Regionalism*, CSIS, Washington, February 2009, available online at: <http://csis.org/publication/strategic-views-asian-regionalism> (Accessed August 26, 2009).

meaningful multilateral action. The region is, in the words of one observer, “over organised and under institutionalised.”⁶

A second factor driving interest in new structures for cooperation is the changing balance of power in the region. As Asian states have become more powerful, they are demanding a greater involvement in shaping the norms and institutions that make up the regional order. The Singaporean commentator Barry Desker has talked about an emerging 'Beijing Consensus' that is in tension with the post-war norms of the 'Washington Consensus'.⁷ But the rise of China is not the only factor changing the rules of the game. India's emergence as a regional and global power is also a key factor in calls for institutional reform. India is not included in the only Asia-Pacific economic forum APEC that brings together leaders to address key political and economic (and sometimes security) concerns. It should not be surprising that one aspect of growing wealth and power of Asian states is not simply a desire to be included in key fora whether APEC or the G-20 but to go beyond mere participation and to take on leading role in shaping those organisations, their agendas and their modalities.

Third, the election of new leaders in Washington, Canberra and Tokyo gave impetus to calls for change. Asia was a comparatively bright spot for the United States during the George W. Bush administration, but Bush was not an ardent supporter of regional multilateralism.⁸ ARF meetings were skipped and Washington showed ambivalent attitude towards the East Asian Summit (EAS) or signing ASEAN's Treaty of Amity and Cooperation (TAC). The election of President Barack Obama has seen the signing of the TAC in July 2009 and a renewed interest in engagement with ASEAN. This paves the way for the US to potentially join what have until now been exclusively East Asian institutions.⁹ Discussions in the year 2010 endorsed the expansion of EAS by including Russia and US as new members.

6. Michael Green, personal communication with Author in Singapore on March 18, 2009

7. Barry Desker, 'Why War in Asia Remains Unlikely', Speech to the IISS Jubilee Forum, Tokyo June 2-4, 2008; see also Joshua Cooper Ramo, *The Beijing Consensus*, Foreign Policy Centre, London, 2004.

8. For a good debate about the performance of the Bush administration in Asia, see T. J. Pempel, 'How Bush Bungled Asia: Militarism, Economic Indifference and Unilateralism have Weakened the United States across Asia', *The Pacific Review*, vol.21, No.5, 2008, pp. 547-581; Michael J. Green, 'The United States and Asia after Bush', *The Pacific Review*, vol.21, No.5, 2008, pp. 583-594

9. Something signalled in Secretary of State Hilary Clinton's remarks in Hawaii in January 2010.

Perhaps more importantly than changes in Washington have been changes in Asia itself. Most notably, the election of the DPJ government in Japan in September 2009 was a signal for momentous change that took place in that country, bearing implications in its foreign relations. It prompted widespread discussion about the need to establish closer relations between Japan and its Asian neighbours and to forge a less dependent relationship between Tokyo and Washington. The then Prime Minister Hatoyama's call for an 'East Asian Community' (EAC) and successive China-Japan-Korea summits gave proponents of Asian regionalism ideas to build on.¹⁰

Finally, the global financial crisis called into question the institutional status quo at the systemic or global level. The G20 has become the most important new forum for meetings between leaders and finance ministers. The systemic upheavals of the past two years were also a 'window of opportunity' for prospective norm entrepreneurs floating new initiatives to challenge the institutional status quo.¹¹

With a combination of global crisis, underperforming and overlapping regional institutions and increasingly assertive Asian states, it is little wonder that there were many voices calling for reforms and new initiatives in regional security cooperation. For the sake of brevity, these proposals for reform fall into two broad camps, those advocating small, exclusive arrangements like concerts of power, and those calling for a reorganised somewhat more inclusive Asia Pacific Community. The next section briefly discusses these two groups.

What Kind of Reform?

A common theme in almost all proposals for institutional reform is the assertion that the existing regional institutions have become too unwieldy. One commonly cited aspect of this is diversity of membership. APEC has 21 member economies, from China to Chile. The ARF has 27 member

10. For a discussion of what the DPJ election means for Japan's relations with the US and its neighbours, see Aurelia George-Mulgan, 'What the Hatoyama Government Means for the US-Japan Alliance', East Asia Forum, November 12, 2009. On the EAC and its relation to the APC, see Amitav Acharya, 'Competing Asian Communities: What The Australian And Japanese Ideas Mean For Asia's Regional Architecture' East Asia Forum, October 30, 2009

11. See David Capie, "When does Track Two Matter? Structure, Agency and Asian Regionalism", *Review of International Political Economy*, vol. 17, no.1, June 2009. See also the essays in Vinod K. Aggarwal and Min Gyo Koo (eds.) *Asia's New Institutional Architecture: Evolving Structures for Managing Trade, Financial and Security Relations*, Springer-Verlag, Berlin, 2008.

governments. With such large and diverse memberships these organisations have struggled to achieve consensus, held back by the objections of what Brian Job has called the politics of the “lowest common denominator”.¹² As a solution to this frustration, one group of reformers has proposed a shift towards a more exclusive institutional arrangement.

At its most exclusive, the solution is seen as a club of just two, an arrangement comprising simply the United States and China. The idea of a G2 sometimes summed up with Niall Ferguson's neologism *Chimerica* - was endorsed in Beijing in January 2009 by former US National Security Adviser Zbigniew Brzezinski.¹³ The G-2 idea had an obvious appeal at some levels. Most basically, it acknowledges the growing importance of China in political, security and economic terms. The US is the world's largest debtor, China its largest creditor. Their extraordinary interdependence means they are uniquely placed to lead proposals for change in the global institutional order.

But the G-2 idea has found little support where it needs it most - in Beijing and Washington. A G-2 would be hard to reconcile with Beijing's long-stated preference for multilateralism. It also suggests greater, global responsibilities that China may prefer to avoid for the time being. As Henry Liu notes, it runs counter to Deng Xiaoping's idea of “hide capacity, bide time” (*tao guang yang hui*), a strategy of “keeping a low profile to avoid attracting unnecessary hostility”.¹⁴ From a US-perspective it grants China equality with the United States, an idea that is anathema to some. The notion of the G-2 also raises questions about the role of American allies in the EU, not to mention Russia or India.¹⁵

Assuming a *formal* G-2 is unlikely to emerge, some advocates have called for a somewhat larger, but still small grouping, either implicitly or explicitly invoking the notion of a new concert of power in Asia. The Australian commentator Hugh White argued that a concert arrangement made up of China, India, Japan and the United States was the only alternative to a

12. Brian L. Job, 'The Substructures of Regional Security Architecture: Some Cautionary Notes', paper presented to the 23rd Asia Pacific Roundtable, Sheraton Imperial Hotel, Kuala Lumpur, June 4, 2009

13. 'China Wary of G2 with US Analysts', *Agence-France Presse*, April 8, 2009

14. Henry C K Liu, 'Obama, Change and China: Brzezinski's G-2 Strategy' *Asia Times*, April 22, 2009

15. Jonas Parello-Plesner, 'The G-2: no good for China and for world governance,' East Asia Forum, May 23, 2009

destabilising balance of power system that could lead to war in Asia.¹⁶ The Indonesian analyst Jusuf Wanandi has similarly called for the creation of a “G-8 for East Asia” that could “accommodate the three big powers—China, India and Japan—in a kind of concert of power that will be able to maintain a future equilibrium in the region, together with the United States.”¹⁷

There have also been calls to use the G-20 as the basis for a new Asian grouping that, while not strictly a great power concert, also seeks to restrict membership to a small group of leading states. Soogil Young, Chair of South Korea's KOPEC has called for the creation of an East Asian caucus within the G-20 that would include ROK, Indonesia, China, the rotating ASEAN representative in the G-20 (currently Thailand) along with Australia, India and Japan. This group could “provide leadership for all the emerging economies participating in the G-20 process” and “lead international efforts to fight the protectionist backlash from the global recession.”¹⁸ It would also provide a regional-global link that could help with the “strengthening of the world's economic governance structure.”¹⁹

Again, the idea of a concert has some intuitive appeal. It offers the efficiency of small group decision-making. Concerts are informal in nature and they recognise the realities of power. They also work on the basis that *relationships* between the key actors are crucial to building a sustainable peace. But the advantages of an Asian concert are overshadowed by an even greater set of obstacles than would face a G-2.

First, concerts only have a limited record of keeping the peace. As Kal Holsti notes, although the Concert of Europe was successful in averting war between major powers, it could not prevent conflicts between major and minor powers, or intervention by major powers in the affairs of smaller states.²⁰

16. Hugh White, “Why War in Asia Remains Thinkable” speech to the IISS conference in Tokyo, June 2-4, 2008 (reprinted in *Survival*)

17. Jusuf Wanandi, ‘The ASEAN Charter and remodelling regional architecture’, *The Jakarta Post*, November 3, 2008

18. Soogil Young, ‘The case for an East Asian Caucus on global governance’, East Asia Forum, April 12, 2009

19. Hadi Soesastro, ‘Architectural momentum in Asia and the Pacific’, East Asia Forum, June 14, 2009

20. Kalevi J. Holsti, *Peace and War: Armed Conflicts and International Order 1648-1989*, Cambridge University Press, Cambridge, 1991, pp.142-143

Second, any future concert for Asia runs into a problem faced by all the proposals for a new architecture, that of membership. As Susan Shirk concedes, concerts are not 'politically correct' because they assign membership based on raw material power.²¹ Based on their wealth, power or demographic heft is not hard to imagine the likely core of a concert: the US, China and India. But after that, the difficulties arise. Japan would have a strong claim based on the size of its economy and its considerable military capability. Russia has an enormous landmass, abundant energy supplies and nuclear weapons. It is also hard to imagine that formidable middle powers like the so-called "KIA" (Korea, Indonesia and Australia) would permit a concert to dictate their place in regional affairs.²²

More problematically, concerts require more than just a particular structural configuration of power to emerge. They require a strong degree of unit-level convergence and some sense of shared values. It is hard to make the case that any such shared ideology or vision for the region exists among the likely members of an Asian concert.²³ Rather, they continue to view each other in largely negative ways, complicated by questions about history, territorial disputes and competing ambitions.

Finally, a concert requires a notion of equality. As Benjamin Miller notes, "for a concert to emerge, the great powers have to be ready to accept the other powers as co-equal managers of international conflicts."²⁴ Hugh White has called for Asia's great powers to "build a dialogue of equals on strategic questions despite differences in values."²⁵ But to occur this would require a remarkable shift in the relations between China and Japan and to a lesser extent China and India. 'Equality' might require Japan to spend significantly more on defence and call into question its alliance with Washington.

21. See Susan Shirk, 'Asia-Pacific Security: Balance of Power or Concert of Power?', Paper prepared for Japan Institute for international Affairs-Asia Society Conference on "Prospects for Multilateral Cooperation in Northeast Asia: An International Dialogue, Tokyo, May 18-20, 1995

22. Jonas Parello-Plesner, 'KIA Asia's Middle Powers on the Rise?' East Asia Forum, August 10, 2009

23. See for example, Amitav Acharya, *Constructing a Security Community in Southeast Asia*, Routledge, London, 2001

24. Benjamin Miller, Explaining the Emergence of Great Power Concerts, *Review of International Studies*, Vol. 20 (4), October 1994, 341

25. Hugh White, 'Regional Architecture and the Reality of Power Politics', East Asia Forum, June 19, 2008

Ultimately, it might even force it to move down the path towards acquiring nuclear weapons. For the most part, these do not look like desirable outcomes for regional states. Little wonder then even an advocate like White is pessimistic about the prospects for a concert to emerge.

An Asia Pacific Community?

At the same time that calls for a concert of powers have begun to percolate, ideas for a consolidation on a slightly different basis have also attracted attention and debate. The highest profile initiative has been by former Australian Prime Minister Kevin Rudd's call for the creation of an 'Asia Pacific Community' (APC), which he made in a speech in Sydney in June 2008 and modified in his keynote address to the Shangri-La Dialogue in Singapore in late May 2009.²⁶

Rudd's proposal has been something of a moveable feast. His original vision was for a “regional institution which spans the entire Asia-Pacific region including the United States, Japan, China India, Indonesia and the other states of the region” and which is “able to engage in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges related to security.”²⁷ While the idea was vague from the outset, the implication seemed to be initially that a brand new institution was needed to facilitate deeper cooperation. .

The APC concept had a difficult birth. The Australian Government had done little to prepare regional governments for such a bold initiative, and both close friends and traditional rivals were taken aback. The lack of prior consultation led one leading Southeast Asian analyst to pronounce the initiative “dead in the water”.²⁸ But despite criticism of the clumsy way in which it was launched and the frosty reception that emerged in some parts of the region, the APC idea remains alive and an ongoing source of debate and discussion. It has acquired advocates outside Australia, including some key

26. Kevin Rudd, 'It's time to build an Asia Pacific Community', speech to the Asia Society, Sydney, June 4, 2008, available at <http://www.pm.gov.au/node/5763> (Accessed 28 August 2009); Kevin Rudd, 'Address at the Shangri-La Dialogue', speech to the 8th International Institute of Strategic Studies Asian Security Summit, May 29, 2009 available at: <http://www.pm.gov.au/node/5128> (Accessed 30 August 2009).

27. Rudd, n. 26

28. Patrick Walters, 'Kevin Rudd Asia Plan “Dead in the Water”', *The Australian*, July 4, 2008; see also Hugh White, n. 25.

figures in Indonesia and South Korea.²⁹ A Track 1.5 meeting in Sydney in December 2009 brought scholars, analysts and officials together to look for ideas about how best to move the concept forward.³⁰

Like proposals for a concert of powers however, there are a number of obstacles that stand in the way of the APC. One is that, as originally conceived at least, the Australian idea challenges ASEAN's traditional role in the driving seat of regional cooperation. Not surprisingly, many (but not all) ASEAN states do not welcome what they see as a threat to their central role in regional diplomacy. Rudd's Shangri-La and APEC speeches acknowledged as much, ruling out the creation of a wholly new institution and paying homage to ASEAN's achievements in institution building to date.³¹ Some tensions have been evident between ASEAN states envisaged as members of a more exclusive Asian grouping (for example, Indonesia), and others (notably Singapore) that would be left out. Comments from Singaporean officials and academics have grown increasingly hostile as the APC idea has moved forward.

A second challenge – one faced by every new call for institutional reform – is membership. Australian officials have not offered a clear indication of who they see as part of this new community. Indeed, they have been reluctant to identify potential members asserting they will become “naturally” evident as the process moves forward. Rudd's Singapore speech seemed to concede that ASEAN would have to play a role in any APC. The invitees to the Sydney Track 1.5 meeting included Mexicans, Chileans, Peruvians and Canadians, even though the Latin American representatives in particular felt sufficiently apprehensive about what an APC might look like, that they repeatedly asserted the importance of a Latin American role in the wider Asia-Pacific regional order.³²

Third, existing institutions are sticky or resistant to change. They are not likely to be easily transformed or have their membership, mandate or key functions altered in fundamental ways. Most ASEAN members look warily

29. See for example, Soesastro, n. 19.

30. Daniel Flitton, 'Movement on Rudd's Asia Plan', *The Age*, September 5, 2009

31. Graeme Dobell, 'Asia Community: Rudd Moves On', *The Interpreter*, Lowy Institute for International Policy, Sydney, May 31, 2009.

32. Author's notes, Track 1.5 meeting on the Asia Pacific Community, Sydney, December 4-5, 2009

on any new initiatives that might diminish the organisation's driver's seat role. Proposals that APEC might become a ministerial-level meeting on economics and trade and give up its Leaders' Meeting would deeply alarm states that are not members of arrangements like the EAS (for example, Russia, Mexico and Canada).

More broadly, the APC idea suffers from the misapprehension that getting the membership right will solve the problems with existing regional institutions. Some are too big, some are too small, but the APC will be 'just right'. This kind of thinking assumes that the shape of the region's institutions determines the regional security order, rather than the other way around. Unfortunately, the problems evident in regional cooperation go far beyond the cast of characters. They reflect deeply divergent value systems, political norms and ideas about sovereignty. It seems doubtful, that a smaller group of players meeting around the table will be able to overcome these profound differences.

Where to From Here?

What then is the likely outcome of all this discussion about architecture? It is argued that in the short to medium term any change is likely to be slow and evolutionary. Although there may be some changes in membership, we are likely to see existing institutions remain in place. ASEAN will retain an important role in the near term. There will continue to be duplication and tensions between trans-Pacific forms of cooperation like APEC and East Asian institutions like the EAS and 10+3. Within East Asia, differences will remain between China's preference for cooperation through 10+3 and Tokyo's interests in working in a Plus-Six framework. The ARF will remain the principal venue for security dialogue, but will not be able to solve the most pressing problems like the Korean peninsular, Kashmir or cross-Straits issues. Some commentators have predicted the emergence of a "hybrid" or networked regionalism, but muddling through is perhaps a more accurate expression.³³

Looking into the medium term, however, ASEAN's central role in regional security cooperation will face increasing challenges. The growing role of the

33. Richard Weixing Hu, *Building Asia Pacific Regional Architecture: The Challenge of Hybrid Regionalism*, Center for Northeast Asian Policy Studies, Brookings Institution Washington, DC (July 2009).

G-20 and talk of concerts of powers supports Gideon Rachman's claim that "international politics has turned against small countries."³⁴ Within ASEAN, there are likely to be growing tensions between larger states like Indonesia who make the cut when it comes to membership in the G-20 or an Asia-Pacific G-6 or G-10, and those that do not. The attention Jakarta gives to ASEAN may decline and unless managed carefully, these tensions could further undermine ASEAN's cohesion and effectiveness.

More broadly, as initiatives like the China-Korea-Japan Summit process develop, they will undermine the rationale that ASEAN is the only acceptable leader when it comes to regional security cooperation. It may be possible for a CJK summit to be expanded into an ad hoc concert, for example, by inviting the US to attend when Japan hosts APEC in 2010. But fundamental change is not likely to occur soon. And even if the 'drivers' of Asian regionalism were to be Northeast Asia's big powers, radical change in the normative basis of regional cooperation is unlikely. Many of the ideas that have come to be known as the 'ASEAN way' (non-intervention for example) are largely shared by the Northeast Asian states. 'Hard' forms of regional security cooperation will remain elusive unless there is a transformation of the underlying normative structures, particularly ideas around sovereignty. This will require leadership we have not seen so far from within the region and significant compromises on the part of the major powers, something that does not look likely in the foreseeable future. For these reasons, while important changes are taking place and the debates about a new regional architecture will go on, it is suspected that the implications for existing regional institutions may not be as great as some have suggested.

Implications for India and New Zealand?

Does this evolutionary scenario have any implications for New Zealand and India? As members of one important existing regional forum – the East Asia Summit (EAS) – and with their economies increasingly connected to East Asian markets, both New Zealand and India clearly have an interest in any changes that occur in the region's institutional architecture. As was noted above, India's growing global role and its determination to "Look East" is one of the factors driving some calls for change in regional architecture.

34. Gideon Rachman, "How small nations were cut adrift", *Financial Times*, 19 October 2009

India's absence from APEC means that there is not a single forum that brings together leaders to discuss the full range of political, economic and security issues – one of the points made repeatedly by advocates for the APC idea.

Clearly the vast power differential means that any proposed changes will affect the two countries in different ways. With more than a billion people, a rapidly growing economy and nuclear weapons, India is a central player in Asia's emerging security order. In contrast, New Zealand has no hard power, immense wealth or demographic arguments to help make the case for inclusion. Despite that, other regional states have found it in their interest to include New Zealand in their visions for a new East Asian order, for example as a member in the EAS. As a democratic, open, trading state with a history of involvement in East Asia and the Asia-Pacific region, New Zealand officials can plausibly claim that the country can be a constructive player in promoting security cooperation and economic liberalisation.

The central goal of New Zealand's policy on regional architecture is simple. It seeks to be inside whatever new structures emerge. Indeed, New Zealand is already discovering risks in the shifts that have occurred in reforming global institutions. For example, if the ASEAN Chair is regularly invited to attend the G-20 Summit (as has been proposed by some) that would mean that New Zealand would be the only one of the sixteen EAS members not to be represented directly or indirectly in the G-20. These concerns would only be amplified with a concert of powers or exclusive new forum. (This creates a tricky dilemma in the case of a potential APC – where New Zealand would presumably feel obliged to offer some support to Canberra, despite the fact that it would almost certainly not make the cut for any kind of more exclusive regional arrangement.)

As countries with significant shared history and values, New Zealand and India could be closer partners in sharing views about the emerging regional order and in working to shape the function and agenda of new institutions. To date, however, their modern bilateral relationship has not reflected the depth of historical ties and this has held back their cooperation on the broader regional stage. In stark contrast to China, India has only recently begun to get high-level political attention in Wellington. Two-way trade has been comparatively small (despite its size, India is New Zealand's 13th largest export market) and political and security ties have remained modest. Fortunately, there are signs that this is changing. Steps towards the launch of

negotiations for a free trade agreement are a positive indicator that India is finally prepared to countenance liberalisation in key sectors of its economy. A steady number of ministers and senior visitors from New Zealand have made their way to Delhi, particularly since the Key Government was elected in late 2008. Bilateral defence ties have progressed with the visit of the Chief of New Zealand Defence Force in November 2009.³⁵ South Asia's growing importance has also been reflected in the establishment of a dedicated unit within the New Zealand foreign ministry. As the bilateral relationship deepens, the prospects for working more closely together in regional institutions such as the EAS and the ARF, will also advance.

These common interests should not be overstated. Size alone means Delhi and Wellington will have different ambitions and a different approach to regional security issues. But in terms of reforming regional institutions, both might be pleased to see the EAS play a bigger role in future. Adding the United States and possibly Russia to the East Asia Summit (EAS) to create a 10+8, would build on existing structures and create a less unwieldy regional forum for security and economic dialogue. It would avoid the complications of expanding APEC (which has Chinese Taipei and Hong Kong as members) and would exclude the Latin Americans with, arguably, less of a direct stake in East Asia's security order. Whichever route is taken however, it seems unlikely that the new architecture will function in dramatically different ways to existing arrangements. Multilateral fora will still struggle to resolve the most troubling security challenges in the region and it will take compromise and bold leadership on the part of some major regional powers, if a genuinely inclusive free trade area across broader East Asia and the Pacific is to come into existence.

35. Hon. Pansy Wong, "Remarks to a Reception on the Occasion of India's Republic Day and the 60th Anniversary of the Indian Republic", Wellington, January 27, 2010

3

The Global Economy and Crisis

Richard Grant

This paper is based on a presentation that the author made in 2008 to an audience in Wellington. Some of the facts and figures contained in this paper are drawn from the same presentation on a topic not dissimilar to the current one.

This is what the world looked like at that point.

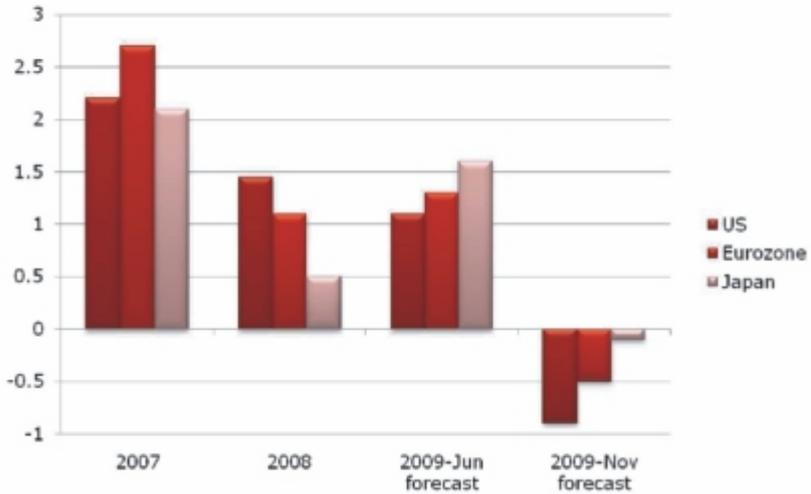
Table 1. World economic forecasts.

Source: ANZ Economic Outlook 15 October 2008

GDP growth (%)	2007	2008(f)	2009 (f)	2010(f)
Australia	4.2	2.3	1.8	1.9
New Zealand	3.2	0.7	0.5	2.5
United States	2.0	1.5	0.7	1.7
Euro zone	2.6	1.1	0.6	1.7
Japan	2.0	0.6	0.7	1.6
China	11.6	9.7	8.0	8.9
Other East Asia (Excl China & Japan)	5.9	5.1	4.8	5.6
India	9.0	8	7	7.7
World (PPP)	4.8	3.6	2.9	3.8

Table 2. OECD growth forecasts – annual % change in real GDP.

Source: *Financial Times*, November 2008



And this what some governments had spent on stimulus packages as given below in Table III.

Table 3. Financial rescue plans.

Source: *Financial Times*, October 2008

Economy	Amount
US	\$1,500bn
Germany	€515bn (\$645bn)
UK	£400bn (\$590bn)
France	€360bn (\$450bn)
Netherlands	€200bn (\$250bn)
Russia	\$210bn
Sweden	SKr1,500bn (\$190bn)
South Korea	\$130bn
Austria	€100bn (\$125bn)
Singapore	S\$150bn (\$100bn)

Asia in the Light of the Financial Crisis, Dr Richard Grant Source: www.asianz.org.nz

In addition at that time, Iceland had been declared bankrupt. The Saudi Arabian stock market had dropped 60 per cent (US\$180 billion) since the beginning of 2008 and the global hedge fund had lost US \$100 billion in October alone. Sales of bicycles in India in October 2008 were 20 per cent lower than in October 2007, and if you wanted to charter a bulk carrier, the daily rate had dropped from US \$ 230, 000 per day to US \$ 9000 per day.

New Zealand entered recession in the second quarter of 2008 and emerged from recession officially at the end of the June quarter 2009. Together with Australia and largely because the banking system in New Zealand is dominated by the big Australian banks - New Zealand did not experience the sort of bank blow-outs which occurred in the US and Western Europe.

So, where are we now?

The global economic cost



- This is a systemic failure...unprecedented global wealth destruction:
 - US\$30 trillion in equity markets by March '09...only partial recovery
 - US\$11 trillion in housing markets so far...possibly stabilising
 - US\$ 8 trillion in lost output so far...tentative recovery
 - US\$ 3.5 trillion in credit market losses so far...long rebuild for banks
- Bold, unprecedented actions taken to restore credit markets
 - ...and US\$5.5 trillion stimulus so far from the US, Europe and Asia
- Maybe...just maybe...some very fragile stability is beginning to appear
 - But plenty of very big risks on the downside

Source: Rod Oram

In the case of New Zealand, it is not too badly off. There are various reasons for this. Some of them include the fact that the Australasian banking industry had been well managed and well-led through the crisis.

Another reason is that, like a number of developing countries in Asia, New Zealand's economy was not heavily dependent on exports - about 30 per cent of GDP is exported - so the collapse in demand which characterised the US

and European markets did not have the flow-on effect in New Zealand. Thirdly, the price of food remained relatively high through the period so that New Zealand's exports of commodities remained positive for the economy.

Nonetheless, the government had to take measures to stimulate the economy, both by engaging in infrastructure programmes, and applying credit guarantees to the banking industry. The Reserve Bank of New Zealand, the central bank, also cut interest rates drastically in a rapid series of steps to provide a monetary response. In this regard, the New Zealand central bank did no differently from a lot of central banks, as the following graphic shows.

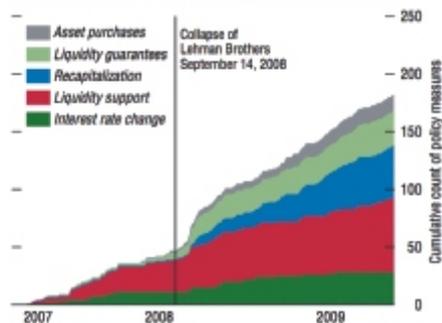
Another important plank of New Zealand government policy was to resist trade protectionism, and to encourage others to do the same. New Zealand was successful but other countries were less inclined to join it. Increasing trade protectionism in a time of economic crisis is a very risky weapon. It may appear to provide some short-term relief, but it can have deleterious long-term consequences, and, of course, it is an incentive for others to follow, until the chances of protectionism leading to further economic collapse as in the 1930s is heightened.

Central banks to the rescue

- Over the past year, central bank and government support and stimulus has equaled 30% of global GDP
- "To paraphrase a great wartime leader, never in the field of financial endeavour has so much money been owed by so few to so many.
- "And, one might add, so far with little real reform."
- Bank of England Governor Mervyn King, Oct 20, 2009

Figure 3.1. Time Pattern of Crisis Measures in Sample Countries

(June 1, 2007–June 30, 2009; only front-page policy events)



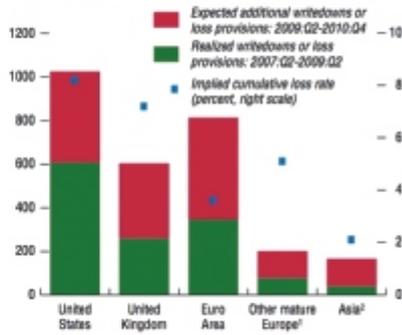
Sources: National sources; and IMF staff estimates.

Note: Euro area sample countries, Japan, Sweden, Switzerland, United Kingdom, and United States. This figure adds up the total number of policy measures introduced over time; it disregards the scale of each intervention, in both relative and absolute terms.

...and commercial banks are paying the price

- So far, they have written off barely half their troubled assets

Figure 1.9. Realized and Expected Writedowns or Loss Provisions for Banks by Region
(In billions of U.S. dollars unless otherwise shown)

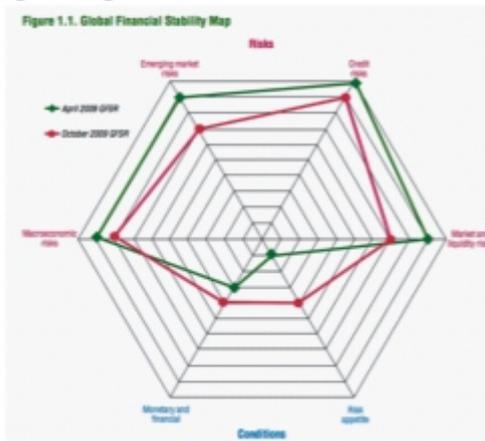


Source: IMF staff estimates.
¹Includes Denmark, Iceland, Norway, Sweden, and Switzerland.
²Includes Australia, Hong Kong SAR, Japan, New Zealand, and Singapore.

So, the world is now at a stage where the risks of meltdown appear to have reduced. Although there are signs of health returning to the global system, it is not evenly spread.

Global financial stability returning

- IMF's Global Financial Stability Report, October 2009
- Risks easing from high levels



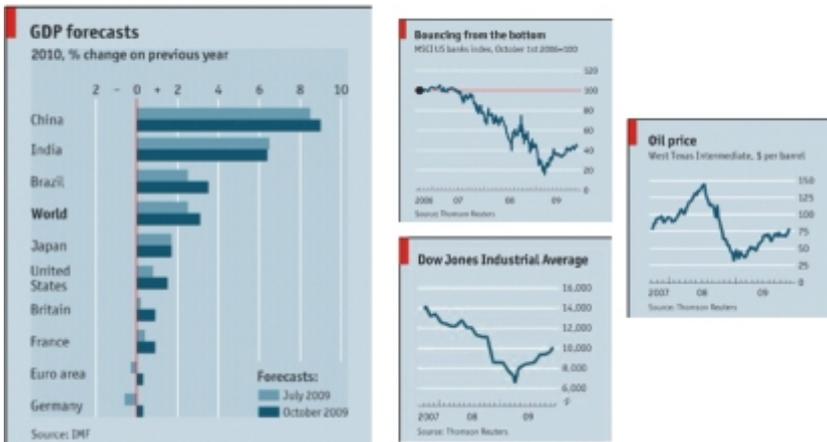
Source: IMF 1

The next graph gives some indication of that growth. The interesting thing for countries like New Zealand is that growth in the emerging/developing markets, particularly those in Asia including India, has been stronger and quicker than in the developed markets.

This is consistent with analysis in New Zealand at the height of the crisis that growth, or at least rebound, in the emerging economies of Asia would do just that. It is encouraging that it has done so. Ten of New Zealand's top markets are in Asia, and its range of free trade agreements with Asian countries is extensive. They include Singapore, Brunei, Thailand, Malaysia, Hong Kong, China, and ASEAN. New Zealand is also in negotiations with India and Korea.

And following the statement by President Obama at APEC, the prospect of a trans-Pacific agreement is on the cards, with the first discussions about how to develop this concept taking place in Melbourne in March 2010.

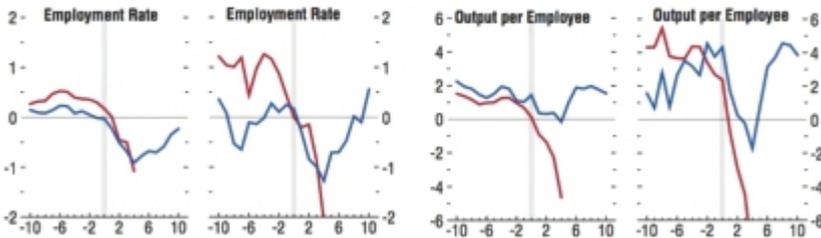
Growth...of sorts



Source: IMF

Winners & losers

- Emerging economies suffered less
- ...recovering, adapting faster
- Developed economies hit hard
- ...recovering, adapting slowly
- Goodbye, G8...hello, G 20
- Profound shift of power



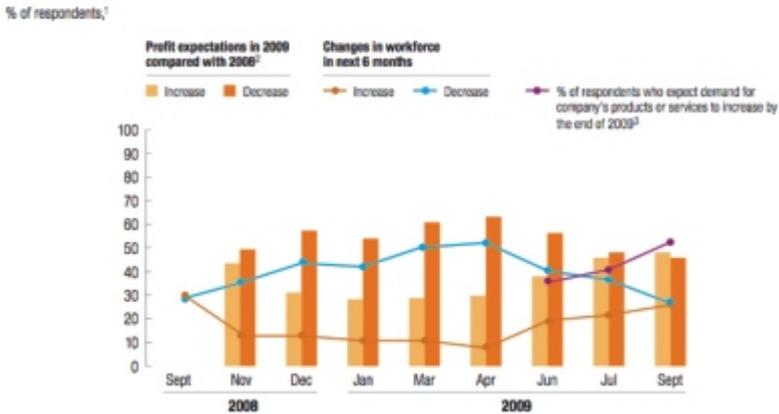
Source: IMF

A slight digression for a moment is in order to look at some data from McKinsey, the global management company, which has been doing research with senior business executives around the globe on their perceptions of what the business climate looks like now. Their September results showed that:

- “The new normal is less comfortable business conditions going forward”
- “January was the darkest time from June confidence began to pick up”
- 19 per cent of correspondents globally say the upturn has begun, but 29 per cent in Asia have their reservations.
- The majority of those surveyed say that governments will need to continue supporting their economies in the near term.

Company health

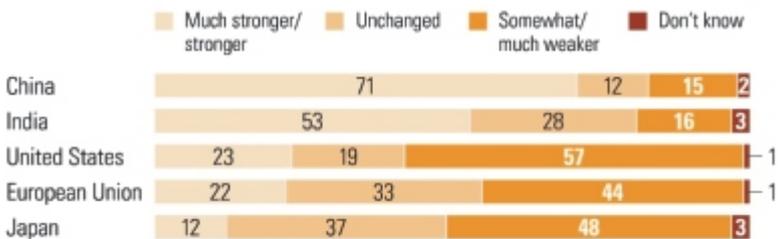
- 1/3 of respondents say their companies are in crisis
- 45% of manufactures say they are still in crisis; 28% in financial sector
- 3/4 of respondents expect their companies to be stronger in five years time than they were before the crisis



Source: IMF

Finally, from those surveyed, here is their answer about relative winners and losers of the crisis

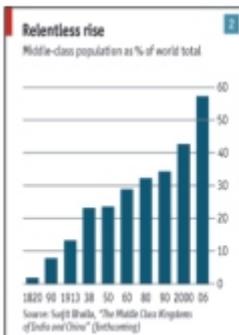
For each country/region, what do you expect its condition to be (in terms of influence in the world economy) as it emerges from economic crisis?



Source: McKinsey

New middle class

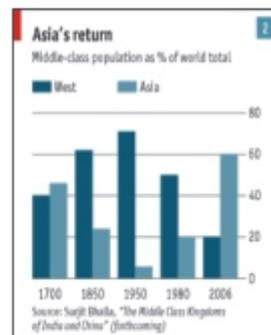
- **Old definition:**
 - Per capita income of eg US\$4,000 per year
 - Or between 75% and 125% of median income
- **New definition:**
 - People for whom 1/3 or more of their spending is discretionary
 - Earning between US\$2 and US\$13 a day
 - New study by Martin Ravallion, World Bank
- **Global:**
 - 1990 - 1.4bn people ... 2005 - 2.6bn people



Half the world
Population living on \$2-13* a day, in

	1990	2005
East Asia and Pacific	315.5	1,117.2
of which China	173.7	806.0
Eastern Europe and Central Asia	355.3	347.8
Latin America and Caribbean	276.7	362.1
Middle East and North Africa	170.2	240.1
South Asia	182.7	380.2
of which India	146.8	283.7
Sub-Saharan Africa	117.7	187.1
Total	1,428.1	2,644.3

Source: Martin Ravallion
*2005 prices at purchasing power parity



The other issue that needs to be addressed concerns the way in which global institutions are being shaped to respond to the crisis. Here, there has been a marked change from previous crises. The G-8 is now regarded as virtually moribund, and the G-20, of which India is a member, is the new central intergovernmental institution for addressing the financial health of the global system. This can be seen both by the frequency of its meetings and by the nature of its membership.

What are the risks ahead?

First of all, the global economy is still coming out of recession, and there is an uneven picture of recovery across the globe.

Governments have injected vast sums of money into the economy to prevent meltdown. Therefore, at some stage the possibility of increasing inflation will need managing. Only one central bank, the Reserve Bank of Australia, has increased its headline interest rates since the economy went

into recession. Central banks across the globe will be watching indicators very closely.

Second, trade patterns across the globe are still to recover from the downturn. There are signs in the US that consumption may be resuming, but it is not sensible to think that in the medium term it will regain the momentum it had before the crisis.

Third, if the US and Western Europe cannot alone lead the world out of the recession, other countries will have to contribute through an increase in domestic demand. China has certainly done so so much that there are risks of asset bubbles in its economy. Credit for personal consumption has been significantly eased. But one needs to remember that personal consumption in China is only one eighth that in the US.

Credit conditions for businesses, both large and at the SME level, are resuming. In New Zealand, there is evidence that consumers too are reverting to earlier patterns of personal debt in the housing market, for instance which is worrying the central bank. (New Zealand's external debt is very high at about 100 per cent of GDP).

Global trade negotiations are still stalled, despite various calls for movement in the Doha negotiations. This seems unlikely given protectionist sentiments in a number of major economies which play a leading role in the negotiations.

Emerging Asia remains ahead of the rest in coming out of the recession. This is a positive sign for New Zealand in that its trade patterns are more focussed than they used to be on the Asian region. Growth in total trade with China in 2009, for instance, is 60 per cent over 2008.

In emerging Asia itself, one sees that growth has resumed well. India's latest figures (for quarter ending in September), for instance, at 7.9 per cent are above predictions.

But there are cautions in Asia as well. Stimulating the economies has increased the risk of inflation, and raised questions about fiscal sustainability. Domestic demand will need to be sustained to compensate for export drops. The provision of safety welfare policies will allow domestic consumption to grow. Corporate governance reforms need to be continued.

The overall conclusion of the last 20 months in the global economic crisis is

that Asia was not decoupled from the US and Western European economies when the crisis began. That is to say, those who thought that Asia would not be affected were wrong. Equally, in the recovery phase, Asia is not decoupled from developments in the US and Western Europe because of the downturn in external markets, the global reorganisation of financial safeguards and the institutions that govern these. But Asia has come through the crisis better than the US and Western Europe, and that is a hopeful message, particularly for those, like New Zealand, who are becoming more involved with Asian economies.

Global Financial Meltdown: Challenges and Opportunities for India

Indra Nath Mukherji

Introduction

The paper briefly examines the genesis of the global financial crisis (GFC). The impact of GFC on India is examined in the second section. The third section examines the application of stimulus measures to meet the challenge. The fourth section examines the impact of stimulation measures on the Indian economy. The fifth section examines a number of emerging opportunities for India in select sectors arising from the GFC. The final section examines the outlook for the Indian economy in the aftermath of the GFC.

Genesis of the Global Financial Crisis

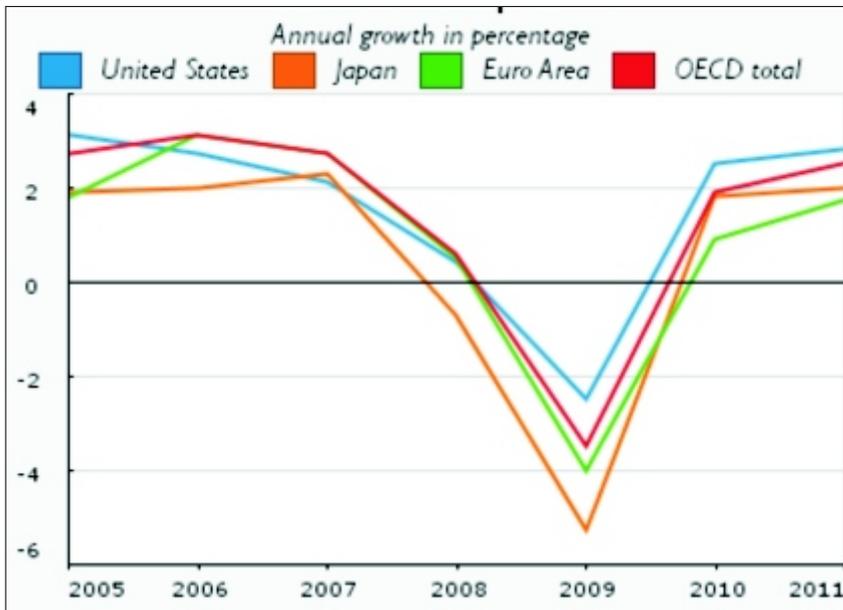
The collapse of the financial markets and the global recession had their roots in the 2003-07 boom when global growth averaged about five per cent and both equity and commodity markets surged. The decline in risk-free interest rates precipitated a search for higher yielding risky assets. Rising asset prices and opaque derivative instruments masked the risks confronting banks' capital assets. Given cheap money and excess liquidity, US investors were seeking higher returns, much of which flowed into booming house market. Mortgage lenders and other participants in the "shadow banking system" such as the overleveraged investment banks, hedge funds, credit default institutions, (encouraged by financial innovators and credit rating agencies), felt that they could never lose money because the value of their collateral would continue to rise, compensating possible lending mistakes.

As the financial sector far outstretched the real economy, and the sub-prime borrowers started defaulting, the boom went bust. According to OECD, Global Economic Prospects (2009), global trade in goods and services plummeted, and is projected to decline by 11 per cent, while the GDP of US and the Euro area was projected to decline around four per cent in 2009. While some leveling was expected in 2010, it would not be around 2011 that growth and employment will pick up in the advanced economies.

Figure 1 presents global downturn and recovery in major OECD countries. Economic growth resumed across OECD countries in the third quarter of 2009. It is set to gather pace gradually over the next two years as financial conditions improve and stimulus measures are only withdrawn gradually.

In the US, stimulus policies and improving financial conditions will support growth, although it will be weaker than in previous recoveries. The sharp contraction in euro area activity appears to have ended sooner than anticipated but the recovery here too will be gradual. In Japan, annual growth is projected to pick up to around two per cent in 2011.

Figure 1: Global Downturn and Recovery



Source: OECD, *World Economic Outlook*, September 2009

OECD Economic Outlook 2010 (2009) states that the economic recovery spreading across OECD countries is still too timid to halt the continuing rise

in unemployment. The jobless rate is expected to peak in the first half of 2010 in the US, but it will be not until 2011 that unemployment begins to fall in the Euro area. The report says the recovery is tepid because economic activity is being held back by households and businesses repairing their finances and reducing their debts. With a subdued recovery and substantial spare capacity, inflation is projected to fall well into 2010.¹

Impact of GFC on India

Emerging market economies like India whose banking institutions are relatively less integrated with the international financial system, and had much cleaner balance sheets on their accounts, were not significantly affected initially by the onset of GFC that originated in August 2007. But as the crisis intensified, (with the collapse of the Lehman Brothers in September 2008), its adverse impact spread to emerging economies through their current and capital account routes (particularly international trade) of their balance of payments.

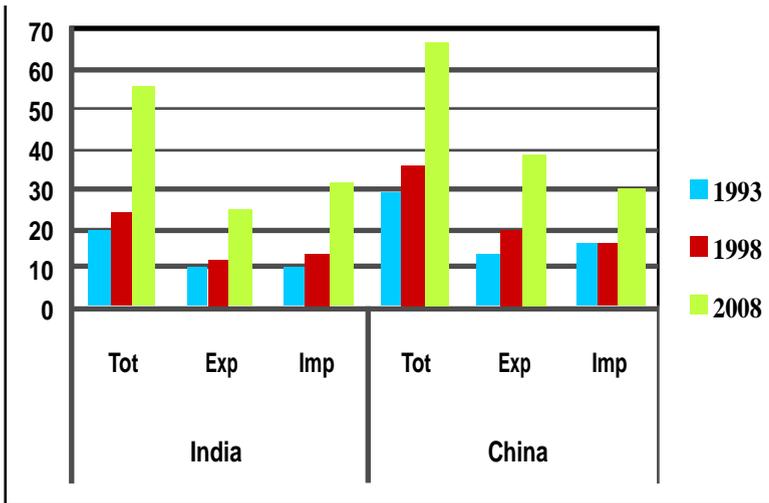
The decline in India's growth rate, following monetary tightening, has been witnessed from the last quarter of the calendar year 2007, even before the global crisis hit the world economy towards the end of the year 2008. The GFC accelerated the slackening of the growth rate that was petering out in the absence of ongoing reforms. In 2008-09 India's growth rate declined to 6.7 per cent compared to an average growth rate of 8.8 per cent during 2004-05 to 2006-07. Such a modest decline in India's growth rate in contrast to much sharper decline in growth rates in developed countries and elsewhere in the developing world is taken to construe India's inherent resilience to weather the adverse effects of the GFC.

To what extent the global recession will impact on the Indian economy will depend on the extent of two-way trade in goods and services as proportion of gross domestic product. This proportion rose in India from 20 per cent in 1993 to 56 per cent in 2008. Comparatively, China's dependence is even

1. OECD, *Economic Outlook* No. 86, Press Conference, November, 19, 2009, in www.oecd.org/OECD/EconomicOutlook

higher, being nearly 70 per cent in 2008 as may be seen in Figure 2.² More open economies (including China) with greater linkage with the industrial countries than India with higher trade to GDP ratios were thus more vulnerable to the GFC.

Figure 2: India and China's Global Trade Integration (Trade as % GDP): 1993-2008



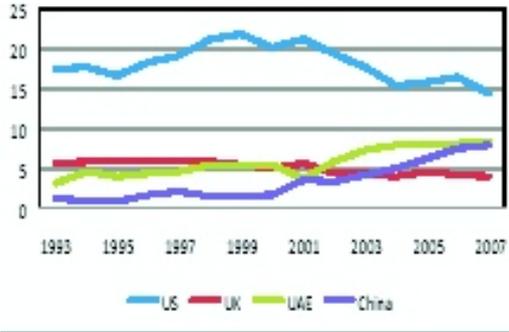
Source: Chibber, footnote 2.

In particular, the impact will further be determined by the extent of linkage with the US and other industrial economies (notably EU). It will be observed in Figure 3 that India has reduced its export dependence on developed economies while increasing its share to OPEC nations and East Asia (particularly China).³ By diversifying its export market, India became less vulnerable to the GFC that originated in the West.

2. Ajay Chibber and Thangavel Palanivel, 'India Manages Global Crisis but Needs Serious Reforms for Sustained Inclusive Growth', paper Presented at Tenth Annual Conference on Indian Economic Policy Reform, October 21-23, 2009, Stanford University, at <http://data.undp.org.in/FinancialCrisis/India> on

3. Ibid.

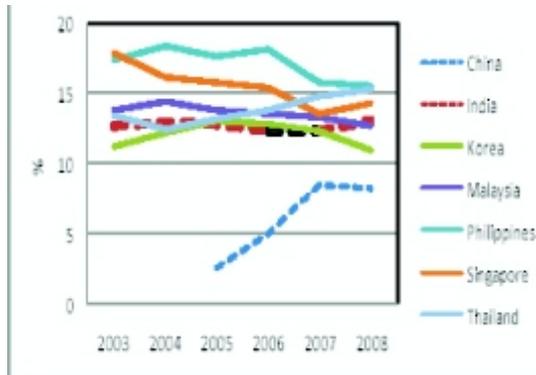
Figure 3: India's Export Dependence in Major Economies (% Share in total Exports)



Source: Ajay Chibber, note 2.

Besides, the Indian banking system was adequately protected by reserves. The average capital to risk-weighted assets ratio (CRAR) for Indian banking system was over 13 per cent as against the regulatory minimum of nine per cent and basel norm of eight per cent. Thanks to the Asian financial crisis of late 1990s, Asian banks (including India) have only limited exposure to US sub-prime related toxic products.⁴ This is illustrated in Figure 4.

Figure 4: Bank Regulatory to Risk-weighted Assets in India and Asia



Source: Ajay Chibber and Thangavel Palanivel no. 2

4. (Ajay Chibber and Thangavel Palanivel), no. 2

Application of Stimulation Measures

A number of fiscal stimulation measures followed between December 2008 and February 2009 aimed specifically to contain the adverse fallout of the GFC. The government increased planned expenditure and announced tax cuts. Support was provided to exports, textile sector, infrastructure, housing and to small and medium industries. Packages to help realty and infrastructure sectors were also announced. Service and excise duty cuts were also announced. The details of fiscal measures are presented in Table 1.

Table 1: Fiscal Stimulation Packages in India.

Amount	Proposed Initiatives	Date announced
Increase in planned expenditure and tax cuts (INR 200 billion) plus amount provided in the budget for 2008 but mostly unspent (INR) 2800 billion) (Total INR 3000 billion, USD 60 billion)	Support to exports, textile sector, infrastructure, housing and SMEs Increase expenditure on public projects to create employment and public assets Petrol and diesel prices cut by Rs 5 and 3 per litre respectively Interest rate cuts on loans for infrastructure and exports cut of 4% in excise duties across the board on all manufactured goods (except petroleum products)	7-Dec-08
Package to help realty and infrastructure sector	India Infrastructure Finance Company Limited permitted to raise funds to provide refinancing to public sector banks in the infrastructure sector External Commercial Borrowings policy liberalized to increase lending to borrowers in the infrastructure sector Countervailing duty and special countervailing duty reimposed on cement imports	2-Jan-09
Tax cuts	Service tax cut across the board from 12% to 10% Excise duty reduced by 2% for items currently attracting 10%	25-Feb-09

Source: ESCAPE 2009, Economic Survey, GOI

With regard to monetary measures, considerable monetary easing and liquidity enhancement was facilitated by the Reserve Bank of India since October 2008.⁵ The repo rate, the reverse repo rate and the cash reserve ratio⁶, were brought down substantially as may be seen in Table 2 below.

Table 2: Monetary Easing and Liquidity Enhancement by Reserve Bank of India since October 2008.

Item	Early October 2008	Oct-09	Reduction (Basis Points)
Repo Rate	9.00	4.75	425
Reverse Repo Rate	6.00	3.25	275
Cash Reserve (% of NDTL)	9.00	5.00	400

Source: Reserve Bank of India (2009)

Impact of Measures

In its Review of the Economy 2009-10, the Economic Advisory Council (EAC) projected the economy to grow at 7.2 per cent plus on the back of robust industrial expansion, services growth and less than expected contraction in the agricultural sector. It projected the economy to return to the 9 per cent growth rate in the next two years. (Table 2) Pegging the consolidated fiscal deficit at 10.3 per cent, EAC maintained that large revenue and fiscal deficits of the past two years did have a counter cyclical impact, it is necessary to initiate measures towards fiscal consolidation in the

5. Reserve Bank of India, Second Quarter Review of Monetary Policy for the Year 2009-10, AT <http://rbi.org.in/Scripts/NotificationUser.aspx/Id=5326 & Mode= 0# T15> (Accessed on 21.5.2010)

6. The repo rate is the rate at which the Reserve Bank lends to the commercial banks, the reverse repo rate is the rate at which the Reserve Bank borrows from the commercial banks and the reserve ratio is the ratio of prescribed cash to reserves kept by the commercial banks with the Reserve Bank.

forthcoming budget.⁷ The positive countercyclical impact of the measures is to be seen from improved growth of the Indian economy in 2009-10 and the forecasted growth of around 9 per cent in the coming years.

Table 2: GDP Growth Rate Actual and Projected (Year-on-Year %)

		2005-06	2006-07	2007-08	2008-09 (QE)	2009-10 (AE)	2010-11f	2011-12f
1	Agriculture, Forestry & Fishing	5.2	3.7	4.7	1.6	-0.2	5.0	4.0
2	Mining and Quarrying	1.3	8.7	3.9	1.6	8.7	7.5	8.0
3	Manu- facturing	9.6	14.9	10.3	3.2	8.9	8.9	9.2
4	Electricity, Gas and Water Supply	6.6	10.9	8.5	3.9	8.2	8.0	9.0
5	Construction	12.4	10.6	10.0	5.9	6.5	9.0	10.0
6	Trade Hotels, Transport and Communication	12.1	11.7	10.7	7.6	8.3	9.0	11.0
7	Financing, Insurance, Realty & Business Services	12.8	14.5	13.2	10.1	9.9	10.0	11.0
8	Community, Social and Personal Services	7.6	2.6	6.7	13.9	8.2	7.0	7.0
9	GDP at Factor Cost	9.5	9.7	9.2	6.7	7.2	8.2	9.0

Note: f: Forecasts

QE: Quick estimates

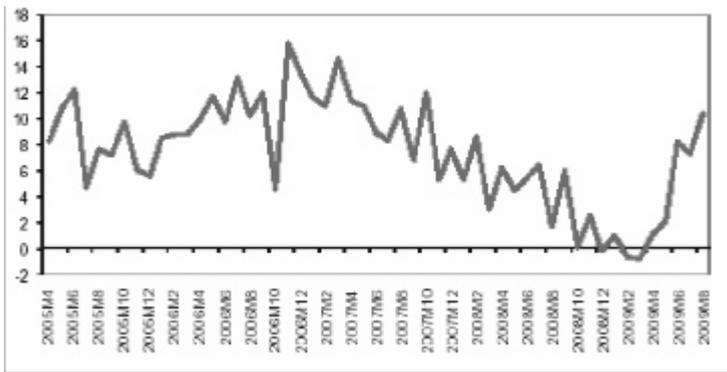
AE: Advance estimates.

Source: Economic Advisory Council to the Prime Minister, *Review of the Economy, 2009/10*, New Delhi, February, 2010, p.4.

7. Economic Advisory Council to the Prime Minister, *Review of the Economy 2009/10*, February 2010, available at <http://eac.gov.in> (Accessed February 18, 2010).

Even as India's economic growth only decelerated and appears to reverting to its fast track growth prior to the slowdown, it needs to be noted that several sectors were adversely affected by global slowdown. One such sector was the industrial sector which had stated decelerating even prior to the economic slowdown as may be seen in Figure 5. The economic slowdown however exacerbated the industrial decline which dipped the negative territory before reviving in April 2009. Quick estimates provided by the EAC have also shown how manufacturing growth rate dipped to 3.2 per cent in 2008-09 before reverting to 8.9 per cent in 2009-10. The rebound of the manufacturing sector to nearly 9 per cent again reflects the positive impact of the stimulation packages.

Figure 5: Trends in Industrial Growth

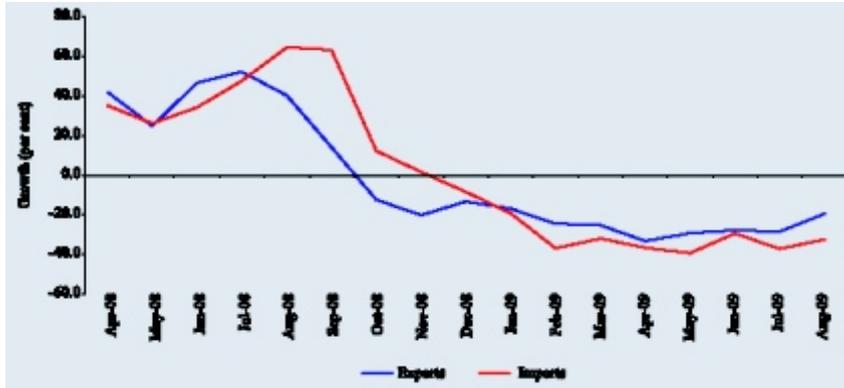


Source: N.2, Chibber (2009).

Taking note of India's external sector, it must be noted how adversely the GFC affected India's merchandise trade. Since October 2008 India's exports started to decline, however at a decelerating rate since April 2009. After falling for 13 months, in November 2009 exports grew by 18.2 per cent, marking a reversal of declines that had set in October 2009⁸. Thus the revival of industrial growth has made possible for exports to grow positively, even though from a low base.

8. <http://business.rediff.com/report/2010/feb/01> (Accessed on February 2, 2010)

Figure 6: Growth in India's Merchandise Trade



Source: Reserve Bank of India (2009).

Apart from 13 months of negative exports, India's capital flows too witnessed massive outflows between the last two quarters of the financial year 2008-09. Foreign Institutional Investors (FIIs), faced with credit squeeze in their home countries, started withdrawing funds from the Indian stock market for meeting their home grown liabilities. This led to sharp decline in the stock market indices causing significant capital loss to domestic investors. Table 3 shows how the net capital flows which declined by US \$ 9.6 billion during the last two quarters of fiscal 2008-09. Thanks however to the massive stimulation packages in the United States and in European countries and also India's relatively unscathed growth rate in spite of the GFC, foreign investors regained confidence in the Indian market and once again reverted their investment in the Indian stock market⁹. Consequently the net capital inflow became positive by US \$ 6.7 billion in the first quarter of the fiscal 2009-10 and market capitalization in the Indian stock market regained almost up to three quarters of their peak levels prior to the crisis. Again it was the positive impact of stimulation packages that raised confidence among foreign investors to bring in and invest their capital in the India market, both as financial and as direct investments.

9. Reserve Bank of India, "The External Economy", available at <http://rbidocs.rbi.org.in/rdocs/publications/PDFs/3TEEMMD261009.pdf>. (Accessed on February 5, 2010).

Table 3: Net Capital Flows (US \$ Billion)

Item	(US \$ billion)					
	2008-09	2008-09			2009-10	
	April- March P	Apr-Jun PR	Jul-Sep PR	Oct-Dec PR	Jan-Mar P	Apr-Jun P
1	2	3	4	5	6	7
1 Foreign Direct Investment (FDI)	17.5	9.0	4.0	0.1	3.2	6.8
Inward FDI	35.0	11.0	8.8	6.3	8.0	9.5
Outward FDI	17.5	2.0	3.9	5.9	4.8	2.6
2 Portfolio Investment	-14.0	-4.2	-1.3	-5.8	-2.7	8.3
Of which:						
Flits	-15.0	-5.2	-1.4	-5.8	-2.6	8.2
ADRs/GDRs	1.2	1.0	0.1	0.0	0.02	0.34
3 External Assistance	2.6	0.4	0.5	1.0	0.8	0.38
4 External Commercial Borrowings	3.2	1.5	1.7	3.9	1.1	-0.4
5 NR Deposits	4.3	0.3	0.3	1.0	2.2	1.8
6 Banking Capital excluding NR Deposits	-7.7	1.0	1.0	-6.0	-5.4	-5.2
7 Short-term Trade Credit	-5.8	2.4	1.3	-4.0	-3.5	-3.1
8 Rupee Debt Service	-0.1	-0.03	-	-	-0.07	-0.02
9 Other Capital	4.1	-0.5	-1.5	5.2	1.1	-1.6
Total (1 to 9)	9.1	11.1	7.6	-4.3	-5.3	6.7
P: Preliminary.	PR: Partially Revised.					

Source: Reserve Bank of India (2009).

Corresponding to India's net capital flows, India's foreign exchange reserves which had started falling during October 2008 to March 2009, started to increase since then. This again raises confidence that the Indian economy is capable of meeting external shocks.

Opportunities for India in Select Sectors

India is today particularly well set to attract large inflow of capital from abroad. The resilience of the Indian economy in the face of global financial crisis, combined with larger vulnerability of industrial countries makes the region relatively more attractive as an investment destination.

Investors in industrial countries, borrowing cheaply in dollar terms, find it profitable to invest in Indian markets for higher and more stable returns, often referred to as "carry trade". Funds released from stimulus packages abroad are thus finding their way to Indian markets, both in terms of institutional and direct investment.

Even though a surge in capital inflows to the Indian market has its problems, when regulated judiciously, these pose much lesser evil and in fact, an

opportunity in comparison to their sudden exit as was witnessed in mid 2008.

A large number of Indian companies have been reaching out for overseas destinations, either through mergers and acquisitions or direct investment in order to access high wealth/high growth markets, technology and knowledge, attain scale economies, tap global resource banks and leverage international brand names for their own brand-building. Notable recent examples of acquisitions of Indian corporates abroad include Hindalco-Novelis, Tata Steel-Corus, Suzlon-Newpower, Wipro-Infocrossing.¹⁰

Now that asset prices of major companies have fallen on account of global slowdown, the motivation for acquisition will be further reinforced. In this way India's comfortable foreign exchange reserves could be better deployed to access natural resources for the home country, or to access the consumer market abroad.

Following the global financial crisis, and growing awareness and concern of the adverse implications of climate change, there is a worldwide shift in favour of economical, fuel-efficient, compact cars. India's biggest advantage is its edge in manufacture of small cars-and the way companies, including the global giants are using the Indian market as a hub for developing and selling new compact models. India scores due to its liberal investment policies and high quality manufacturing which stems from its growing prowess in research and development. India has thus become the second largest manufacturer of small cars, overtaking China and next to Japan.

India exported a total of 0.23 million cars, vans, SUVs and trucks between January to July 2009, a growth rate of 18 per cent even as China's exports tumbled to 0.16 million.

'Made in India' tag, especially for small cars has clearly acquired a global cachet, helping auto exports to grow even as other countries suffered a slump.¹¹

Apart from the auto sector, pharmaceutical sector holds enormous opportunities for India. Global pharmaceutical companies, particularly in

10. Indian Brand Equity Foundation, Indian Investments Abroad, at <http://www.ibef.org/economy/indianinvestmentabroad.aspx> (Accessed on February 5, 2010).

11. See article, 'Advantage "Made in India"! India's Auto Exports Surges past China's,' in www.transportgooru.com//=3824 (Accessed on February 7, 2010)

US, Europe, and Japan are under increasing pressure due to a host of factors, including relatively dry pipeline for new drugs, and higher R&D costs. Besides, following global slowdown, there is increasing pressure from governments for reduced healthcare costs. The industry is bracing itself for some fundamental changes and looking at newer ways to drive growth.

Many big selling drugs are going off patent during 2011-2013. This is encouraging more M&A of big pharmaceutical companies with generics manufacturers.

In order to sustain growth mergers and acquisitions are happening across companies to synergise and optimise their operations. Innovator companies are either buying out generic manufacturers (example Daiichi Sankya's acquisition of Ranbaxy) or entering into strategic alliances (example GSK-Aspen) to participate in fast growing generics market. In 2009 Sanofi Aventis bought a majority stake in Shantha Biotech.

More recently Orchid Chemicals & Pharmaceuticals has agreed to sell its indictable business to US- based Hospira Inc for around 400 million, a valuation that represents a 20 per cent premium to Chennai-based market value and greatly boost its financial flexibility.¹²

These global trends have serious implications for domestic companies. However with the right strategy, Indian companies are well positioned to take advantage of these changes and to successfully navigate their future course.

Outlook

The more than anticipated GDP growth rate of 7.9 per cent in second quarter of FY 2010 gives the expectation that overall growth rate in the current fiscal would reach seven per cent.

A turn-around in industrial growth since April 2009 and decelerating decline in merchandise exports since January 2009 gives the expectation that the Indian economy is on way to recovery.

The reversal of capital flows from negative to positive territory gives the hope that India will not suffer from capital resources, given also that its own

12. Kodakia Patrik et al, "Emerging Opportunities in the Indian Pharmaceutical Industry," in www.tsmg.com/download (Accessed on February 8, 2010).

domestic savings and private investment has started to increase.

So long as the US dollar continues to remain weak, and India's growth performance remains buoyant and relatively more attractive, capital flows would remain high as witnessed by the recent surge in foreign investment flows (both institutional and direct) to India in spite of global slowdown. How to manage hot capital inflows would in fact, be the new concern.

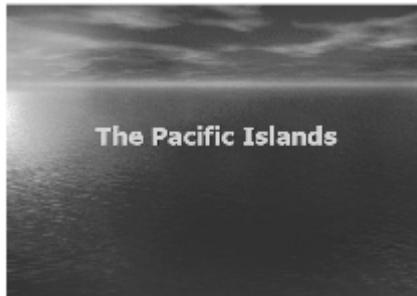
The global slowdown gives India an opportunity to fast track its auto and pharma sectors. There are however, a number caveats to the otherwise optimistic picture. The more than expected growth in the second quarter of current fiscal has been largely driven by mining and quarrying, personal, community and community services. These growth impulses are not going to be available in the next quarter. The poor performance of agriculture and its likely negative impact (given expected shortfalls in the production of *Kharif crops*), will reflect itself only in the next quarter.

The inflationary potential of growing liquidity as reflected in the increasing consumer prices, fuelled by growing fiscal deficit, cannot be taken lightly. How the growing inflationary potential of the country can be reigned in without dampening the green shoots of recovery will be a challenge for the government.

We have observed that India's growth rate had started slackening even prior to the onset of the direct impact of global financial crisis. This suggests that retrieval to an earlier growth path of nine per cent may not be simple unless further reforms in financial, banking and infrastructure sectors and above all, in governance, are put in place prior to global recovery.

Introduction

Advice that the author received from the permanent head of the New Zealand Ministry of Foreign Affairs on becoming director of the Pacific Division of the Ministry thirty years ago, is as relevant today as it was then: “Never forget that elsewhere around the world New Zealand conducts external relations with other countries Only in the Pacific do we have a foreign policy”.



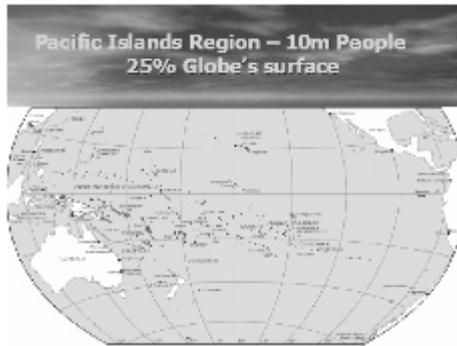
At that time, that counsel sounded a bit too profound for a new director to comprehend. Though the idea seemed to have gone over the head but it struck a deep note in the mind. The senior in the ministry held the view that by virtue of its small size and population, scarce resources and relative isolation, it was only occasionally in most bilateral relationships that New Zealand could exert a significant influence. The ingredients of what is now fashionably termed 'soft power', were the best we could hope to bring to bear.

The reality of course is that if New Zealand accounts for only 0.24 per cent of world population and 0.27 per cent of global trade, few other nations are likely to feel it prudent to step aside when they observe New Zealand on the march. The Pacific, on the other hand, was another world.

In the regional context, New Zealand was not a comparative minnow but a metropolitan power. What it did mattered. New Zealand could make a difference. For good or otherwise, New Zealand's policies and actions could

have a real impact on its near neighbours, their economies and their peoples.

Fast forward three decades and the situation has altered little, other than becoming even more complex and challenging.



New Zealand and the Pacific

There are four main reasons why the Pacific matters to New Zealand. They define New Zealand's place in the region and have underpinned its approach for decades. They help explain why generally speaking, relations with the region have not been the subject of sharp political division within New Zealand.

Geography

Firstly, the most elementary fact is that of geography. It is constant, unchanging, and immutable. By location, New Zealand is permanently and inescapably in and of the Pacific.

Culture

Secondly, there are cultural factors. Above six per cent of the New Zealand population are of Pacific origin. More people from the Cook Islands, Niue and Tokelau reside in New Zealand than in their home islands. Add in the Maori population and close to one in five New Zealanders can claim Polynesian heritage. A growing number are of Melanesian background.

Constitutional

Thirdly, there are binding constitutional and historical ties especially with the Polynesian Pacific. Special immigration access arrangements exist. Those island groups mentioned earlier can live in New Zealand in relatively sizeable numbers because they are New Zealand citizens. A particular and unique

Treaty of Friendship with Samoa sets the tone and substance of that relationship.

Integration

Finally, there is a mix of what could be called 'integrative' factors that play an important part, increasingly so, in the tapestry of New Zealand-Pacific ties: commerce, education, media, politics, religion, remittances, sport.

New Zealand and Asia

To keep things in perspective, it needs to be stressed that it is beyond argument New Zealand's destiny lies in Asia. New Zealand's fastest growing population group is of Asian origin. They are having a huge and beneficial impact in the country's economy, educational institutions and cultural understanding, as well as on the demographics. Six of New Zealand's ten most important trading partners are in this region.

It is not by chance that newly elected New Zealand governments and leaders routinely make an early point of reinforcing the value the country attaches to its Asian links.

That being said, there can be no turning the back by New Zealand, let alone walking away from seemingly intractable issues close at hand. They surround development and democracy, growth and governance. Unrest is often rooted in historic grievances.

Quick Overview



A snapshot of the Island communities becomes relevant for the analysis that follows. It will look only at the islands and island groups which New Zealand

(and Australia) have most to do with and together acknowledge some responsibility for. This quick overview does not cover the French territories of Tahiti and New Caledonia or the areas of US interest and influence to the north. However, those groups are by no means immune to the forces of change sweeping through their southern neighbours.

First, Fiji: Around one million people, labouring under a military-led coup, the third in twenty years, currently suspended from the Commonwealth and the Pacific Forum, its economy heavily dependent on sugar exports and tourism, both in serious difficulty.

Kiribati: Population 110,000. isolated; limited investment potential.

Nauru: Barely 14 thousand people; isolated, phosphate deposits that previously sustained the economy are now gone; near bankrupt.

Niue: 1000 people on the island, heavily dependent on aid from New Zealand where most Niueans live.

Papua New Guinea: The only “big” country by Pacific standards, twice the size of New Zealand; six million population; major issues around governance and personal security; substantial natural resources but the economy struggles.

Samoa: Under 200 thousand people; had been the regional bright spot with stable government and sound growth; now in the early stages of recovery from a devastating tsunami.

Solomon Islands: Half a million people; rich in resources but unstable government; recent race-based riots; order maintained by RAMSI (Regional Assistance Mission) which is largely staffed by military and police from Australia and New Zealand.

Timor Leste: One million population; became independent in 2002 in fraught circumstances that have little eased; reliant on foreign forces to address security challenges; has laid claim to significant offshore oil resources but future access still under negotiation with Australia.

Tonga: 120 thousand population; government and the economy remain strongly influenced by the Tongan royal family; a country in transition with the usual strains that process brings.

Tuvalu: 15 thousand people; sits only five meters above sea level and risks being an early casualty of climate change; stable but very low investment and growth potential.

Vanuatu: 210 thousand population; tribal and island divisions persist from the colonial past; unstable government; restricted economic prospects other than tourism and some agriculture exports.

Limited Resource Base

In summary, the island groups of the south-west Pacific comprise barely ten million people spread over a land mass that would hardly equal two Indian states, yet sprinkled across an ocean span larger than the sub-continent. With not much more than some farming, fish, forestry, a few minerals and a fickle tourist trade, on which to try to build a sustainable economy. And to give their people good reason to stay home rather than be drawn to brighter lights elsewhere.

Social Constraints

Scarce resources and fragile environments give only part of the picture. Diseases both traditional such as malaria or others a consequence of modern lifestyle trends such as obesity and diabetes, are commonplace in some island groups. There are wide gulfs in living standards and pockets of extreme poverty. Population shifts vary from rapid expansion in parts of Melanesia to dramatic decline on islands such as Nauru and Niue.

Weak Governance

Some groups, not all, are afflicted by weak even corrupt administration and pervasive tribal rivalries. Principles around accountability and collaborative government are novel concepts in some Pacific settings. They are not easily reconciled with customary modes of power sharing; long-established, feudalistic and deeply entrenched. The root causes of unrest and internal conflict that are a constant pain in some places are hard to eradicate.

Contemporary illnesses are not the only manifestation of current-day living to be found in the region. Organised crime involving money laundering and illegal drugs already exists. And what used to be termed 'the tyranny of distance' is no protection for Pacific nations against the menace of those who would practice terrorism.

A More Promising Picture

From that sobering analysis it is hard to avoid the Pacific emerging as a weak, vulnerable region ill-equipped to deal effectively, least of all on its own, with most of the challenges of the modern era. That is too pessimistic a picture and not a lasting impression that one should keep in mind. Pacific Islanders by and large are a resourceful, resilient people. Witness the determined manner in which the Samoans are presently tackling the awful affects and aftermath of the recent tsunami.

Nor is there any mystery about the priorities for bringing about a stronger, more self-sufficient Pacific community of nations. Island governments and leaders, their people, regional agencies, donors and NGOs have long known what is needed and where efforts have to be focused. The 2006 Pacific Plan for regional cooperation identified the short list of prime objectives: security and stability, sustainable development on land and in the deep waters, good governance, economic growth, broader regionalism, and more effective external engagement.

External Engagements

What the last and not least of those objectives means for the region is learning how to integrate better in a global context. In one sense this calls for more appreciation of what is required to hold one's own in a competitive world; to be consumer driven, respond to market disciplines, deliver quality products, achieve international standards compliance, and more.

Importantly, developing enhanced external linkages holds other implications. In essence, it is all about encouraging stronger ties with the region and individual island groups on the part of foreign powers. The motive may be to improve a bilateral link or to persuade a multilateral organisation of the merits of a higher regional profile.

The Rise of Asian Influence

In this context, that is, terms of external engagement, the particular point of interest today is the decline in the dominance of the European and North American based presence in the region that has been the experience of the past two centuries. Interest from another potential source, South America, hardly registers on the Oceanic scale. What is emerging, demonstrably and to an increasingly extent, is a shift to sources of influence that are primarily of Asian origin.

Historic Links

This is not a new phenomenon. One need go back a mere 50 thousand years to discover that most modern Pacific Islanders can trace their ancestry to people originally from the eastern seaboard of Asia.

Another Asian settlement wave occurred in the nineteenth and early twentieth centuries; Vietnamese to the French colonies and other Southeast Asians to the German territories. And of course tens of thousands of Indians transported to Fiji by the British to work the sugar-cane plantations; by the time Fiji gained independence in 1970 Indian settlers greatly outnumbered Europeans, as did the Japanese settlers in Micronesia, Indonesians in West Papua and Chinese in French Polynesia.

For all that, European and American influence and investment in the Pacific reigned supreme and unchallenged. Until that is, the process of change got seriously underway barely three decades ago. Beyond question the pendulum has swung a long way in that relatively short time. It is not so apparent in areas such as education, entertainment and the framework of government institutions.

Investment

But certainly elsewhere, Asian investment in the Pacific now exceeds that from all other sources, in resource extraction, the services sector, manufacturing and agriculture. Many companies with a long-term Pacific presence and familiar American, Australian, European, even New Zealand names, have majority Asian ownership. Asian tourists now outnumber all others. A heavy Asian component is present in the unfamiliar field and unwelcome though it is, of organised crime.

Competition for Influence

There is also a definite competitive aspect as one of the identifiable drivers behind the rapidly expanding Asian interaction with the Pacific. That is not to say old-fashioned rivalries imported from other arenas was not present when Western influence prevailed, but it was less obviously assertive.

What Does the Pacific Offer?

Why should this be so? What is it that the Pacific has to offer that would persuade a group of Asian heavyweights and some smaller players, to attach more than passing interest to their Pacific connections?

The answer lies in at least, three good reasons. No matter if the vantage point is Wellington or Canberra, Beijing, Jakarta, Manila or Moscow, Singapore or Seoul, Taipei or Tokyo. It could be New Delhi as well. Brussels and Washington cannot be overlooked either.

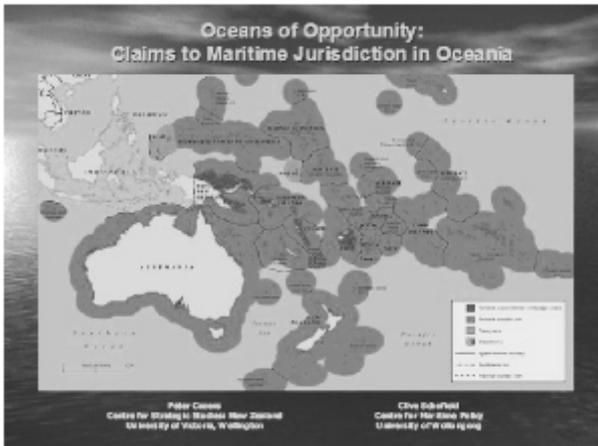
Resources

The first incentive is to obtain access to valuable natural resources - fish, forests and minerals. From a commercial perspective such access preferably comes uncluttered. But if the cost of guaranteed access is to join commissions, sign-up to conventions such as the draft on non-highly migratory fish species drawn in November 2009, and agree to respect quota limits in the interest of sustainable management, that price is seen as worth paying.

Political Support

Secondly, setting aside issues to do with size, population and marginal economic power, the fact is the Pacific is home to nearly twenty sovereign states. In international forums they are each entitled to have a say. Their support can count on crucial votes, especially if they have a united approach. How much official Pacific aid is tied or untied is a thorny issue. “We are happy to fund your new town hall and new tourist venture without any strings attached.” “Pardon?” There is a welcome trend towards more aid being made available through multilateral agencies.

Strategic Factors



Thirdly, there are significant strategic considerations. They can stem from a

inevitable element of the 'big brother' relationship will continue to call for sensitive handling.

Bringing New Zealand back to earth with a timely thump is the realisation that a much bigger global tectonic shift is in play, one that unavoidably spills into the Pacific. Asia has come full circle in that region just as it has returned to centre stage globally.

The consequence is that the ebb and flow of international politics and economics can no longer be viewed largely through the prism of a uni-polar world. The multi-polar world now in its early throes shows signs of thrusting five and as many as eight nations into positions of major importance, jostling and competing for access and influence. India is deservedly one of them.

For its part, the Pacific scene appears destined to become a lot more complicated a place in which smaller states will have to make their way and want to be noticed. New Zealand is one of them.

6

Emerging Political and Security Environment in South Asia

Smruti S Pattanaik

Security scenario in South Asia remains in a flux despite the fact that many countries in the region have seen major political transformation from autocratic dictatorial and monarchical systems of governance to democracy. Problems of governance remain one of the most formidable challenges that will determine not only the future of these countries but that of the region as a whole. Coupled with this, problems of unemployment, youth unrest and poverty have ingredients that could threaten stability of the political system. There exists extreme unwillingness on the part of the states to cooperate to meet various common challenges making the regional cooperation organisation SAARC, defunct. Undemocratic repressive governments, non-state armed radical groups, judiciary that is willing to carter to the needs of the executive and political intolerance to oppositional viewpoint has scuttled the growth of civil society and a free media. Even if all the states of the region are facing the threat of terrorism, there is no consensus on its definition. Terrorism has been used as instrument of foreign policy. Patronage to the terrorists has helped the groups' organisational and financial sustenance. Instability in Afghanistan-Pakistan region has the potential to emerge as a major challenge to the region.

The recently announced President Obama strategy on Afghanistan that set the deadline of 2011 for the US pullout from Afghanistan has added to the volatility of the region that is far from reaching a modicum of stability. Political developments in Pakistan, Nepal and Sri Lanka in general had left its tremor felt in the entire region. In recent years, these countries have witnessed widespread violence that has paralysed their political stability and their economy. Many a times the situation has resulted in generating a crisis in governance, hampered institution-building and have created general insecurity among the populace. Elections have brought a modicum of stability in South Asia, however, institutions are found wanting in providing a strong institutional base to democracy to take root.

India is surrounded by the States with weak political institutions where the experiment with democracy has remained nascent at the best. This has

weakened state control over various non-state actors that have operated with impunity. Sometime with the connivance of the state (in case of Pakistan) or without (in case of Bangladesh) terrorist elements have successfully launched attack in major cities in India exploiting vulnerability of the state and have tried to create socio-religious wedge in a plural society.

The question that needs to be addressed here is what are the factors that have contributed to general insecurity? There could be several reasons: the fragile democracy in Pakistan, Bangladesh and Nepal and brittle peace in Sri Lanka has generated systemic instability that has percolated to the societal level adding to the sense of insecurity among its citizenry. This insecurity is manifold comprising of economic well being and a sense of secured environment to achieve individual and societal growth. Marginalisation of civil society voices due to violence perpetuated by the state actors and extremist elements have generated a sense of fear in these countries. These political developments have hampered the economic potential of the region.

Some of the major political developments that could have security implications are analysed below.

Issues of Democratisation and Political instability in South Asia

Democracy has remained a dream for many of the countries in South Asia. Frequent military interventions that have weakened institution building, feudal elements who continue to have strong hold over the political system, lack of democratic decentralization both in terms of centre state relations as well political decision making have resulted in the concentration of power in the hands of few. For example provincial autonomy has been one of the major issues in Pakistan since its inception. Yet this issue has remained unresolved. Political marginalisation and economic neglect have been key issues for the people in Balochistan. The Mohajirs and Sindhis attribute the Punjabi dominated Pakistani state for their political marginalisation. There are similar issues in NWFP and FATA - which have remained largely beyond the political control of the Pakistani state. Restoration of democracy has brought the political aspirations of some of these groups to the fore as democracy provides space for articulation of demand and creates hope among the people who have been denied their right to govern due to long period of military rule.

Similarly, transition from monarchy to republican form of government in Nepal has rekindled hope of mainstreaming of the marginal groups who

have been deprived of political rights and economic advantages under the system of constitutional monarchy that prevailed till 2006. Maoists have been in the forefront of this struggle that has banked on the feeling of deprivation of the marginal groups *janajatis* as they are called in Nepal. Assertion of rights by various ethnic groups and demand for a federal structure to preserve their identities and to further their development has emerged as a major challenge to Nepal's peace process. Apart from this, the stand of the Maoist on the issue of democratisation and assertion of their constitutional rights as the largest political party threatens the precarious peace process which has hung in balance due to the uncompromising attitude of various stake holders.

In Bangladesh, the BDR mutiny threatened political stability of the country which witnessed successful elections after two years of rule by the military backed caretaker government. With an unwilling opposition that has refused to join the Parliament over trivial issue of seating arrangements has shattered the dreams of institutionalising democracy.¹ Political reforms have taken a back seat and inner-party democracy that was forcibly introduced by the caretaker government is hardly being practiced. Leadership still remains personalised and dictatorial. Parliament is yet to emerge as a major forum for discussion on important issues given the relationship between the two main political parties. It appears that Bangladesh is back to the days of confrontational politics that had brought the Army into politics in 2007. The Army remains powerful and factionalism within the Army is a major cause of concern.

The issue of fulfilling political and economic aspirations of the Tamils has remained a major challenge to Sri Lanka's future as a democratic country. Decimation of the LTTE is yet to bring ethnic peace. The post-war pronouncement is hardly soothing to the Tamils. Constitutional package is yet to be announced by the re-elected President Mahinda Rajapakse. Sri Lanka is preparing for Parliamentary elections in April. Growing bitterness between the two main political opponents was evident when Rajapakse Government arrested General Fonseka who lost the Presidential election and had emerged as the main political contender. Interestingly, the Sri

1. Bangladesh Nationalist Party refused to join the Parliament over its disagreement on seating arrangement. It returned to the Parliament on February 12 after being absent for 64 consecutive sessions.

Lankan Tamils including the Muslims had voted for Fonseka in this election. As their future hangs in balance with this bitter rivalry between the two political opponents more reports are emerging regarding the civilian casualty during the war and the callousness displayed by the armed force to the civilian population.

Recent controversial election in Afghanistan is unlikely to bring any semblance of peace and unity among various stakeholders. Taliban remains a major challenge to stability in Afghanistan. The resurgent Taliban has sanctuaries across the border in Pakistan. Earlier the British Commander in Afghanistan had stated that the war in Afghanistan was not winnable and is “doomed to fail” and it could be resolved only through political settlement which could include the Taliban.² Many of the President's family members are alleged to be involved in opium production in 36 out of 376 districts. Most districts in the south-east, south and east remained inaccessible to government officials.³ Corruption within the Karzai regime is also an important issue affecting legitimacy of the government.

Bhutan has successfully transitioned to democracy. However it has remained more of a guided democracy. Bhutan refused to take back around 100,000 refugees who were staying in the Eastern Bhutan camps. Issue of their repatriation would create a problem for Bhutan in the future. Most of the refugees have now settled in third countries as a result of international initiative. They are still demanding their right to return to Bhutan.

Maldives has seen successful transition to a multi-party democracy; however, fundamentalist challenge has become a major factor in the country. Some of the Maldivians have reportedly been found fighting along with Talibans in Pakistan a cause of grave concern for the current government.

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2. http://scot.altermedia.info/general/war-is-unwinnable-in-afghanistan-says-british-commander_1542.html>. Britain is sending additional 700 troops to reinforce its presence in Helmand province and the US is sending 17,000 troops. See “We are facing a Bloody Summer in Afghanistan”, at <http://www.dailymail.co.uk/news/worldnews/article-1176143/Were-facing-bloody-summer-Afghanistan-warns-British-Nato-commander--just-Brown-sends-700-MORE-troops.html>.
 3. “The Situation in Afghanistan and its Implications for International Peace and security”, Report of Secretary General, UN, GA, 62nd session, A-62-722, available at <http://unama.unmissions.org/Portals/UNAMA/08march06-SG-report-SC-situation-in-afghanistan.pdf>.

Surge of Radicalism and its Impact

Growing religious radicalism has emerged as a major threat to the South Asian countries. Pakistan has seen a surge in violence of Taliban and al-Qaeda variety that continues to challenge the writ of the state. These radical elements are the product of state policy internal as well as external. Internally these elements were tolerated as the state Islamised over the period of time. The growth in madrassa culture has encouraged jihadi mentality. The state has been tolerant to the activities of the madrassas and has actively encouraged radical groups many of whom now do not need state patronage. They have their independent source of income unregulated by the state. Madrassas continue to teach jihad and lack of educational facilities have often forced poor parents to send their children to these religious schools. The fundamentalist groups have thrived on foot soldiers provided by these madrassas. The result is growing radicalisation that has led to sectarian violence. The militant Islamist groups have also targeted the armed forces of Pakistan accusing them of being an ally of the United States.⁴ The state apathy or unwillingness to intervene has provided political space to the Islamists to expand their agenda. They have already occupied the ungoverned space in FATA and have emerged as a major threat to Pakistan's political instability challenging its foreign policy choices in Afghanistan (even though this was a forced choice).

In case of Bangladesh, the outgoing Jamaat backed BNP regime helped the political consolidation of the radical forces. The ideological rivalry between the two political parties the BNP and the AL has led the BNP to nurture the rightist elements in the vote bank politics. It is a known fact that the ISI had strengthened its operation during the alliance government rule.⁵ The

4. For example: the hostage crisis at GHQ Rawalpindi on October 11, 2009 in which the Islamists took 42 army officials hostage signalled that the jihadists are not hesitant to take on the army in the garrison town. This attack was followed by three simultaneous attacks on October 15 on Manawar Policy Academy, the Federal Investigative Agency and Elite Police Academy in Lahore. Later on December 1, 2009, a suicide attempt was made on the Naval Headquarters in Rawalpindi. On November 13 ISI office in Peshawar was bombed and this was repeated on December 8 in Multan.

5. "Bangladesh: Breeding Ground for Muslim Terror" Online: Web, http://www.atimes.com/atimes/South_Asia/DI21Df06.html (Accessed on July 30, 2008). Mufti Obaidullah, recently arrested Lashkar terrorist, has confessed his links to Pakistan. For details see Kailash Sarkar and Mukheleswar Rahman, "Lashkar Leader Used Six Mobile Phones", *DailyStar*, July 19, 2009.

government turned blind eyes to the activities of the Islamists. The JMB, JMJB, HuJI not only were strengthened but spread their tentacles to a large part of the country. The 459 simultaneous bomb blasts in the 63 out of 64 districts clearly indicate the spread of the militants. Though the top commanders of the JMB and JMJB have been executed there are media reports that these groups are regrouping in various areas of Bangladesh.

Unrestricted flow of money through various NGOs to Bangladesh and their activities has raised question about their intentions. Some of these NGOs involved in Islamic *dawa* that promotes a particular kind of religio-societal culture. Generous funding by some of the countries in the Middle East has changed that contour of Islam that was once practiced in Bangladesh.⁶ Attacks on Sufi shrines and cultural festivals are a case in point. These NGOs have funded construction of mosques and madrassas that have remained under the control of fundamentalists which they have used to further their political agenda. The case of Alhe Haith Andolan Bangladesh (AHAB) control on some mosques and madrassas is a case in point. The HuJI is now operating under a different name. The Awami League Government is vigilant to the activities of some of these groups and has arrested some of its leaders. However, it needs to deal with the problem comprehensively. Banning the groups has not helped. Bangladesh also has madrassas that functions beyond the control of the state. The Quami madrassas are run by various mosques and the Ulema and other Islamic groups that are opposed to any change of curriculum to the courses that are being taught. The Quami madrassas in Bangladesh continue to teach Dars-e-Nizami, that owes its origin to the Emperor Aurangzeb's time. The products of these madrassas are less prepared to meet the challenges of a modern globalised world.

Armed groups patronised by various political parties have remained a major challenge to the Nepal government. The activities of the Youth Communist League (YCL) which acts like an extra-constitutional authority sometimes assuming the power of an enforcing authority remains a major area of concerns. In spite of strong assurances of the Maoist leader Prachanda to

6. Finance Minister AAM Muith said, "When Mr Mujahid [Ali Ahsan Mohammad Mojahid, Jamaat-e-Islami secretary general and former social welfare minister] was in charge a number of new NGOs popped up." During the rule of the four-party alliance government, the NGO Bureau listed 473 local and 25 foreign NGOs. Since 1990 it has approved 2,367 local and foreign NGOs that run on foreign funding. See, "NGOs Under Scanner for Funding Militancy," *DailyStar*, March 19, 2009.

rein in the YCL, the organisation remains engaged in violence. Similarly the Nepali Congress supported Youth Forum and the UML sponsored Youth Force are ready to take to the street. Raising hope and aspirations have made ethnic groups who had remained in the periphery of Nepal's politics and economy to pressurise government to recognise their genuine grievances and provide constitutional remedies. Contours of federalism remain an important issue in Nepal. The differences between the Maoist and the Nepal Army over the integration of its cadres exist. The Maoists have been organising strikes and calling for restoration of 'civilian supremacy' and have threatened that they will start their third phase of revolution if the government does not comply with their demands. Nepal has seen ethnic upsurge and many of the tribal communities are now demanding separate states or autonomous provinces. The Maoists have declared thirteen autonomous federal regions to pressurise the government. There are concerns that given the Maoist threat and lack of understanding between the political parties Nepal may again witness violence in the street even though all the political parties have been assuring that constitution will be prepared in time.

In Sri Lanka, military defeat of the LTTE has given rise to the fear that the Tamils would not be given a fair deal in the political resolution of ethnic conflict. The victory has been projected as Sinhala victory over the Tamils. The Tamils are yet to return home and many of them continue to stay in the camps and their movements are being monitored. Any sympathy for the Tamils raises eyebrows of suspicion. The Rajapakse Government, which once spoke of giving the Tamils a political package that would be a thirteenth amendment plus is facing challenges from the radical Sinhalese groups who are in no mood to be generous after complete victory over the LTTE. The Tamils do not have a leader who has broad support of the Tamil community to negotiate a political package with the government. The Janatha Vimukti Peramuna (JVP) and Jathika Hela Urumaya (JUH) are opposed to any devolution plan and a settlement of the Tamil question on the basis of thirteenth amendment. The bitterly contested Presidential election has further divided the polity. In this election the Sri Lankan Tamils had supported Fonseka, the former Chief of the Defence Staff. The future of the Tamil question will determine the characteristics of how the already radicalised society divided along ethnicity would manifest itself.

Stability in Afghanistan has remained a major problem. There has been some

rethinking in the US Afghan strategy after Obama came to power. As the US announced that it may pull out its troops by July 2011 it has been trying several formulas. While the US has committed its troops for a surge it has opened up channels of communication with the Taliban. However, talking to them from a position of weakness would not be conducive for durable peace. Success of Taliban in Afghanistan will give boost to the religious radicals who will be motivated to take similar projects in their countries. Already the Pakistani Taliban have expressed their objective to establish Sharia based state in Pakistan. Afghanistan may emerge as a ground for sanctuaries for the radical elements.

Economic Situation

The economic situation in the South Asian countries has remained volatile. According to World Bank Report, “in 1948, South Asia’s share of intra-regional trade as a share of total trade was 18 per cent. In 2000-2007, it fell to five per cent of the total trade.”⁷

Due to global recession, many of the expatriates who have been contributing to the countries have returned. According to a recent study by the ADB on Bangladesh the growth rate of the gross domestic product (GDP) recorded a 5.9 per cent growth in FY2009, after several years of 6.0 per cent plus annual growth. A matter of considerable concern is the stagnation (within a range of 24.2 per cent to 24.7 per cent) over the past five years of the investment to GDP ratio.⁸ Public investment declined further, sliding from 5.0 per cent of GDP to 4.6 per cent. Saving rose sharply due to remittances.

In Pakistan export growth slipped to 14.2 per cent for September 2009. Foreign portfolio investment rose to US\$ 208 million in July-September 2009, after recording a decline of US\$ 1,032 million during fiscal 2008/09. Investment scenario has remained bleak due to poor security scenario, water shortage may affect the *rabi* crop as it is estimated the water available would be 26 per cent less compared to last year’s availability. According to the government’s estimate our estimate of real GDP growth for 2009/10 is

7. Ijaz Ghani and Sadiq Ahmed, “Sustaining Rapid Growth in South Asia” in *South Asia Opportunities and Challenges*, World Bank, 2009, p.9

8. ADB Quarterly Report in Bangladesh, June 2009 available at http://www.adb.org/Documents/Economic_Updates/BAN/2009/QEU-Jun-2009.pdf

between two and three per cent.⁹ Inflation as measured by the Consumer Price Index (CPI) declined to 10.1 per cent year on year in September (versus 23.9 per cent in September 2008). After recording an annual increase of 25 per cent in 2008/09, remittances continued to surge in the first quarter of 2009/10, crossing US\$800 million for the first time in September.¹⁰

Nepal's economic situation remained bleak. Inflation rose by 12.9 per cent in mid-May this year. The price rise was 13.1 per cent in the first month of the current fiscal year which continued to remain in the double digits till mid-May. Nepal's balance of trade with India is negative by Rs. 94.4 billion. Remittances grew by 55.5 per cent to Rs. 169 billion in the first 10 months of the fiscal year against Rs. 108 billion during the same period last year.¹¹

Remittances this year in Sri Lanka are expected to reach three billion US dollars - up from 2.5 billion dollars in 2007- taking care of 70 per cent of the country's trade deficit.¹² In July 2009, the IMF approved a 20-month Stand-By Arrangement for Sri Lanka providing the South Asian island nation with a \$2.6 billion loan to help overcome the effects of the global financial crisis and support the economy.¹³ Sri Lanka's economy registered 6.5 per cent growth in the first three quarter on 2008 according to the latest report available with the Central Bank report. It had 5.2 per cent of unemployment for the same period.¹⁴ Debt to GDP ratio has remained high.

Security Situation and Involvement of Extra-regional Powers

Violence perpetuated by the terrorists has been an endemic feature in South Asia. In Afghanistan the security scenario remained precarious with casualty figures rising high. The situation has remained volatile affecting the stability of the region. The central government authority remained confined to the capital territory of Kabul. Presence of NATO and US forces has also failed to improve the security situation for various reasons. Pakistan remained a

9. Government of Pakistan, Ministry of Finance, Pakistan Economic Update, First Quarter of the current financial year, July-Sept 2009, p.5

10. Ibid, p.6-7

11. <http://www.nepsenews.com/2009/07/nrb-report-on-macro-economic-situation.html>

12. <http://ipsnews.net/news.asp?idnews=45279>

13. <http://www.imf.org/external/pubs/ft/survey/so/2009/car110609a.htm>

14. Central Bank of Sri Lanka, "Roadmap: Monetary and Fiscal Sector Policies: 2009 and Beyond", January 2, 2009, p.7, available at http://www.cbsl.gov.lk/pics_n_docs/10_publication/_docs/efr/monetary_and_financial_sector_policies/road_map2009e.pdf

main concern for the US. In the past the US accused Pakistan of supporting Taliban in Afghanistan and urged it to deliver more as an ally in the US war on terror. The recent policy announced by President Obama to address the situation in Afghanistan includes a surge in troop deployment. However US announcement to withdraw in 2011 would embolden the Taliban which may wait for the US to leave the region. Pakistan would have less incentive to fight the Taliban as it would prepare for a post US withdrawal to control Afghanistan and to challenge India's presence in the region. There are indications that Pakistan is already working on such strategy. It has refused to carry out attacks on Taliban. To quote President Obama's speech in West Point, stability in Afghanistan "has been hampered by corruption, the drug trade, an under-developed economy, and insufficient security forces".

Security scenario in Pakistan has remained precarious. Though operation in South Waziristan is considered as a success the radical Islamists have brought the war to the doorstep in Islamabad. In the past one year the Pakistani Taliban has been able to target the security forces in the mainland Pakistan away from their bases in the FATA region. For example: attack on FIA in Lahore, taking hostage in police training academy in Lahore, taking hostage in GHQ Rawalpindi, targeting Pakistan Navy's head quarter etc suggests how these elements have established links and contacts within these highly guarded security establishment to mount terror attack. This also implies the spread of their network and connection with other Islamic radicals within Pakistan. Spread of radical Islam is not restricted to FATA region but their growing activities are visible in Southern Punjab. There are reports of Punjabi militants fighting in FATA along with the Taliban. According to *Daily Times report* "at least 20 Taliban killed in American strikes in the Tribal Areas since last summer were Punjabis. One Pakistani security official estimated that five to 10 per cent of the militants in FATA could be Punjabi"¹⁵. The December 4, Friday attack on a mosque in Rawalpindi which is frequented by the retired and serving military officers reflects the connection between the various militant groups which sees the Army as a major threat to their objectives. On October 10, 2009, around ten armed militants raided the Pakistan Army's General Headquarters in Rawalpindi and held dozens of hostages for 20 hours. On December 2, 2009, a suicide bomber detonated his explosives at the Naval Head Quarters in Islamabad

15. "Taliban Making Inroads in Punjab?" *Daily Times*, April 15, 2009

killing to officers of the Pakistan Navy. The links between the Pakistan Taliban-Afghan Taliban and al-Qaeda was admitted to by Interior Minister Rahman Malik only after attacks on Marriot took place. Therefore, the tag of good/bad Taliban does not exist¹⁶.

US involvement in the region and its proposed withdrawal by 2011 would have several political and security implications. Unless the Taliban is militarily defeated there is very less chance of peace returning to the region. South Asia has also remained one of the militarized regions of the world. Chinese activities in the region and China-Pak nexus in defence issue would remain a major concern for India which will have serious implications for regional stability.

Nexus between non-state actors in South Asia

There is apparent nexus between the fundamentalist groups, drug peddlers and insurgents who have taken advantage of the state's unwillingness to cooperate. The LeT, Jaish-e-Mohammad and HuJI are not only linked to each other but they have nexus with other local groups. Similarly all these groups have ties with al-Qaeda and Taliban. HuJI in Bangladesh have support of some of the religious political parties. In the past Jamaat backed BNP government's inaction against these groups saw that these groups organisationally strengthening themselves and branching out in the length and breadth of the country.

The links between the smugglers and drug traffickers are evident from the fact that even though the bilateral trade between the countries has remained limited the unofficial trade has increased in volumes over the years. This has resulted in loss of revenues for the countries. Transfer of money for such kind of trade often takes place through *hundi* system which makes the task of the law enforcing authority extremely difficult. Such transfers can be used to finance militancy. Taking advantage of the non-cooperation between the countries the non-state actors also find easy sanctuary in the neighbouring countries

The Indian insurgent groups have found safe haven in the neighbouring countries of Bangladesh, Bhutan and Myanmar. Cooperation with Bhutan and Myanmar has brought results and that has led to the militants' shifting

16. For a similar view see, "Rawalpindi Attack", Dawn December 5, 2009

their camps. Bangladesh has recently arrested some of the top ULFA leaders. Recent visit of the Home Secretary G.K. Pillay to Myanmar indicates that India and Myanmar held talks on the modalities to deal with the issue. Without the political will of the current Awami League Government arrest of these insurgent leaders would not have been possible. As Sheikh Hasina stated in January 2010, "They [militants and terrorists] will use the land of Bangladesh to conduct their terrorism in another country and we will create enmity by harbouring them - this cannot be...I know there are risks. I also have life threat but for the sake of the country and its sovereignty, I will not allow that." The investigation into arms haul in Chittagong in 2004 has revealed the links between the state actor and non-state actors.¹⁷ Similarly relations between state and non-state actors remain blurred in the context of Pakistan.

In the case of Pakistan-Afghanistan, the porous Durand line has made the movement of militants easy. This has added to the instability in the FATA region and Afghanistan. The links between the Taliban on both sides of the border has made stability a major casualty. Coupled with this, the unwillingness of the Pakistan Army to deal with the Afghan Taliban considered as strategic assets has made stability in FATA untenable. In spite of Pakistan Army's success in Swat and South Waziristan, the situation will remain tenuous. The ideological/doctrinal linkages between these groups have led to greater collaboration in their operations. As a result, while the Taliban in general considers Pakistan Army as an enemy given its collaboration with the US, the Pakistan Army continues to make a distinction between Pakistan Taliban and Afghan Taliban. In reality no such distinctions exist given their close links. This is akin to the distinction that is being made by the Western countries about between good and bad Taliban. There would be the Talibans (so-called good) who can be bought at will and with whom any talk of peace and stability is going to be a non-starter. The troop surge in Afghanistan and a possible withdrawal by 2011 is seen as a strategy to quote a White House official who while comparing the surge in Iraq to Afghanistan said "Neither one of these surges, was born to exploit success. They were designed to reverse momentum."¹⁸ This is supposed to create space for the

17. "Ex-NSI Boss Held", *Daily Star*, May 4, 2009

18. David E Sanger, "Similarities to Iraq Surge Plan Mast Risks in Afghanistan", *New York Times*, December 4, 2009

Afghan security force to effectively face the Taliban though the scenario for raising such a force remains bleak.¹⁹ Though the US exit policy depends on ground situation it has created uncertainty in the region. This may result in Taliban lying low to facilitate US exit and taking over the country once there is no challenge.

Future Trends

The democratic transition in the neighbourhood has added to the political stability of the region. However, security situation has not seen any significant improvement. Source of threat to India's security remains the same. Porous border, sponsoring and harbouring terrorists as an instrument of foreign policy, unwillingness of neighbouring countries to cooperate with India due to various reasons would impede on India's security environment. In spite of a democratic government in power, Pakistani army continues to play a dominant role both in domestic politics and foreign policy formulation. Pakistan's reluctance to take credible action against some of the masterminds of the Mumbai terror attacks suggests that it continues to use jihadis as instrument of its India policy. Moreover, Army dominance in the politics of Pakistan inhibits the democratic government to charter a new policy as far as its relations with India are concerned. Even though the parliamentary Committee suggested that "Pakistan's strategic interests should be protected by developing stakes in regional peace and trade by developing trade ties with neighbouring and regional countries"²⁰. The Army is clearly against any overtures to India. Recent political developments, attempts to marginalise Zardari due to his views on security issues and India do not portend well for Pakistan's political future. In spite of Kerry-Lugar bill, which requires civilian oversight of the military, the Army remains beyond the control of the civilian government. The judiciary-executive tussle has added to the fragility of democratic process.

19. US has spent around \$ 15 billion in training the Afghan Army without much success. To raise the force to 1,34,000 is going to be difficult as illiteracy is high. Desertion figure is equally alarming. See the *New York Times* Editorial, "Afghanistan's Army", December 4, 2009. For desertion rate see Gareth Porter, "US Headache over Afghan Deserters", *Asia Times*, November 26, 2009, see http://www.atimes.com/atimes/South_Asia/KK26Df01.html. Absent without leave increased from seven per cent in 2008 to nine per cent in 2009, Department of Defense, "Peace and Stability in Afghanistan, March-June 2009", p.31

20. Report of the 17 member Parliamentary Committee as mentioned in "Foreign Policy and the Wishes of the People", *Daily times*, April 15, 2009

In spite of a change of government in Bangladesh the religious radicals would remain a challenge for Bangladesh and the region. In the past Bangladesh based terrorist group Harkat-ul-Jihadi Islami (HuJI) has been involved in various terrorist incidents in India and such threat remains portent even after the Awami League Government is elected to power as these groups have developed their own operational network and have transnational linkages. In some cases they have emerged as frontline organisation for the Pakistani intelligence agency, the ISI. Democratic governments would remain weak due to structural institutional weaknesses and their ability to fight terrorism internally and cooperation with India on this issue would be limited given the entrenchment of extremist religious groups with enormous street power. As the government stabilises in Bangladesh there are several challenges it would be facing. The decision to try war criminals that were responsible for the killing of freedom fighters has annoyed several quarters. There has been pressure in some quarters not to try the war criminals. Pakistan has conveyed its unhappiness over the trial. The religious political parties especially Jamaat is opposed to it. However, there is public pressure from civil society groups to go ahead with these trials as it was one of the election pledges. Though the government is committed to this trail the fundamentalists challenge to the regime remains.

Political situation in Nepal remains in flux. The differences between the political parties have threatened to derail the peace process. The constitution making would be delayed if the peace process sustains. Fundamental issues like integration of the Maoist combatant to the security forces especially the Army, issue of federalism in Nepal remains unresolved. Political patronage to various armed youth belonging to the political parties has added to volatility of the situation. Situation in Nepal will seriously affect India with which it shares an open border.

Future of Tamil hangs in balance as Sri Lanka readies itself for elections early next year. There is still fear of armed conflict unless the ethnic issue is resolved amicably. The growing Sinhala chauvinism that has followed the end of the LTTE has very little to assuage the Tamil community about their future.

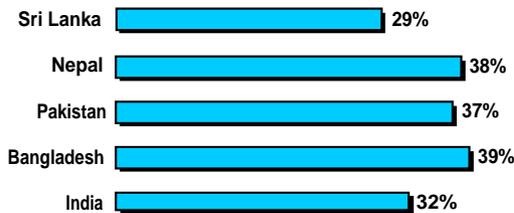
In Afghanistan it is unlikely that President Karzai will exert political control over the entire country as war lords would remain powerful in the countryside. It would be difficult to sideline the drug barons that have remained entrenched in the system. Stability in Afghanistan will continue to

be liked to Pakistan and its Army's willingness to fight the Taliban.

According to the World Bank Report, “One fifth of the population in South Asia is between the ages of 15 and 24. Young adults account for half of the unemployed. They are also six times more likely to be jobless than older workers”.²¹ This youth population should be gainfully employed.

Youth Dominate the Working Age Group in South Asia

Population 15-24 as percentage of population 15-59, 2001



Inter-state water disputes and climate change would remain a problem. Securitisation of various issues would give upper hand to the military in some of the South Asian countries. Army in Nepal and Sri Lanka would remain central to peace and stability in these countries. As South Asia remains democratic the major challenge would be the issue of democratisation of institution would in long run be crucial for the stability of the region. Economic constraints would limit the performance of the government that would impinge on democratisation. The challenge will remain to channelise the energy of the large young population. As the region makes progress on the path of democracy and rule of people, cooperation between the countries of South Asia would be crucial for over all progress of the region.

21. Some Key Statistics on Youth in South Asia, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:20827027~pagePK:146736~piPK:146830~theSitePK:223547,00.html>

Introduction

The regional security dynamic is constantly changing with Pakistan and China trying to find a new higher level of salience and India, a new level of comfort. China looms large in world consciousness. China's claims of peaceful rise are at complete variance with its behaviour. As the Indian Prime Minister Dr. Manmohan Singh recently said, "China is getting assertive".¹ It appears that China as a new rising power in the region has two major objectives; first, to prevent the emergence of any other unmanageable competitor well before it actually happens, and, second, to redouble its efforts to challenge the US global primacy without fundamentally upsetting the rules of the game at this time. India as a major player in the region will have to prepare itself to face multiple challenges from China and its many surrogates; a task made exceedingly difficult by the rising power differential between the two and the increased importance of the latter in world affairs. This short essay attempts to explain this hypothesis.

India shares a nearly 4000 km long disputed border with China. While China refuses to allow even the demarcation of the 'Line of Actual Control' (LAC) it continues to lay claims to some 93000 sq. km. in India's Arunachal Pradesh² and illegally occupies some 13000 sq. km. in the Aksai Chin area of Ladakh in the Indian State of Jammu & Kashmir (J&K). To make matters worse it also holds some 5000 sq. km. of 'leased' territory in Pakistan Occupied Kashmir (POK) that is now seen as giving China a role in resolving the vexed issues of the region.³ This not only makes the resolution of the border dispute extremely difficult but also raises the potential for conflict on

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1. "Told Obama How China is Asserting Itself: PM", *Indian Express*, New Delhi, November 26, 2009.
 2. The area of Arunachal Pradesh is only 86,000 sq. km. which means that China actually claims some land in the Assam Plains as well.
 3. "China had a direct link with Kashmir", says Hurriyat Leader Mirwaiz Umar Farooq, Ahead of the Visit", *Indian Express*, November 21, 2009

the border with the two armies facing each other across an uncertain, ambiguous, and unmarked border.

Recent Behaviour

China has in the recent past also raised objections to the Nuclear Suppliers Group (NSG) giving India a waiver to access civil nuclear technologies, tried to prevent the sanction of a developmental ADB loan, a small part of which was earmarked for developing the infrastructure in the Indian state of Arunachal Pradesh, and complained that Indian Prime Minister, and the Dalai Lama, an honoured guest in India for over forty years, were visiting Arunachal Pradesh, a State in the Indian Union, which China considers as disputed territory.

It is thus clear that China wants to continue using the border dispute to keep India on the back foot while holding many other levers, for example, the last couple of years reported border incursions that were termed as media hype by the Indian Government; to raise or lower the tensions at its own choosing.⁴ China also gives confusing signals. It wishes to build relations with India by further promoting trade that has already reached the US\$ 50 billion mark but at the same time complains if India voices its concerns about unfair trade practices such as dumping, employment of unskilled labour, spurious drugs and a host of other products. India has been facing an adverse trade balance with China's exports outstripping those of India by a wide margin. In India's case some 50 per cent of its exports comprise iron ore and basic raw materials and minerals while China's exports consist of finished products.

China's Military Power

In the late 1990s, many US and Western security experts thought that the PRC would take at least 20 to 30 years to absorb and operationalise new technologies. But in reality Chinese military modernisation has 'leapfrogged' to register spectacular progress.⁵ A somewhat latecomer to the field the PLA Air Force and Navy now possess modern aircraft, weapons, missiles and

4. "The Indian Foreign Minister, however, admitted in the Parliament that there indeed were incursions but that these were not serious and India had the necessary mechanism to resolve the problem", *Indian Express*, December 10, 2009.

5. White Paper on PRC's Military, January 2009

ships; and many if not most of these have been manufactured in China. Forecast International 2009 estimates indicate that the Chengdu Aircraft Company an important part of the Chinese Military Aviation Industry has the capacity to produce modern fighters at the rate of 40 to 48 per year until 2013 a figure that rivals the world leaders such as Boeing and Lockheed Martin of the US.⁶ The PLAAF today reportedly possesses some 1653 combat capable aircraft with more than a third of these belonging to the third generation. The PLA Navy (PLAN) now has 290 combat capable aircraft, 62 submarines including three nuclear SSBNs, 78 major surface combatants including 28 destroyers, four 'Sovremenny' class with guided missiles, 50 modern frigates and some 247 assorted naval vessels including OPV, MCM, amphibious landing craft and logistics and support ships.⁷ It has maintained a sizeable naval presence as part of the anti-piracy task force in the Gulf of Aden for some time and shows signs of breaking out of South China Sea into the Indian Ocean.

Pakistan in China's Grand Strategy

For many years now China has followed a policy of befriending states that are either inimical or unfriendly to India and the US, offered them economic and other assistance and supported them in the UN and other world forums. Its policy of selling increasingly sophisticated aircraft and weapon systems to India's neighbours and indeed, to many other states whose behaviour is at best questionable, like Iran, North Korea, Pakistan, Sudan and others, makes it problematic to engage China with any assurance of a fair return. For example, when the US sells arms to Taiwan or South Korea, China counters it by selling arms to Pakistan, Iran and other such states at what it calls 'friendship prices' often exacerbating the already fragile security situation and directly affecting Indian security. Also the much talked about China-Pakistan is raising eyebrows in non-proliferation lobby when the two countries are known proliferators of nuclear technology for making bombs.

Over 80 per cent of both Pakistan and Bangladesh's military hardware is of Chinese origin. Lately, with its massive economic clout it has also arm-twisted Russia into allowing its sophisticated weapon systems like the RD-93

6. Outlook, 'Change of Landscape', *Aviation Week and Space Technology*, Aerospace Source Book, January, 26, 2009, p. 16.

7. *IISS Military Balance*, 2009, pp. 381-387.

and Saturn Lyulka AL-31 FN turbofan engines to be exported to Pakistan which has so far had no access to Russian technology. Pakistan is thus able to modernise its military hardware at a fraction of the cost that India incurs to counter it. Another major advantage of its all weather friendship with Pakistan allows it to surreptitiously access Western technologies that are out of its reach due to the 'arms embargo' (which in reality is quite ineffective) imposed on it by the US and EU since the 1989 Tiananmen Square incidents. A crashed F-16 and a Tomahawk Cruise Missile that dropped over Pakistani territory in 1998 were quickly transferred to China.

An important sub text to this regional narrative is the notion that Jihadi terrorists in Pakistan are using terror strikes to provoke a war between Pakistan and India and in case India does not exercise restraint a conventional war could escalate into a nuclear exchange since Pakistan's nuclear weapons are aimed at neutralising the so-called advantage that India has in conventional capabilities. The natural corollary to such a narrative is that the US must intervene to stop such a war by leaning heavily on India and that India should move towards resolving the Kashmir issue. There seems to be a tacit understanding that for peace to return the region India must make major concessions to Pakistan and if that is not forthcoming the Western powers cannot expect Pakistan to stop its support to terrorists operating against India. This sub text immensely helps the Chinese strategy of using Pakistan as the 'cat's paw' against India with little or no cost to China. Everybody of course conveniently forgets that Pakistan was allowed to become a nuclear weapons state with the active assistance of China and also the inaction of the US and other European powers when on numerous occasions Pakistan's plans for clandestine development were known to the CIA and other Western intelligence agencies. This is one of the most enduring reasons for many influential people in India to take Western promises of support with much scepticism.

Indirect Support to Terrorism

The region has also been at the receiving end of terrorism for over two decades. In fact the regional situation had started to become fragile from the time the Soviet Armies entered Afghanistan in the end of 1978. Soon thereafter, the US involvement to throw out the Soviet by funding and arming the fundamentalist Afghan elements with Pakistani help made Pakistan the so-called frontline state in the ten-year long war that devastated Afghanistan. The Soviets Armies were defeated and left Afghanistan by

1988. As is the case with surplus labour moving to new areas of economic activity, the surplus Mujahideen fighters were now free to move to Pakistan which cleverly launched its strategy of state sponsored terrorism to wrest the Indian State of J&K. The policy known as 'thousand cuts' certainly forced India to deploy increasingly large contingents of the army to fight the trans-border and local militants it also had some serious repercussions for Pakistan. Its army and civil society became increasingly Talibanised and soon the Pakistani establishment found it exceedingly difficult to control the monster it had created. Afghanistan in the mean time became a safe haven for assorted groups of foreign Jihadi fighters that began attacking Western targets; the 1993 World Trade Centre being the indication of the future. As is well known the Taliban overthrew the weak Afghan government and from the mid 1990s began openly propagating an extreme brand of Islam, and later with the active help of Osama Bin Laden led Al Qaeda, the avowed aim of establishing an Islamic Caliphate across the world.

Following the catastrophic terror strikes of September 11, 2001, on targets in continental America, the US forces launched an air and ground offensive on October 08, 2001 with Pakistan once again playing the role of a front line state. These developments and the ongoing eight year long war in Afghanistan further exacerbated the security situation in the South Asian region. Pakistan was now free to further intensify its proxy war against India with the US and other major powers unable to take any punitive measures simply because they needed the Pakistani Army and its Intelligence Service, the ISI, to fight the Al Qaeda.

The various terrorist outfits trained and nurtured by the ISI soon fanned out in the region and established links with fundamentalist forces in Bangladesh and as succinctly put by the British Prime Minister Gordon Brown, "Al Qaeda leadership enjoys safe havens in Pakistan".⁸ While Pakistan has no doubt been at the receiving end of terror strikes in the last two years the problem has been of its own making. The ISI and the Pakistani army were at all times trying to balance their actions by selectively arresting those involved in the 9/11 and other major attacks but keeping the members of Afghan Taliban leadership safe as future insurance and use in dealing with a post-US

8. <http://www.guardian.co.uk/world/2009/nov/29/gordon-brown-pakistan-terrorism>, (Accessed December 4, 2009)

Afghanistan. It is also being repeatedly alleged that the Al Qaeda leadership has enjoyed sanctuary in the Northwest Frontier Regions of Pakistan and the Queta Shura or the Gulbaddin Hikmatiyar and Jallaluddin and Sirajuddin Haqqani led faction of the Afghan insurgent leadership with close links to ISI⁹ remains untouched. Pakistan has always looked for what it calls 'strategic depth' in its Western neighbour by maintaining its sway over Afghanistan and hence it does not want India to participate even in reconstruction and development of the war ravaged country. India cannot obviously ignore the region since all external threats have historically originated from that direction.

For over forty years now, China has steadfastly backed its all-weather friend, Pakistan in every way possible. In the aftermath of the 1965 Indo-Pak War, when both countries came under US sanctions China began sending military hardware like the F-6 (MiG-19) jet fighters and later the FQ-5 FanTan strike fighters in large numbers. The three nuclear plants at Kahuta, Chasma and Khushab were all built with Chinese help. From the 1980s it supplied Pakistan with nuclear and missile technology and gave it the M-9, M-11 and through North Korea the No Dong missiles and helped it produce them in the country. In 1990 it helped Pakistan test its first nuclear weapon in China.¹⁰

Central and Southeast Asia

Its leadership role in the Shanghai Cooperation Organisation (SCO) allows it to expand its influence in the energy rich Central Asian region where Russia seems unable or unwilling to stop China.¹¹ The PRC has thus effectively expanded its influence well beyond its traditional frontiers. China has deftly built up a mutually beneficial economic relationship with Taiwan, South Korea and Japan. It now has an enduring equation with the ASEAN+ 3 arrangement and has developed important trade linkages with the region. It also signed a FTA with the ASEAN in the end of 2009. Its power can be felt across the littoral of the South China Sea and the wider South East Asian region due to its unsettled claims on two island chains, viz. the Paracels and

9. Arun Shourie, *USI Journal*, April-June 2009, p. 163.

10. Iskander Rehman, "Keeping the Dragon at Bay: India's Counter-Containment of China in Asia", *Asian Security*, vol. 5, no. 2, 2009, pp. 114-143. This information is based on pp.117-118.

11. Some Russian security experts fear Chinese expansion in the Russian underbelly but find that the Russian Government is unable to do much due to Chinese economic power.

Spratley archipelago. China enjoys a formidable status in the region with almost all small countries constantly trying to band wagon China.

China signed the Treaty of Amity and Cooperation in South East Asia (TAC) on October 8, 2003 with the other member states hoping that this would moderate China's security behaviour and help resolve the dispute over the island territories but this has not really happened. As one Southeast Asian analyst put it, "Instead of socialising China, China is socialising us". While the US has promised and indeed maintained a robust naval presence in the Asia Pacific and also signed the TAC agreement on 22 July 2009, the smaller countries are not always confident if the US would come to their assistance if and when the need arises.

With the accelerated modernisation of the PLA Navy and Air Force China is now developing the so-called 'Anti Access/Access Denial or A2AD' strategy in South China Sea area and beyond. Some recent reports in fact suggest that China is fast developing an intermediate range conventionally armed ballistic missile to strike at US Carrier battle groups on the high seas.¹² Given China's prowess in building highly accurate long range missiles it aims to neutralise the US advantage in hi-tech weaponry; indeed the central objective of its 'asymmetric warfare strategy' of winning a war with a superior enemy with inferior weapons technology.

Does this then mean that China is getting ready for war? The answer is perhaps a conditional NO. But it is important to remember that it is fast developing the capability to do so even if its current intentions are ambiguous. Since Sun Tzu's teachings play an important part in its military ethos, China is likely to achieve its objectives through intimidation rather than through war unless it becomes totally unavoidable.

Afghanistan

China is the new entrant in the so-called 'Great Game'. Although it has not so far shown its hand it is clear that it has long-term interests in the region. It has in the recent past invested some US\$ 3.5 billion and plans to increase it to US\$ 5.0 billion, in the Ainaq copper mines south of Kabul. It has assured the government of Afghanistan of future economic support and by exploiting

12. US Office of Naval Intelligence Report http://www.fas.org/blog/secretcy/2009/11/oni_china_navy.html, (Accessed December 3, 2009)

Afghanistan's natural resources will provide much needed employment to the large unskilled and semiskilled youth. Thereby, ensuring a win-win outcome with the US and Pakistan doing the necessary fighting and India lending its hand to Afghan reconstruction and possibly to training of the police forces and Afghan national Army (ANA). Every power including China knows that the US would leave sooner than later and it is making arrangements to play a major role in Afghanistan about whose future it is optimistic or else it would not have invested such large sums in the mining project. While some may argue that China can very easily invest US\$ 3.5 to 5.0 billion, it should be seen more as an indication of its interest in the mineral wealth of that country and hence its commitment to see it develop as a reliable and peaceful friend. China will obviously want both Pakistan and Afghanistan Governments to do their utmost to stop the outflow of Jihadi elements into the restive Xinjiang region. It has already developed a deep sea port at Gwaddar on the extreme South-western coast of Pakistan and is busy upgrading the Karakoram Highway that would link it to Chinese Western province of Xinjiang.

Myanmar

Another area of concern for India and indeed other neighbours is India's Northeast and adjoining regions of Myanmar (Burma) and the PRC. Myanmar has been going through a political turmoil for many decades and the 2010 General Elections hold out some hope for a long sought after reconciliation among the many different ethnic groups. The Military Junta is reportedly trying to legitimise its role through the elections and hopes to bring the various States and ethnic groups represented by the Ethnic nationalities Council (ENC). It represents some 40 per cent of the population and is spread across 60 per cent of the area. Although these groups have in the past been engaged in armed resistance with the Military Junta, they are now hoping to join the main stream by contesting the forthcoming elections. Aung San Suu Kyi led NLD is not the only representative that opposes the Junta. Further, conflict with people, especially businessmen of Chinese origin in the border areas and elsewhere has made the overall situation even more complex. Human trafficking, drugs and arms smuggling in the infamous 'golden triangle' further complicates the already fragile state of affairs. China's moral and material support to the military regime and its plans to further develop the various ports, waterways, airfields and highways and its close trade relationship in accessing oil and gas

from Myanmar prove that it is attempting to make Myanmar a client state. Myanmar has built a 14000 foot long runway near Mandalay, purportedly with Chinese assistance. Such long runways are not required to operate Myanmar Air Force aircraft but would be essential for the PLAAF to operate its H-6 (Tu-16) long range bombers fitted with Anti-ship and Cruise Missiles. Almost all its ships, military aircraft and equipment are of Chinese origin. Control of this region gives China's military access to the Bay of Bengal and wider Indian Ocean Region (IOR) which the fast modernising PLA Navy can use in not too distant future. China has for some two decades established a surveillance station on the Cocos Islands in close proximity of Indian Andaman and Nicobar Island chain. The complex matrix of Myanmar's internal situation and external relations makes it difficult for India to build a mutually beneficial relationship with that country. Presently, it is dealing with the Military Junta with the hope that successful elections would make things easier for both parties.

Bangladesh

Although it established diplomatic relations only after the 1975 coup in which Mujibur Rehman was assassinated, China signed a Defence Treaty with Bangladesh in December 2003 and over 80 per cent of its defence equipment is of Chinese origin. China also hopes to buy the huge quantities of gas available in Bangladesh. In addition, the problem of illegal migrants has reached dangerous proportions with the illegal migrants now deciding the outcome of 20-30 per cent seats in the provincial assemblies of Assam and West Bengal.¹³

Nepal

China's relations with Nepal, India's Northern neighbour are also on the upswing with the Maoist leader and former Prime Minister visiting China soon after he assumed office in 2008. Whether or not one agrees with this theory, China has through diplomatic, economic and trade contacts and above all generous injections of military assistance, encircled India.

Assessment

What then can India do to mitigate the current situation? India has

13. Ibid, p.166.

somewhat belatedly begun to take some steps. Prime Minister Man Mohan Singh recently acknowledged that China's economic growth was indeed spectacular but India accepted that if it were to abide by its democratic values of freedom, liberty, equity, rule of law and inclusive growth its pace of progress would remain slower than that of China reemphasising the desire to follow a path suitable for Indian conditions.¹⁴ This means that India would continue to rely on soft power to meet the new challenges it may face in the future while at the same time strengthening its economy, agriculture and defence. It appears that so long as India can dissuade its immediate adversaries from embarking on a misadventure it would not risk getting into an arms race with China. It has shown some resolve to build a nuclear triad without unduly focusing on stockpiling more than the very minimum number of warheads to achieve what it calls 'credible minimum deterrent'. Indian Navy and Air Force capabilities are also being gradually developed without spending over 2.5 per cent of its steadily growing GDP. (According to the CIA World Fact Book 2008 estimates of India's GDP were US \$ 1.207 trillion while that of China 4.37 trillion)¹⁵ India also plans to lay more stress on healthcare and education so as to maximise the gains from its demographic dividend. India's efforts to become a knowledge power by further building its IT service sector and strengthening its manufacturing prowess are slowly bearing fruit with the latter registering a 7.9 per cent growth in the First Quarter of 2009.

India has also been engaging many countries in East and Southeast Asia. Its relations with Japan, South Korea and ASEAN are showing signs of improvement. The landmark civilian nuclear deal and a rapidly developing relationship with the US in S&T, education, health, agriculture, renewable energy and military fields is likely to pay rich dividends in the future if India stays its course.

Countries of Europe and Africa and Australia and indeed New Zealand are quickly revising their old assessments of India. No longer do they see it as a Soviet surrogate that flaunted its non-alignment. They see India as slowly rising to its potential albeit at its own pace while simultaneously grappling with the myriad problems of running a democratic system in a bewildering

14. "Pakistan Must Abjure Terror First: Manmohan", *The Hindu*, New Delhi, November 25, 2009.

15. CIA World Fact Book available at, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>, (Accessed December 01, 2009).

collage of ethnic, religious, regional and linguistic diversity with fragile and often unstable political coalitions where the States of the Indian Union constantly demand a bigger piece of the national cake.

Conclusion

The foregoing shows that a rising China will continue to pose many challenges to the world at large and the region in particular. India being a large neighbour of China would likely face more complex challenges but is unlikely to cow down to external pressures. It is presently engaged in building its economy and is gradually developing the means to face an uncertain world. Its record shows that it has always been a responsible and law abiding member of the global community and yet followed an autonomous foreign policy. It continues to show the utmost restraint in the face of extreme provocations and is attempting to resolve the myriad internal and external issues it faces. It has proved a reliable friend and is slowly taking an active and positive role in promotion of world peace. It cannot afford to become complacent nor can it afford to avoid shouldering new responsibilities if it has to play a more active role in world affairs.

India's China Problem: Perceptions, Dynamics and Regional Security

Xiaoming Huang

Recent developments in China's relations with the United States and Japan will have significant impact on the regional security environment and the shaping of regional security architecture in the Asia-Pacific. There will be a continual subtle shift of weight in the region to Northeast Asia from ASEAN. Non-traditional security issues that threaten the security of the state and society are matching in intensity and severity with conventional state-to-state conflicts as a growing part of the security issues for the region. More players want to be relevant to the regional dynamics and processes, but preferred models of regional governance are increasingly elitist. In all of these, China seems to be cautious on major initiatives in the region, and wants to continue to focus its efforts on great power relations and relations with "surrounding countries." An East Asian community based on Japan-China-South Korean closer relations therefore is more likely to get China's endorsement.

India's relations with China will be crucial for the region. But the lack of trust between the two seems to prevent them from playing a greater role in the region. Public debate on regional security vs. China is overwhelmingly dominated by conventional thinking and articulation of security. Forging strategic trust between the two countries requires a clearer definition of each country's interests in the region, and acceptance, respect and even support of these core interests by the other side, and embracing the notion of cooperative security and multilateralism that seem to be more effective for contemporary conditions and dynamics in the region.

Introduction

The China factor looms large everywhere around the world, but no more so than in New Delhi. When New Delhi looks up north, over and around, they see a China that is advancing its Third Island Chain strategy in the Indian Ocean from Oman, Madagascar and the Maldives to India's Great Nicobar Island and Indonesia's Sumatra Island¹; and building a "soft-power web" around India from Hambantota of Sri Lanka and Chittagong of Bangladesh

1. Saurav Jha, "China's 'Third Island' Strategy", *World Politics Review*, January 06, 2010

to Gwadar of Pakistan and Mukkala of Yemen². They see the relations between the two countries as “pass impasse”³ because of what China is: China's territorial ambitions over the land south of the British-drawn McMahon Line led to the stalemate on the settlement of territorial disputes; China's dominant interests and presence in East Asia has allowed little progress in India's East Look strategy to engage with and to be relevant to the growing business of East Asian regional institutions; and China's traditional relations with Pakistan has led to India's dilemma on “war on terror” vs. its favoured “two-front war.” There is a dominant view in New Delhi that the “the giant neighbours are more rivals than partners”⁴.

It is this perceived rivalry between China and India that has dominated the debate on the strategic interests and role of India in the region and how it relates to China. Any moves by India in the region can be easily constructed into what I call a “trap of two giants.” India's interests in the East Asian regional institutions, particularly the East Asian Summit, are seen by many as a counter force against the dominance of China in the shaping of regional architecture. India's development of nuclear capability and long-distance delivery systems is seen as aimed at China's threat. India's military exercises with Singapore and the United States are seen as instances of balance of power in response to the growing influence of China in the region. The idea that India, Japan, United States and Australia join forces in the region was hailed as an “axis of democracy.” India's new defence strategy of “stabilising the western front and strengthening the northern front” is viewed as India's reaction to its China problem.

The problem with this rivalry theory of the relations is it relies too much on a single construct in making sense of the dynamic and evolving relations between the two countries of such scale and complexity. China and India relations have started to come back to normal in the early 1990s along with the beginning of economic reform in India. There has been profound change in the political economy of both countries in the past 30 years. However, how the changing political economy in these two countries affects their relations and attitude towards the other is not always clear. Moreover,

2. Ibid. Also see Vikas Bajaj, “India Worries as China Builds Ports in South Asia”, *New York Times*, February 16, 2010

3. *The Economist*, February 4, 2010

4. Jonathan Holslag, *China and India: Prospects for Peace*, Columbia University Press, 2010

the international system has also experienced significant change since the end of the Cold War, and both China and India are working hard to understand how they can best position themselves in the emergent international system and what the new international system means for the rising powers. Early confinement of themselves to a narrow pre-constructed structure does not do any good for either of them. Finally, significant relations in Asia are very fluid. The Cold War bipolar structure already collapsed, but a new, effective multilateral rationale and framework for regional security is yet to emerge.

This chapter will start with a look at how the changing and uncertain relations in the region, driven largely by Chinese effective and assertive activities, affects India's role and interests in the region and Sino-India relations in particular. In general, India's role and interests in the region are affected by China's relations with major powers, the United States and Japan in particular; developments in internal conflicts in Burma, Pakistan and Afghanistan and how China relates itself to those countries; non-traditional security issues in the region such as environmental protection, energy security, maritime security; the shaping up of the institutional architecture for regional cooperation and community building; and core issues in China-Indian relations. Forces in any of these areas can move the relations in either direction. The chapter shall argue that what matters in all of these is not so much what China is doing, but rather what India wants.

China, United States and Japan: How India Fits In

China's relations with the United States and Japan, two principal movers and shapers of the region and Cold War allies, had largely survived the end of the Cold War and continued to operate on the model of China vs. US-Japan alliance until very recently. From the mid-1990s to early 2000s, efforts were made by Tokyo and Washington to upgrade their relations to be more equal but closer. Japan sought to become a normal state in the 1980s through a subtle campaign for internationalisation and a more independent foreign policy. Yasuhiro Nakasone's nationalism reflected the sentiment in Japan in the 1980s for a more independent and normal state. Japan under Prime Minister Junichiro Koizumi pursued a quite different strategy though with essentially the same purposes. Instead of seeing the United States as an obstacle to its dream of returning to a normal state, Koizumi chose a path of UN-via-Washington where a closer alliance with the United States was expected to help Japan to play a greater role in the international system. With

the US as its strategic partner, Japan's relations with China were at the lowest in decades.

For a long time, US-China relations were confrontational. They were the two principal participants in the Korean War and Vietnam War which were the two most significant armed conflicts in the world after the World War II. China and the United States were the leading countries in the Cold War bipolar structure in the region. The Cold War in East Asia did not really end after the collapse of the Soviet Union and East Europe. The Taiwan problem between China and the United States rather increasingly became a primary cause of tension between the two countries in the 1990s and 2000s. The uncertain movements in the security architecture in East Asia continued to restrain Beijing and Washington from making major adjustments in their respective relations to allies and friends in the region. US concerns over a rising China and its implications for US regional and global interests dominated the China debate in Washington and China's worries about US intentions to contain China dominated China's international policy debate.

China's relations with Washington and Tokyo received a significant boost in 2009. China had been contemplating a “strategic partnership” with Japan for some time. This partnership may not mean much for China as it has tried to set up some kind of “strategic” relationship with many other countries around the world. Japan had resisted the suggestion in the past, particularly under the Koizumi administration, as this “strategic partnership” ran uncomfortably with Tokyo's primary efforts then on an upgraded Japan-US alliance. Prime Minister Abe accepted “a strategic partnership of mutual benefits” between Japan and China.

But it was not until Prime Minister Yukio Hatoyama took power in September 2009 that one started to see signs of substance to this “strategic partnership.” Both Japan and China support the idea of the China-Japan-South Korea closer, and standing-alone cooperation. Prime Minister Hatoyama took Japan's new proposal for regional cooperation the idea of the East Asian Community, first to the summit in Beijing. Both China and Japan pledged to have broader policy consultation and coordination on important regional and global issues. The third annual Japan-China-Korea (JACK) summit in 2010 set up the permanent secretariat for the three-party cooperation, a new fund for currency stabilisation, a timetable for establishing a defence dialogue mechanism and a free trade agreement among the three.

The new momentum in the relations reflected the changing political dynamics and a new government by a different ruling part in Japan. As the political system in Japan dictates, any substantive international policy initiative would require domestic political support. It is not new that the China policy is one of the key issues that divided political parties and voters in Japan. It is therefore unclear whether the new China initiatives of the Hatoyama government was more of the personal interests of Hatoyama and policy preferences of the Democratic Party of Japan, or it reflects a broad political and social sentiment in Japan.

However, the recent developments in Japan's international policy have indicated clearly that there is substantial support in Japan for Tokyo to move away from its strategy in the past to seek a “normal statehood” through a closer Japan-US alliance. The relationship between Japan and the United States has reached a point where they both see the need to accept the other side's adjustment in its relations with China. Given the persistent efforts by Japan in the past on a Pacific community of regional cooperation, Japan's new proposal signalled a significant readjustment by Japan on regional matters, particularly in its relations with China.

On the part of China, its positive response to many of the new international initiatives of the Hatoyama administration suggested that China is able to control different views on Japan in China and move the relationship a step forward. China has a different political system and policy-making process. But on China's relations with Japan, domestic debates are real, views are contentious. It is one of the few foreign policy issues in China where the government is very sensitive to the political implications of any public reaction to what it does vs. Japan. There have always been those who see that Japan owns China historically; Japan is a die-hard regional “sheriff” of the United States in East Asia; and Japan is in a zero-sum rivalry with China, and those who believe that China should look to the future in relations with Japan rather than chasing a ghost in the past; a China-Japan closer cooperation in the region is not a problem but a solution to many of the problems in the region; and in a long term, only a China-Japan consensus and working together can lead to a meaningful region community in East Asia. The fact that this time China seems to be also ready to accept a closer relationship with Japan, particularly in matters of regional governance, suggests that Beijing has sufficient political support to move its relationship with Japan in the latter direction.

Developments in China's relationship with the United States are even more significant for the region. Since 9/11, the need on both sides to cooperate or even trade off on their core international interests has led them to re-prioritise many issues between them. The initial expedient arrangements however have been further strengthened as China's international interests and capacities continued to grow. Zoelick's "responsible stakeholder" speech in 2005⁵ and Steinberg's "strategic reassurance" speech in September 2009⁶ marked the shift of US thinking on its relationship with China. In his "strategic reassurance" speech, US Deputy Secretary of State James Steinberg said, "We are ready to accept a growing role for China on the international stage... China too, needs to demonstrate the same commitment to doing its part - reassuring the United States, its neighbours in Asia, and the rest of the world that we have nothing to fear from a more influential China." The joint statement from Obama's visit to Beijing in November 2009 endorsed the idea of the relations built on strategic reassurance and re-positioned the US-China relations as "partnership." It is perhaps safe to say that there will continue to be ups and downs in the future relations. But there seems to be a substantive need for both sides to take the relationship in the large context of strategic interests and the relationship is strong enough to tolerate moves by either side for political and tactical reasons.

The implications of China's (re)affirmed partnerships with US and Japan for the region are potentially significant. These new relationships will forge a higher level of strategic mutual understanding among the three countries, which in turn will provide a less rigid strategic environment. China-Japan-Korea coordination on regional and international issues can be more acceptable to countries such as the United States. Hot spot issues such as Taiwan, North Korea, and East Sea gas fields are less likely to be played up because of the larger rationale of strategic assurance. US reengagement with East Asia can be met with less suspicion and resistance.

For India, the scenario driven by this momentum would present a strategy perimeter in the region for India different from what is often presumed in

5. Robert B. Zoelick, "Whither China: From Membership to Responsibility?" *Remarks to National Committee on US-China Relations*, New York City, September 21, 2005

6. James B. Steinberg, "Administration's Vision of the US-China Relationship," *Keynote Address at the Centre for a New American Security*, Washington, DC, September 24, 2009

the strategic debate in New Delhi. This is not necessarily bad news for India though. Indeed, it presents an opportunity for India to engage in East Asia and the region as a whole in a more positive and substantive way. The section on regional architecture below discusses this further in detail.

Second, China's experience of turning the international tide around in the process of its economic growth, development and the expansion of its international interests and influence over the past 20 years is a useful lesson for India. The 1990s was difficult for China. China was not strong enough to sustain a major international campaign to contain China. There were two things that Beijing insisted at that time that seem to have made a difference for what China is today. First, the senior leadership insisted that the limited resources at the time be used primarily for economic growth and development. The military, along with other resources-hungry sectors, were asked to tolerate their temporary marginalisation on the national pie. Second, not to get in the trap of containment and power transition provocations, China managed to keep its head down and tolerate, often painful at times, bullies and unfairness in the world. China's international posture may have been forced upon by the domestic and international conditions at the time, but such a neo-Bismarckian vision⁷ did help China deal with the problem of how China as an emergent power is not trapped and dragged down by unrealistic temptations and ambitions often associated with a rapidly growing power.

Internal Conflicts in the Region: Zero-sum Competition or Cooperative Security?

Internal conflicts around the China and Indian border areas are issues of immediate significance for Beijing and New Delhi in their regional security interests. These are not only causes of concern to both, but also potentially concrete opportunities for China and India to work together to promote security and stability in the region. There are three internal conflicts or tensions in the region that currently concern China more than others in the region: Burma, Pakistan and Afghanistan. In Myanmar, the government has conducted a series of campaigns in the past year or two to reinforce national authority over the cease-fire, mostly self-governed border areas, with forces

7. Avery Goldstein, "An Emerging China's Emerging Grand Strategy: A neo-Bismarckian Turn?" in G. John Ikenberry and Michael Mastanduno, *International Relations Theory and the Asia-Pacific*, Columbia University Press, pp. 57-105, 2003

when necessarily as happened in Kokang in August 2009. Unlike in the past when China supported the military government, Beijing reacted to the Kokang conflict with concerns about the border security and dissatisfaction that the Burmese government failed to consult China on its recent actions. The US shift in its approach in 2009 to the Burmese military government signalled a further complication in China's relations with Burma, crucial for China's future regional strategic landscape.

Across India, the conflicts in Afghanistan and violence and tensions in Pakistan presented a real security challenge for China. China's traditional framework in the region, that supports Pakistan over India, seems to be increasingly inadequate for the new security environment China is facing. India can be a solution to the dilemma, but a high level of distrust between Beijing and Delhi prevents the two countries from seeking strategic cooperation in the region. In the US-China joint statement during Obama's visit, the situation in South Asia was discussed as part of US-China global interests and concerns. This, however, was largely neutralised in Singh's visit to Washington later in the month.

Continuing conflicts and tensions in Afghanistan and Pakistan can move China to seek pro-active and more effective ways to secure a stable regional environment for China. Leading international powers have hinted to China to move in that direction. Sending Chinese troops to the region as part of UN peace keeping forces is an option. China can also work with the United States in providing safe and more efficient passage in the Sino-Pakistani border area for US troops and materials. China may not be ready yet for such a significant step in engaging with the region. China can also support the expansion of the Shanghai Cooperation Organisation (SCO) to include South Asia with India as a primary partner. At the moment, the South Asian countries are observers to SCO. This however can be complicated by China's intention to keep SCO manageable and consolidate its leadership position in SCO at the moment.

China's approach to these countries has been mainly on a bilateral basis with long lasting concerns and interests driving the relations with each country concerned. China doesn't really see that South Asia as a region is something for China to worry. However, drastic developments of global significance in the region in recent years, particularly in Afghanistan and consequently in Pakistan, put pressure on China to take a position of constructive engagement with the region as part of the international efforts to secure and

stabilize the region. For India, every move by Beijing in the region is interpreted as a direct infringement on India's sphere of influence. One can frame and approach the problem of the three countries as one of China or India's traditional bilateral relations with one another; that of China-India rivalry, or one of international intervention for regional order and nation-building. The third perspective seems to be underlying the ongoing efforts in the region by the international community. But how the traditional concerns and interests of China and India can be incorporated in these international efforts seems to be a more practical and useful question to answer.

Non-traditional Security Issues

While conventional security issues have been gradually contained on the global level, non-traditional security issues have increasingly become sources of security concerns for China. For China, there are two different types of non-traditional security issues: transnational non-traditional issues such as energy security, climate change, refugees, money laundry and drug, piracy, poverty, and pandemics; and issues that threaten the security of the state and society: economic security, information security, political insurgences. The first type security issues have motivated China to work with other countries and international organisations to combat these issues. On the second type issues, China tends to approach them more along the line of national sovereignty and national security. Non-traditional security issues therefore can be a vehicle for China's more active engagement in multilateral cooperation; they can also be sources of tension between China and other countries. Some of the issues such as energy security and maritime security can have both implications. China's highway and oil pipeline projects in Myanmar and port projects in Indian Ocean fall in this category.

Non-traditional security issues in the first category are areas that China and India can naturally work together. The types of non-traditional security issues are very similar for China and India. Moreover, these non-traditional security issues are new in the international system and there are less structural and institutional barriers or bias against countries such as China and India, and there is great space for China and India to play a greater role. The joint efforts of leadership by China and India, along with South Africa and Brazil, in agenda setting and consensus building at the recent UN Climate Change Conference in Copenhagen is a good example. Even on the second type of issues, cooperative security can be more effective. For example, the challenge of political insurgences in the large area from the

Middle East to Central Asia to Xinjiang to Pakistan is ironically of the same sources or similar driving forces and the war on terror in this vast region could bring Beijing and New Delhi closer.

The Building of East Asian Community: What are India's Interests?

An area that shows asymmetric influences of China and India in the region is the problem of regional architecture where China has a long established and well respected position in almost all regional institutions. India is largely a new comer and how it fits into the shaping up of the regional architecture and indeed what exactly India's interests are in the Asia-Pacific region are not all that clear. Without such clearly articulated interests, India's efforts in the region can be easily interpreted in the popular discourses of China vs. the rest, US-China rivalry, or China-Japan competition.

There have been great movements and activities in advancing regional cooperation and integration in the past several years from the East Asian Summit in 2005 to the East Asian Community of Japan and the Asia-Pacific Community of Australia in 2009. New developments that have generated these activities and new proposals are US efforts to reengage with Asia; Australia's intentions, under Kevin Rudd's government, to play a greater role in regional governance; India's growing interest in the Asia-Pacific; and the prospect that China and Japan can join hands in leading the process of regional cooperation and consultation.

The renewed interest in regional institutions reflects the shortcomings and inadequacy of the existing platforms for regional cooperation and integration. Ad hoc membership and non-binding commitments seem to be two major problems across these existing arrangements. Moreover, with the growing willingness to work together on regional matters among the Northeast Asia Three, Japan, China and South Korea, questions arise naturally as to the necessity and effectiveness of regional institutions that were historically centred on ASEAN. This is particularly true for regional security institutions such as the ASEAN Regional Forum (ARF) and ASEAN plus Three (APT). ARF has been mostly focused on dialogue and consultation, and has yet been able to move into the second stage in confidence-building and preventive diplomacy. APT on the other hand has allowed us to imagine endlessly the possible formula of ASEAN+N for regional cooperation, but shown little real substance and value to these platforms.

Kevin Rudd's Asia-Pacific Community proposal clearly reflected concerns over the problems in regional cooperation. It wanted a real regional body that has a broad mandate on security, economic and political matters in the region. It wants a regional body broadly representing major interests and forces in the region. But it also wants an elite group including Australia, United States, China, Japan, India, Singapore, Indonesia and Russia. Suspicions have naturally arisen from ASEAN and China, or even perhaps the United States. And, of course, this time Japan has its own proposal the East Asian Community.

Looking at the security environment China is facing, one would clearly see China's priorities in building regional institutions for security. China is committed to building up the SOC that deals with real security concerns across China's northwest borders. If SOC can be extended to South Asia in the future, it will certainly add to the security of China on its western borders. The Six Party Talk is generally expected to become a useful platform for security dialogue and confidence building in Northeast Asia. It can go beyond the Korean Peninsula. But its membership is too specific for the Korean nuclear issue and it can be of a limited use for issues such as the East Sea problems between China and Japan, or even potential tensions over the Taiwan Strait. To the south of China on South China Sea disputes, China's main security partner would continue to be ASEAN, while China continues to work out bilateral interim agreements with individual countries concerned for maritime resource management. China's southwest borders, from Pakistan to Burma, seem most insecure and most problematic at the moment, with no regional institutions involving China for dialogue and consultation, and confidence building.

One can argue that this area is outside the core interests of China. China's security thinking is far more practical and specific. Its main security concerns have been over major powers, particularly the United States and Japan. Since these concerns are lessened with the upgrading of relationship with the United States and Japan, China's security priority will focus on "surrounding countries." Given the volatile situation on the ground in its Western boarder and uncertain relations between China and India in the region, India will certainly be a main target for China's efforts in building an effective regional framework for dialogue and consultation, and confidence building and even preventive diplomacy.

As for India, much of India's security concerns are outside the scope of the

existing regional (East Asia, Asia-Pacific) security frameworks and it is not clear how they might be addressed with the proposed new regional frameworks. India might historically relate to Southeast Asia and South Pacific because of the former colonial connections. But India was completely cut off from the region after the World War II, particularly during the Cold War. India is not part of the bipolar structure in the Asia-Pacific. The Asian model of rapid economic development is mostly referred to Asian countries on the Pacific Ocean. When India started to re-engage with the Asia-Pacific region, there is clearly an issue of relevance of India on main issues for the regional frameworks concerning South Pacific, Southeast Asia and Northeast Asia, and what India expects to achieve from its much expected engagement with the regional institutions.

In South Pacific, India's presence in the area is very limited. There are Indian ethnic groups in South Pacific countries but how they connect to the contemporary interests of India in the area is not clear. Countries in the area, Australia and New Zealand in particular, would be happy to see more active and substantive presence and activities of India there as this can balance the growing presence and influence of China in the area. In Southeast Asia, security issues in the Indochina Peninsula and along the sea lanes from Indian Ocean through the Malacca Strait are of great importance for India. But current regional institutions seem to be ineffective in addressing security concerns in the area between India, China and Indochina. In Northeast Asia, much of the regional security frameworks have little relevance for issues between China and India. India is largely irrelevant to Northeast Asia.

When India looks at their security issues in these areas, it is not sufficient to say we want to look east and be relevant to a region of global importance and a region that was pretty much on the margin of India's international policy in the past decades. The question is, looking east for what? New Delhi would not only need a vision for its role in the region but also a better articulation of its interests there and what regional institutional platforms required to support and advance these interests.

What Sino-India Relations Can Do

India-China relations are increasingly important for each other, for the region and for the world, but ones that are very uncertain, to say the least, driven by distrust and misperceptions as well as divergent, often misinterpreted interests. The relations are more like the ones between China

and the United States or between China and Japan a few decades back. Can China and India arrive at some form of “strategic reassurance” between themselves? There is nothing impossible in politics. What matters is perhaps what each will and can do for the other's core interests in the region and on the global stage and, from there, how to build “strategic trust.” There are some areas that India and China can work to build such strategic trust:

- China, India and Japan as core architects in building an East Asian community. This EAC is comprehensive in its mandate on economic, security and political issues, and is interested in both global and regional matters;
- India and China collaborate on their border region. This collaboration can use an existing institutional platform such as the Shanghai Cooperation Organisation or develop a new forum primarily by India and China. This collaboration can be narrowly focused on security, stability, nation-building and regional order in the border area, or more broadly on security and stability in the Middle East, Central Asia, and South Asia;
- Closer economic cooperation between India and China;
- Greater role together at key international organisations;
- Political commitment to early settlement of the border issues.

This strategic trust between India and China can potentially deal with some of the key concerns the two countries face in the region. For India, a key issue in its relations with East Asia is it seems unable to find an effective point/platform of engagement with East Asia in its broad “Look East” policy since 1991. This is partly because of the ambiguity and fluidity in the development of the regional institutions. India has been welcome in these regional institutions, existing or proposed, somehow more as a counter balance against China than as an important, relevant country that can bring value to the regional institutions. What India itself wants from its regional engagement is not always clear. The same applies to China. There is no effective institutional platform or partnership for China to manage security problems in the region to its southwest borders and from China's perspective, India is not really a relevant player in the East Asian regional community.

There should be no illusion that India-China cooperation can bring a grand global leadership. Each has their own global interests and agenda as well as domestic politics and economic interests. However, cooperation on regional matters between India and China through an effective regional platform seems to be practical and useful.

Conclusion

Three points from above discussion can be highlighted. First, India can and should engage with East Asia on a more effective platform. A regional consultative forum with China, Japan and India as its core members would be a useful.

Second, the issues of bordering countries between China and India, from Pakistan, to Afghanistan to Myanmar need to be looked at as part of international efforts for security and stability in the near terms and as part of regional framework led by India and China for nation building and regional order in the long term.

Third, the solution to India's China problem, if there were such a problem, needs to be, and will be, economic rather than military as framed in the popular balance of power discourse involving China and India. This requires us to understand the logic and conditions of contemporary international relations, the position of India in the international system, and how India can and will continue grow and develop without being trapped in the perceived game. It is on this point that China's experience of managing its rise in the past 30 years can be a useful guidance.

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9

First and Foremost: Twelve Months of the Obama Administration's Policy in Asia

Mark G. Rolls

Irrespective of the degree to which one is supportive (or otherwise) of the former Bush administration's policy in Asia, President Obama came to power with many in the region feeling that the United States had been distracted and hence disengaged. In an attempt to correct this perceptual problem, the tenor and tempo of America's foreign policy in Asia has changed and a number of notable firsts have been apparent during the Obama administration's first twelve months in office. These firsts have included certain high-level visits as well as participation in, commitments to, and policy statements on a number of important regional institutions including the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum, and the East Asia Summit. Bilateral relations with long-standing allies remain important whilst in respect of the major Asian powers US relations with them continue to display both co-operation and, at times, friction. Unlike in the past where US attention to the region was sometimes 'episodic', a combination of factors including specific issues such as the Korean peninsula, as well as the need to co-operate with powers such as China and India on a range of pressing global concerns means that the Obama administration's prioritising of Asia is likely to be of a more permanent nature.

The number of Asia-related firsts during President Barack Obama's first year in office was quite remarkable. Hillary Clinton's first overseas trip as the new Secretary of State was to Asia in February 2009 when she visited Tokyo, Jakarta, Seoul and Beijing. During her visit to Jakarta she “paid the first-ever visit to ASEAN [Association of Southeast Asian Nations] headquarters.”¹ The first visitor President Obama greeted at the White House after his

1. Jeffrey Bader, National Security Council Senior Director for Asian Affairs, FIC Briefing, Foreign Press Centre, New York, September 23, 2009, <http://fpc.state.gov/129590.htm> (Accessed November 11, 2009).

inauguration was the then Japanese Prime Minister, Taro Aso,² and, in Singapore in November 2009, the first US-ASEAN Leader's Meeting was held at which a US President met all ten ASEAN leaders collectively for the first time.³ Most recently, of course, the Indian Prime Minister, Manmohan Singh, made the first “full-fledged state visit” of the Obama presidency.⁴ Notable also was the fact that the United States signed ASEAN's Treaty of Amity and Co-operation (TAC) before the 2009 ASEAN Regional Forum (ARF) meeting in Phuket, Thailand.⁵

These firsts were not accidental. They were clearly planned and intended to have a symbolic value. With regard to Clinton's February 2009 trip to Asia, Jeffrey Bader observed that, “This hasn't been done for 50 years.... This was meant to be a signal”.⁶ Whilst Hillary Clinton herself noted in advance of her departure that, “I believe it demonstrates clearly that our new Administration wants to focus a lot of time and energy in working with Asian partners and all the nations in the Pacific region because we know that so much of our future depends upon our relationships there”. Furthermore, she also acknowledged that “there has been a general feeling that perhaps we didn't pay an appropriate amount of attention to Asia over the last years being very preoccupied with other parts of the world, so I wanted to start at

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2. Ibid. Although it was actually President Gloria Macapagal Arroyo of the Philippines, who became the first Asian leader to have a summit at the White House. *Channelnewsasia*, 'Obama Backs Philippines Peace Push', July 31, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/445908/1/.html (Accessed July 31, 2009).
 3. *Channelnewsasia*, 'Obama says US enjoys deep historical ties with SE Asia', November 15, 2009, <http://www.channelnewsasia.com/stories/singaporelocalnews/print/1018417/1/.html> (Accessed November 20, 2009). It had been intended that the first such leaders' meeting would be held in 2007 but this was eventually postponed by Obama's predecessor: a postponement which drew much adverse comment in the region.
 4. *Channelnewsasia*, 'Indian PM Offers to Work with Obama', November 24, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/1020219/1/.html (Accessed December 1, 2009).
 5. *Channelnewsasia*, 'Washington to Ink Southeast Asia Pact with Eye on China', July 21, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/443840/1/.html (Accessed July 24, 2009). A US willingness to sign the TAC had been signalled by Obama before coming to office and Clinton indicated during her February trip that the US had begun the process to accede to the Treaty. *Channelnewsasia*, 'Hillary Clinton Sees New Role for Indonesia in US “Smart Power”', February 18, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/409907/1/.html (Accessed February 20, 2009).
 6. Jeffrey Bader, no.1.

the very beginning demonstrating our commitment there.”⁷

In a sense, Secretary of State Clinton's observation gets to the heart of the problem as far as America's policy in Asia is concerned. As the character Leo Solomon said in the 1995 film, *The American President*, 'politics is perception'. The perception of some in the United States and many in the region (particularly in Southeast Asia) is that in the recent past the US has been disengaged and uncommitted or, to put it another way, 'missing in action'.

Some analysts have gone so far as to argue that this is not just a recent phenomenon. In the abstract to their 2007 *Asian Survey* article, Diane Mauzy and Brian Job nicely encapsulate the nature of US policy towards Southeast Asia over the three decades since the end of the Vietnam War. “American foreign policy in Southeast Asia from 1975 to the present can be characterised as exhibiting varying degrees of benign neglect, with episodic attention to perceived security threats.” The latest of these threats to become manifest, Islamist terrorism, has again led to a renewed, albeit rather narrow, focus.⁸ The phrase “benign neglect” might also be attached to US foreign policy toward South Asia for much of the Cold War period although India might dispute the 'benign' adjective given the deployment of the USS *Enterprise* carrier battle group to the Bay of Bengal in the latter stages of the war with Pakistan in 1971 or the provision of extensive military aid to Pakistan in the wake of the Soviet invasion of Afghanistan. Certainly, though, the US attached a low priority to the South Asian region for the majority of the period.

Even those who are supportive of the George W. Bush administration's Asia policy are cognisant of the very real perceptual problem for the United States. Michael J. Green, who served on the National Security Council from 2001 to 2005, recognises that in respect of America's involvement in the East Asian region's multilateralism, the problem was “one of perceptions”:

7. Hillary Rodham Clinton, Secretary of State, Remarks at the Asia Society, New York, February 13, 2009, <http://www.state.gov/secretary/rm/2009a/02/117333.htm> (Accessed November 11, 2009). Almost a year later, Clinton felt confident in asserting that, “By now ... it should be clear that the Asia-Pacific relationship is a priority of the United States.” Hillary Rodham Clinton, Secretary of State, Remarks on Regional Architecture in Asia: Principles and Priorities, Imin Centre Jefferson Hall, Honolulu, Hawaii, January 12, 2010, <http://www.state.gov/secretary/rm/2010/01/135090.htm> (Accessed January 22, 2010).

8. Diane K. Mauzy and Brian L. Job, 'US Policy in Southeast Asia: Limited Re-engagement after Years of Benign Neglect', *Asian Survey*, VXLVII (4), July/August, 2007, p. 622.

Condoleezza Rice's absence from the ARF meetings in 2005 and 2007 indicating that she (and thus the US) was “not interested in Asia”.⁹ For Green, the real critique of Bush's Asia policy “is one of process rather than content that is that inconsistent application of high-level attention to Asia.”¹⁰ Robert Sutter also notes the problem of the “episodic high-level attention and often offensive unilateral attitudes” which many in Southeast Asia think has been displayed by Washington.¹¹

Overall, however, both Green and Sutter contend that the Bush administration's policy in Asia was largely successful. For example, whilst Bush's policy on North Korea was seen as a failure by some (for Pempel it was the most obvious failure), Green argues that ultimately one of the major successes for Bush in Asia was the setting up of the Six Party Talks framework for dealing with the North Korean problem.¹² In a similar vein, Sutter, in the course of mounting a robust defence of American leadership in Asia, contends that Barack Obama has actually “inherited a US position in Asia buttressed by generally effective Bush administration interaction with Asia's powers.”¹³ Motivated by the need to prosecute the global war on terror, which, of course, has also generated friction at times with states in Southeast Asia, America has “broadened and intensified” its military and security co-operation with a number of Southeast Asian states, particularly Indonesia, the Philippines and Thailand.¹⁴ Alliance relationships too with Japan, South Korea and Australia have all been strengthened.¹⁵

9. Michael J. Green, 'The United States and Asia after Bush', *The Pacific Review*, 21 (5), December, 2008, p. 591. Green's article is a rejoinder to that by T. J. Pempel in the same issue. Pempel contends that foreign policy under Bush “deviated sharply from the path taken by earlier administrations ... and worsened America's position across much of East Asia”. T. J. Pempel, 'How Bush bungled Asia: militarism, economic indifference and unilateralism have weakened the United States across Asia', *The Pacific Review*, 21 (5), December, 2008, pp. 547-48.

10. *Ibid.*, p.592

11. Robert Sutter, 'The Obama Administration and US Policy in Asia', *Contemporary Southeast Asia*, 31 (2), August, 2009, p.205.

12. Michael Green, no.9, p. 2.

13. Robert Sutter, no.11, p. 195.

14. *Ibid.*, p. 206.

15. Nick Bisley argues that the changes to the US-Japan alliance which have occurred are “central to the reorganisation of America's regional role and its relationship to American global strategy.” Nick Bisley, “Securing the 'Anchor of Regional Stability'? The Transformation of the US-Japan Alliance and East Asian Security”, *Contemporary Southeast Asia*, 30 (1), April, 2008, p. 95.

Indo-US relations were a notable highlight of Bush's Asia policy and reflected a pattern of improvement evident from the beginning of the post-Cold War period. The basis for an improved relationship was almost immediately created by India's support during the first Gulf war when it provided refuelling stops for American aircraft en route to the Persian Gulf. For the US, its post-Cold War policy of attaining a favourable pattern of regional stability through the development of 'co-operative engagement' with like-minded regional states meant that India could play an important role in the context of South Asia. A formalised process of defence co-operation was begun in 1995 including joint military exercises, intelligence sharing and discussion on strategic objectives. There was also a perception in the US that India could play a wider global role and thus the desire to further improve ties was increased. References to the fact that India was now seen as an 'emerging great power' obviated the problems associated with status recognition which had so often affected ties during the Cold War.

Although India's nuclear tests in 1998 clearly went against the continued US commitment to non-proliferation and led to the suspension of some defence co-operation and the imposition of sanctions ultimately they had surprisingly little impact on the relationship. President Clinton's visit in March 2000 effectively signalled American acceptance of the reality of India's nuclear status and heralded a move towards increased economic and security co-operation.

Indo-US relations underwent considerable improvement during George W. Bush's presidency. The sanctions were dropped in October 2001 and in June 2005 a ten-year defence co-operation agreement was signed heralding co-operation on weapons production and missile defence (among other things). During President Bush's state visit to India in March 2006, the two states signed the landmark civil nuclear technology agreement to which considerable symbolic significance has been attached in addition to its obvious practical utility for India. Moreover, American officials openly stated that India was a "singularly important" foreign policy priority and that the development of relations with India has been one of America's "most important [recent] strategic initiatives".¹⁶ Only a few months before the

16. Nicholas Burns, Under Secretary of State for Political Affairs, "India is a 'singularly important' foreign priority for US", *Channelnewsasia*, March 23, 2006, http://www.channelnewsasia.com/stories/afp_asiapacificprint/199364/1/.html (Accessed March 24, 2006).

sixtieth anniversary of Partition, a US State Department official hailed ties with India as being the strongest since 1947¹⁷ and, in a speech noting foreign policy achievements just before his presidency ended, Bush noted that America had now “opened a new and historic strategic partnership with India.”¹⁸ The view from New Delhi was much the same, with one analyst noting that Bush was “one of the most important ... presidents for India.” Under his administration, “India occupied a pride of place in the strategic calculus of the US” being “wooed as a rising power” and “seen as a pole in the emerging global balance of power”.¹⁹

Notwithstanding the friction generated by issues such as nuclear proliferation, the military takeover in October 1999 and Pakistan's support for the Taliban regime in Afghanistan, in general there was a steady improvement in the bilateral relationship between the US and Pakistan in the period up to 2001. All too aware of Pakistan's weakness as a state, it was evident that America sought to maintain the bilateral relationship in order to forestall Pakistan's collapse.

As so often before, Pakistan became of critical importance as a result of the changed circumstances brought about by the events of September 11, 2001 and the onset of the 'war on terror'. Indeed, Pakistan's co-operation was regarded as essential in the efforts to capture Taliban and Al-Qaeda leaders and in the continuing efforts to combat a resurgent Taliban. Pakistan's vital role was such that the US was ultimately prepared to overlook the problems of nuclear proliferation posed by the case of the man behind Pakistan's nuclear weapons programme A. Q. Khan and in 2004 Pakistan was granted major non-North Atlantic Treaty Organisation ally status.

This was a status, though, with which India was clearly unhappy. Indeed, India displayed a general wariness about the degree of military co-operation

17. *Channelnewsasia*, 'Military cooperation key to US-India relations: US diplomat', April 30, 2007, http://www.channelnewsasia.com/stories/afp_asiapacificprint/273335/1/.html (Accessed May 4, 2007).

18. “President Bush Commemorates Foreign Policy Achievements and Presents Medal of Freedom to Ambassador Ryan Crocker, US Department of State, Washington D.C.”, January 15, 2009, <http://www.georgewbush-whitehouse.archives.gov/news/releases/2009/01/20090115.html> (Accessed January 27, 2010).

19. Harsh V. Pant, “US India Ties: A Long Road for Obama”, *Far Eastern Economic Review*, 172 (9), November, 2009, p.45.

between the US and Pakistan under Bush; despite its own markedly improved relationship with America. Not surprisingly therefore, the Bush administration faced a continuing difficulty in reconciling its need for Pakistan's assistance over Afghanistan with its long-term goal of developing a strategic partnership with India. Of course, this was not really a new problem. For much of the Cold War period America had to try to balance the demands of both India and Pakistan with its own wider strategic interests.

Overall then, for Green, Sutter, and others of like mind, the Bush administration's Asia policy laid a firm foundation for the Obama presidency. What was required, therefore, was not wholesale change but minor adjustment, or fine-tuning.²⁰ On the other hand, for Pempel and his supporters Obama needed clearly to set a different course and put in some effort to recover the United States's position (particularly in East Asia).²¹ The reality of what has been required probably lies somewhere between these two positions.

Senior officials with responsibility for Asia in the Obama administration have recognised the importance of continuing with the “strong pattern of close consultation with ... partners in the Six-Party Talks” and that in respect of relations with US friends and allies people “should not expect sudden alterations in longstanding patterns”.²² However, it is also acknowledged that there is a need to do more (and be seen to do more). As Secretary of State Clinton said in her February 2009 pre-departure speech, she intended to “deliver a message about America's desire for more rigorous and persistent commitment and engagement” with Asia.²³

This more dynamic approach has certainly been evident in Southeast Asia

20. Green, for example, has suggested that the Obama administration needs to address Bush's “tactical failings”, whilst Sutter recognises that in its initial approach towards Asia the Obama administration has sought to correct “some generally secondary shortcomings in the Bush administration's efforts in the region.” Michael Green no.9, p. 585 and Robert Sutter, no.11, p. 192.

21. The perception in Southeast Asia especially was that since the Asian financial crises when for Mauzy and Job US relations with the region “reached their nadir” America's position had steadily been eroded with China gaining at its expense. Diane Mauzy and Brian Job, no.8, pp. 627-28.

22. Jeffrey Bader, no.1.

23. Hillary Clinton, no.7.

which has received a “new emphasis” under Obama.²⁴ In fact, the Obama administration's “demonstration of greater interest in and flexibility towards relations with southeast Asia suggests that enhanced activism, involvement and flexibility in the region may represent the most significant change in US policy in Asia”.²⁵ Some of those firsts outlined at the beginning are indicative of this and Obama has also showed flexibility with regard to Burma (Myanmar) and how it affects, or rather will now not be allowed to affect, relations with ASEAN.²⁶ Without a doubt, ASEAN now occupies a much more prominent place in US policy towards the region than hitherto. Under Clinton's stewardship the US has established an ambassadorial post to the Association's headquarters in Jakarta and the Secretary of State has openly stated that America now views it as “an important success story” and believes “that a strong, integrated ASEAN will serve broader regional interests in stability and prosperity.”²⁷

This level of activism and engagement can be expected to continue with full US participation in those regional multilateral fora of which it is a member and in terms of an expanded framework of co-operation with ASEAN. Indeed, Clinton has signalled that as far as the ARF is concerned US participation will continue²⁸ and at the first ASEAN-US Leaders' Meeting it was agreed that an ASEAN-US Eminent Persons Group would be established to facilitate increased ASEAN-US cooperation.²⁹

With regard to the East Asia Summit (EAS) and by signing the TAC the US has cleared one important obstacle to membership. America has now indicated for the first time a desire to become involved. In a speech during

24. Jeffrey Bader, no.1.

25. Robert Sutter, no.11, p. 212. Otherwise, unless distracted by a major crisis in North Korea, Obama generally appears to be “inclined to adhere fairly closely to pragmatic and generally constructive US policy approaches to key Asia issues followed in the later years of the Bush administration” as far as Sutter is concerned.

26. *Channelnewsasia*, 'Myanmar will no longer dictate ASEAN ties: White House', November 11, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/1017098/1/.html (Accessed November 13, 2009)

27. Hillary Clinton, no.7.

28. *Ibid.*

29. *Channelnewsasia*, 'ASEAN, US to set up Eminent Persons Group to enhance cooperation', November 15, 2009, <http://www.channelnewsasia.com/stories/singaporelocalnews/print/1018408/1/.html> (Accessed November 20, 2009).

his visit to Tokyo, President Obama openly stated that the US was now looking to become formally engaged with the EAS and in a major speech on the region's architecture in January this year Clinton said that America proposes “to begin consultations with Asian partners and friends on how the United States might play a role in [it] ... and how the East Asia Summit fits into the broader institutional landscape”.³⁰

In addition to her statement on the EAS, Clinton's speech was important because, for the first time, it set out the US position under Obama on the evolving regional architecture. Although still reluctant at this stage to adopt a clear-cut position on one or other institution (though in a return to an earlier administration's approach the ARF and Asia-Pacific Economic Cooperation [APEC] are highlighted in the security and economic areas respectively), the point is being reached as far as the US is concerned when Asia-Pacific nations will “need to decide ... which will be the defining regional institutions”. What is clear, however, is that these 'defining institutions' must include all the major players. They could, therefore, be “well-established, like APEC, or they could be of more recent vintage like the East Asia Summit, or more likely, a mix of well-established and new.” Whichever ones are eventually selected it is also evident that as far as the US is concerned they should become more results-oriented and display more effective decision-making than has been apparent thus far.³¹

Increased US activism, engagement and participation in East Asia have undoubtedly been motivated by the perception that the US has, to a degree, lost out to China in image terms (if not necessarily in any real practical sense). Generally speaking, however, and certainly in stark contrast to previous administrations' early years in office, there was a “smooth transition” in the bilateral relationship.³² In September 2009, Bader noted that the relationship “is sound” and that Obama has established a strategic and economic dialogue chaired by Secretary of State Clinton and Treasury Secretary Geithner which “has been an unprecedented forum for dialogue on the key strategic and economic issues”. Military-to -military relations were also

30. Hillary Clinton, no.7.

31. Ibid.

32. Jeffrey Bader, no.1.

restored.³³ These dialogues have been a very important part of what the US Deputy Secretary of State, James B. Steinberg, has termed a policy of 'strategic reassurance' towards China.³⁴

Although dialogue and co-operation particularly over North Korea - have been apparent, friction remains, however, and Obama's visit to China in November 2009 was not regarded as an unadulterated success with disagreement apparent over economic issues and Iran's nuclear programme.³⁵ Most recently, and problematically, in addition to disagreement over internet freedom in China and approaches to dealing with climate change, continued US underwriting of Taiwan's security has intensified friction. In response to the US Department of Defence's approval of a US\$6.4 billion package of weapons sales to Taiwan, China swiftly announced yet another suspension of military-to-military talks along with other high-level bilateral discussions on a range of security issues.³⁶

Much of the friction between the US and China results from the latent military competition which appears to exist and sometimes takes shape in the South China Sea, with China disputing US interpretations of legitimate behaviour by US Navy vessels in China's Exclusive Economic Zone and the shadowing of US carrier battle groups by submarines belonging to the People's Liberation Army Navy. Indeed, James Steinberg cites these problems when arguing that: "Reassurance is especially critical when it comes to military activities."³⁷ It will certainly be interesting to note what

33. Ibid.

34. For Steinberg, 'strategic reassurance' "rests on a core, if tacit, bargain. Just as we and our allies must make clear that we are prepared to welcome China's 'arrival', ... as a prosperous and successful power, China must reassure the rest of the world that its development and growing global role will not come at the expense of security and well-being of others." James B. Steinberg, Deputy Secretary of State, Keynote Address at the Centre for a New American Security, Washington DC, September 24, 2009, <http://www.state.gov/s/d/2009/129686.htm> (Accessed January 22, 2010).

35. *Channelnewsasia*, 'US, China stress cooperation on world issues, broach divides', November 17, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/1018790/1/.html (Accessed November 20, 2009).

36. *Channelnewsasia*, 'China Retaliates over US Arms Deal for Taiwan', January 30, 2010, http://www.channelnewsasia.com/stories/afp_asiapacific/print/1034214/1/.html (Accessed February 2, 2010).

37. James Steinberg, no.34.

language the upcoming 2010 US Quadrennial Defence Review (QDR) will use to describe the challenge now posed by China.³⁸

Ongoing concerns about Chinese competition will mean that the US will continue to seek to strengthen the alliance relationships it has, particularly with Japan but also with South Korea. In a recent speech marking the 50th anniversary of the Treaty of Mutual Cooperation and Security with Japan, James Steinberg noted how the relationship with Japan has evolved over the years and stressed the “incredible importance” which the Obama administration attaches to “this critical relationship ... as part of our deeper engagement in Asia.” For America, “Japan has been, and will continue to be, the cornerstone of US engagement in the region and a foundation of US foreign policy.”³⁹

These relationships and others in the region are also seen as useful in furthering US interests elsewhere. Bader contends that the US has clearly “gotten some significant benefits” including increased contributions to efforts in Afghanistan from a range of states including Japan, South Korea, Australia and New Zealand and in the Gulf of Aden from Australia, Japan, Singapore and South Korea.⁴⁰

South Asia (and for the US this includes Afghanistan), as we know, has been identified as a high priority by the Obama administration. President Obama “has made clear that he views the international effort in Afghanistan and

38. As Paul Buchanan observes, the 2006 QDR clearly identified China as the power most likely to engage in military competition with the US and as a consequence the US has begun to shift its “military-strategic emphasis away from the Atlantic to the Pacific theatre of operation.” Examples of this shift cited include reversing the 60/40 ratio of Atlantic/Pacific submarine deployments; increasing the number of carrier battle groups in the Pacific from five to six as of 2010 (with one of these to be based at Guam for the first time); and the fact that the US Pacific Command is “now the primary government authority in the region, overshadowing the State Department.” Paul Buchanan, ‘Securing the Outer Perimeter: The US Response to Chinese Expansionism in the Southern Pacific’, *Gauntlet*, 1, October, 2009, p. 15.

39. James B. Steinberg, Deputy Secretary of State, “The Future of the US-Japan Alliance”, Willard Hotel, Washington DC, January 15, 2010, <http://www.state.gov/s/d/2010/135270.htm> (Accessed January 22, 2010). Not surprisingly, perhaps, Steinberg made only passing reference in his speech to the Japanese Government’s then ongoing review of the existing agreement between the two countries to relocate the US’s Futenma air base on Okinawa. Fortunately for the alliance relationship, the Japanese Government announced in May that the 2006 agreement with the US on the relocation would be implemented as planned.

40. Jeffrey Bader, no.1.

Pakistan as a single theatre of immense strategic importance to security not only of the United States but of the world.”⁴¹ Pakistan has certainly been highlighted as being central to the attainment of success in Afghanistan as well as being a strategic priority for the US in its own right. In November last year the results of a long-term strategy review on Pakistan saw President Obama offer it an “expanded strategic partnership, including additional military and economic cooperation”.⁴² With respect to India, Robert Blake Jr. notes, both Obama and Clinton have made oft-repeated statements of “their clear commitment to strengthen [the] partnership with India.”⁴³ There seemed to be a perception in the new US administration that perhaps more than mere rhetoric was required with Clinton observing during her visit to New Delhi and Mumbai in July 2009 that the bilateral relationship was “overdue for an upgrade”.⁴⁴

One of the tangible demonstrations of this commitment was the launching of a new wide-ranging 'Strategic Dialogue' by the Secretary of State and the Indian External Affairs Minister, S. M. Krishna. This dialogue has five pillars, including: strategic cooperation; science; technology; health and education; and, significantly, energy and climate change.⁴⁵ The importance of this dialogue as a demonstration of his administration's “commitment to India” was noted by President Obama during PM Singh's state visit, with the president also stating his belief “that the relationship between the United States and India will be one of the defining partnerships of the 21st century”.⁴⁶ In addition to discussions on a range of issues including climate

41. Robert O. Blake, Jr., Assistant Secretary, Bureau of South and Central Asian Affairs, speech to School of Advanced International Studies, Johns Hopkins University, Washington, DC, September 9, 2009, <http://www.state.gov/p/sca/tls/remarks/128753.htm> (Accessed November 11, 2009).

42. *Channelnewsasia*, 'US offers Pakistan expanded strategic partnership', November 30, 2009, http://www.channelnewsasia.com/stories/afp_asiapacific/print/1021492/1/.html (Accessed December 1, 2009).

43. Robert Blake, no.41.

44. *Ibid.*

45. *Ibid.*

46. The White House, Office of the Press Secretary, Remarks by President Obama and Prime Minister Singh of India in Joint Press Conference, November 24, 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-obama-and-prime-minister-singh-india-joint-press-conference> (Accessed January 26, 2010).

change, non-proliferation and transnational threats, the two leaders agreed to advance an “historic food security initiative” between the two countries.⁴⁷

One of the arguments put forward to explain the Bush administration's unprecedented success in having good relations with India and Pakistan at the same time, was that it had pursued what has been termed a 'dehyphenated' approach. In other words, India and Pakistan were treated “on their own merit and in separate boxes.”⁴⁸ Obama, however, seems to be intent on a more joined-up strategy in South Asia effectively seeing Afghanistan, Pakistan and India as a whole. This was implicit in Obama's offer to Pakistan of an enhanced partnership, with his letter to President Asif Ali Zardari indicating that the offer included “an effort to help reduce tensions between Pakistan and India”.⁴⁹ As C. Raja Mohan contends, for Obama “success in Afghanistan depends on facing the problems in Pakistan. These in turn depend upon ending Pakistan's insecurities vis-à-vis India, especially on Kashmir.”⁵⁰ India neither welcomes being seen in the context of the Afghanistan-Pakistan strategy nor US offers to mediate between it and Pakistan. Indeed, even before he had taken office Obama's indication that he would appoint a special envoy to South Asia to perform such a role was promptly rejected by India's External Affairs Minister.⁵¹ It has been suggested by some analysts, therefore, that “ties between India and the US are [now] on a downward trajectory and cannot in the short-term at least have the kind of sparkle that was seen during the Bush era.”⁵²

Although the establishment of the strategic dialogue and the evident success of Singh's state visit bode well for an arresting of this downward trajectory,

47. Ibid. For the State Department official with responsibility for relations with India, this co-operation to meet major global challenges is a clear demonstration of the “maturity of ... [the] relationship and the strength of ... [the] partnership,” Robert O. Blake, Jr., Assistant Secretary, Bureau of South and Central Asian Affairs, Chennai, India, December 10, 2009, <http://www.state.gov/p/sca/rls/remarks/133935.htm> (Accessed January 22, 2010).

48. C. Raja Mohan, 'How Obama Can Get South Asia Right', *The Washington Quarterly*, 32 (2), April, 2009, p. 175.

49. *Channelnewsasia*, no.42.

50. Raja Mohan, no.48.

51. Ibid., p. 176. The fact that when Richard Holbrooke was appointed as special envoy his remit did not include India and Kashmir seemed to be a victory for India on this point. Ibid., p. 187.

52. Ranjit Devraj, 'India-US: Thorny Times Ahead Despite Nuclear Deal', *Inter Press Service*, May 29, 2009. <http://www.globalissues.org/news/2009/05/29/1656> (Accessed November 29, 2009).

there are fundamental differences between the two countries which could eventually lead to a more troubled relationship than has been the case in the recent past. Irrespective of ongoing friction in Sino-US relations, it has been contended that China will always occupy a more prominent position in US strategic calculations than India and thus Obama will avoid doing anything with India that will annoy China. In other words, the US will not demonstrate the exclusivity (and support) in its strategic partnership with India that New Delhi might desire.⁵³ In turn, Pant argues that “India's domestic politics as well as its desire for 'strategic autonomy' make it highly unlikely that ... [India] will ever emerge as a close ally of the US in the traditional sense.” Moreover, despite all the talk about the two states “being 'natural partners', neither country is used to partnership among equals.”⁵⁴

It has been suggested that US policy towards Asia moves in a pattern of historical cycles and that, therefore, “one might well anticipate increasing US disengagement from the region” in the future.⁵⁵ Although it may be first and foremost now Asia may not be so for the duration of the Obama administration. However, in addition to the latent competition with China, the situation in Afghanistan, and the episodic crises generated by North Korea, all of which will continue to require Washington's attention, it has been widely recognised (with words to this effect emanating from many of the recent summits) that the US now accepts that it needs to co-operate with Asian states (particularly China and India) to meet a range of global challenges including climate change. It seems highly unlikely, therefore, that the US will lose interest in Asia so quickly since what happens in the region now has such profound implications for US global interests. On the other side of the equation, for many Asian states, as Robert Sutter argues, America remains indispensable for their security and prosperity and so it is very much in their interests for the US to remain engaged and committed.⁵⁶

53. Brahma Chellaney, 'Three's a Crowd in the India-China Theatre', *Far Eastern Economic Review*, 172 (9), November, 2009, p.20. Chellaney notes, for example, the failure of the US to provide any support for India in its intensifying dispute with China over Arunachal Pradesh. *Ibid.*

54. Harsh Pant, no.19, p.48.

55. Diane Mauzy and Brian Job, no.8, p.641.

56. Robert Sutter, no.11, pp.193-96.

Engaging East Asia: Challenges before Obama

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Introduction

President Obama's foreign policy orientation towards East Asia seems to be characterised by continuity rather than change, not much different from his predecessors. However, one possible negative fall out of such a policy can be that while paying more and more attention on the hotspots of the so called 'war on terror', continuity of policies towards East Asia will shade into complacency, leaving the administration to constantly making efforts to catch up with rapidly changing situation in the region.¹

Presently, a multi-level approach in managing trilateral relationships between the US, China and Japan has been increasingly advocated. However, at a time when each of these countries is going through a transformative period, bilateral relationships will remain central to their interactions with one another. As the largest overseas purchaser of the US treasury bonds, China will have considerable leverage while dealing with the superpower. Viewed differently, one cannot really underestimate the mutual hostage quality resulting from China being the largest holder of US bonds, which has a kind of economic dependent character attached to it.

However, the merits of a trilateral consultation among the US, Japan and China cannot be underestimated. According to eminent scholar on Japan, Gerald Curtis, the three should avoid institutionalising such a practice by making it a regular consultative mechanism, as it will make the South Koreans feel alienated.² So far, the experience of regional institution building in East Asian region has proved to be nebulous. The failure of the Six Party Talks (SPT) in obtaining a desirable solution towards North Korea's

1. Gerald Curtis, "Obama in East Asia: No Room for Complacency", East Asia Forum, August 30, 2009, at <http://www.eastasiaforum.org/2009/08/30/obama-and-east-asia-no-room-for-complacency/> (Accessed November 18, 2009).

2. Ibid.

denuclearisation is an example. That is why, at present, the Obama administration has been suggested not to think about building new security architecture in East Asia. The dominant view within the strategic community of the US seems to be that “East Asia today needs an attentive US Government that engages with countries in the region flexibly and with imagination.”³

In recent years, a rising China has been attracting a great deal of attention in the US foreign policy. However, China's need for a stable international environment to pursue its developmental goals cannot be overlooked. But US policy-makers are apprehensive of the fact that factors like US media criticism about human rights violations in China, the inherent fragility of an authoritarian political system lacking in sources of legitimacy over its ability to produce rapid economic growth, a reversal of positive trends in cross-strait relations, division between the US and China on North Korea's nuclearisation issue, and the possibility of growing protectionist pressures in the US leave no room for complacency for managing the future Sino-US relations. Therefore, the Obama administration has been advised not to provoke the Chinese by attempting any of these harsh measures.

As regards Japan, Obama administration has shown a bit of complacency. A tendency to underestimate Japan's strengths and potentials by the new administration seems to worry many policy makers. Japan is going through a transitional phase, indicated by factors like the opposition Democratic Party of Japan (DPJ) dethroning the LDP from over half century's rule in Japan.⁴ The new generation of Japanese leaders is not favourable to continue having the 'special relationship' with the US, etc. The Obama Government, therefore, needs to embark on a strategic dialogue with Japan to revitalize the bilateral alliance.

Obama's China Policy

The frailty in Obama's China policy came sharply in focus when Obama failed to wring any concessions from China in his maiden voyage to Beijing in November 2009. America's conservative media viewed this capitulation on

3. Ibid.

4. See, Rajaram Panda, “Maturity of Democracy in Japan or Acid Test for Hatoyama? *Mainstream*, vol. XLVII, no.42, October 3, 2009, pp. 27-35.

the part of the US. In 1998, Bill Clinton in a public discussion with Jiang Zemin had talked about China's poor human rights record, the Dalai Lama and the Tiananmen Square episode. Similarly in 2002, George W. Bush stressed liberty, the rule of law and faith in a speech to university students broadcast across China. In contrast, Obama's November 2009 visit was distinctly different. Not only Obama in Washington deferred indefinitely a meeting with the Dalai Lama to mollify the Chinese,⁵ in Beijing he assured his audience that "we recognise that Tibet is a part of the People's Republic of China" and only then added that "the United States supports the early resumption of dialogue between the Chinese government and the representatives of the Dalai Lama."⁶

Not offending China was Obama's higher priority, at least on Tibet. The Dalai Lama has met with the sitting US Presidents a dozen times. Although Beijing complained about these meetings, there were no serious costs to the US-China relationship. George W. Bush met with the Dalai Lama in May 2001, in advance of his first trip to China, and thereafter made clear that meetings with him were non-negotiable. These presidential meetings are important because they affirm the religious and democratic freedoms America stand for, while setting a global precedent. China routinely assails countries whose leaders meet with the Dalai Lama, targeting France and Germany in recent years by cutting off diplomatic exchanges, cancelling conferences and the like. Does Obama expect a return favour from Beijing for snubbing the man Chinese leaders label a "splittist" and a "wolf in sheep's clothing"? But Obama should be careful that rewarding China's bullying only encourages such tactics.

However, where Obama floundered more was that he failed to bring up matters of human rights and the subject of China's currency, the Renminbi, being kept undervalued to promote China's exports, which is an issue of major concerns to the US and other industrialised nations. China, in fact, snubbed Obama by putting a long-time US resident and leader of the Tiananmen Square protestors, Zhao Yongjun, on trial the day after Obama left Beijing. That Obama steered clear of public meetings with Chinese

5. "No Time for the Dalai Lama", *The Wall Street Journal*, October 6, 2009. <http://online.wsj.com/article/SB10001424052748704471504574449420327844600.html>

6. Kaushik Basu, "Yuan for the Buck", *The Hindustan Times*, November 21, 2009

liberals, free press advocates and even average Chinese, showing a deference to the Chinese leadership's aversions to such interactions that is unusual for a visiting American President, showed how much had changed in the perceptions of each other and the evolving equations between the two countries.

When Obama visited Moscow in July 2009, he met with opposition political activists and journalists, and he publicly questioned the prosecution of an anti-Kremlin businessman. In China, by contrast, Obama in nuanced references to human rights, shied away from citing China's spotty record. For its part, the Chinese government made sure that Obama did not bump into protestors by placing well-known activists under tight security. Some of those were vocal 20 of them were detained, placed under house arrest or prohibited from travelling before Obama's visit.

As the *New York Times* wistfully put it, "This is no longer the United States-China relationship of old but an encounter between a weakened giant and a comer with a bit of its own swagger. Washington's comparative advantage in past meetings is now diminished, a fact clearly not lost on the Chinese."⁷

Conservative media and numerous right-wing bloggers in the US are upset at Obama's bending over backwards to make peace with China. It is possible that Obama has emerged as the scapegoat for all the ills that have developed over the past in the Sino-US relations, leaving Obama with little choice. For decades, the US has bought more gods from China than it has sold. This has led to a mounting American debt and explains China's staggering foreign exchange reserves of over \$2,000 billion. To get a sense of how large this is, one simply needs to know that the second highest reserve-dollar holder, Japan, has less than half this amount.

If China offloads a substantial amount of these dollar reserves, it can bring the dollar crashing down with devastating consequences. Such an action, of course, will hurt China itself as its reserves will dwindle but the impact will be disastrous to the US economy. Obama's disappointing visit is a symptom of his administration's dysfunctional and poorly conceived China policy.

7. Michael Wines and Sharon Lafraniere, "During Visit, Obama Skirts Chinese Political Sensitivities", *The New York Times*, November 18, 2009. http://www.nytimes.com/2009/11/18/world/asia/18china.html?_r=1&pagewanted=print

Obama's China's policy is dubbed as “strategic reassurance” as it envisions a tacit bargain whereby the US mollifies Chinese fears of containment, while assuages US concerns about its global intentions and shoulders more international responsibilities.

The concept of “strategic reassurance” may be an attractive concept as it aims to encourage a rising China to be status quo, rather than a revisionist, power as Washington cannot do without China to tackle more serious issues such as curbing greenhouse emissions and checking North Korea and Iran from pursuing their nuclear ambitions. But bending over backwards to reassure China, as Obama did, risks undermining America's own objectives, losing leverage with Beijing and eroding its standing in the world.⁸ The Taiwan portion of the US-China joint statement also seemed to concede too much to Beijing by suggesting that “respect for ... sovereignty and territorial integrity” represents the “core” of the various documents leading to Sino-American rapprochement. Washington has always sought to balance its recognition that Taiwan is part of China with guaranteeing Taiwanese security under the Taiwan Relations Act (TRA).⁹ If Obama administration gives concessions to China on this, it not only reduces US leverage but feeds Beijing's sense of its growing power and decreases its incentive to reform.

Is China ready to be a responsible stakeholder?

It transpires that much howsoever Obama would like to reassure Beijing by bending backwards China would be reluctant to be a responsible stakeholder. In September 2005, Deputy Secretary of State Robert B. Zoellick in his address to the National Committee on US-China relations had urged China to become a responsible stakeholder in the international system. He further argued that China has a responsibility to strengthen the international system that has enabled its success.¹⁰ Between then and now, China has shown little

8. Prashanth Parameswaran, “Obama's China Policy: Neither Strategic nor Reassuring”, November 25, 2009, <http://www.worldpoliticsreview.com/articlePrint.aspx?ID=4698>

9. Rajaram Panda, “Sino-US Accord on Taiwan”, *China Report*, vol. 19, no.1, January-February 1983, pp.3-6

10. “Whither China: From Membership to Responsibility?”, Remarks to National Committee on US-China Relations, Promoting Constructive Engagement, by Robert B. Zoellick, Deputy Secretary of State, on 21 September 2005. <http://www.nbr.org/publications/analysis/pdf/vol16no4.pdf>

hope to become a responsible stakeholder in the international system. All nations conduct diplomacy to promote their national interests but responsible stakeholders go further; they recognize that the international system sustains their peaceful prosperity, so they work to sustain that system. In its foreign policy, China has many opportunities to be a responsible stakeholder but China is found wanting in doing so.

According to Brad Glosserman, director of Pacific Forum CSIS, because China tends to attribute problems like North Korea, Iran and Afghanistan-Pakistan to these countries' desire to reshape their bilateral relationships with the United States, it feels that Washington should bear the burden of resolving them. According to Glosserman, China's reluctance to shoulder more international responsibilities have several roots.¹¹ The first is Deng Xiaoping's admonition that China "should adopt a low profile and never take the lead". He argues that despite meteoric rise to become the third largest economy and threatening Japan to be the second largest economy in the world by 2010 that mentality prevails. Chinese ambassador to the UK, Fu Ying, feels that China to reach the level of world power will be an incremental process and that China cannot play a role in the world beyond its capacity. It seems that China is confronted with daunting domestic challenges, which might be more serious when viewed from Beijing than as seen from outside.

Glosserman cites a CSIS survey of Chinese elites from a range of institutions that revealed that few felt any sense of global responsibility for China or for global leadership. Almost all of them believed that China should be active internationally, but when asked what role their country could play, over 70 per cent thought China's greatest contribution would simply flow from securing China's own stability and development. A whopping 90 per cent rejected an international leadership role, and two-thirds rejected the idea that China should take a special role in resolving international disputes.

Recent Chinese conduct confirms this. China's economic stimulus efforts have focused on domestic stability. Beijing complains about the dollar's status as a reserve currency, but is unwilling to loosen its grip on the

11. Brad Glosserman and Scott Snyder, "Not Too Fast with China", *PacNet* No. 74, Pacific Forum CSIS, Honolulu, November 13, 2009

renminbi, fearing that it would weaken its policy-making tools and undermine the value of its dollar holdings. China is unwilling to use the word “sanction” in relations to Iran or fully implement a UNSC resolution on North Korea. China's own interests in regional stability remains a higher priority than denuclearization, despite the global interest in stopping nuclear proliferation. When Chinese Premier Wen Jiabao visited North Korea in October 2009, it was seen as a move to bring Pyongyang to the negotiating table but his promise of economic package was not in consistent with the UN resolution.

Its choice of increasing trade with Iran also goes against the popular opinion.¹² Oil exports account for nearly half of Iran's revenues and that because of economic sanctions imposed by the West Iran exports most of its oil to Asian countries, with a large percentage of that going to China. In return, China is investing billions in Iran's gas and oil fields. Even on issues where China's interests align with the US, Beijing is loath to invest the necessary capital in pursuit of these public goods, preferring that Washington and other developed nations pick up the tab.

Assessment

Obama emerged from the trip with no big breakthroughs on important issues, such as Iran's nuclear programme or China's currency. In stark contrast with the past, Obama's trip was largely conciliatory. In a joint appearance with President Hu Jintao, Obama hailed China as an economic partner that has “proved critical in our effort to pull ourselves out of the worst recession in generations.” Speaking to the students, he described China's rising prosperity as “an accomplishment unparalleled in human history.” On a visit to the Great Wall, he described the ancient structure “spectacular” and “majestic” and expressed “great admiration for Chinese civilization”.¹³ It is not that past US Presidents did not laud the Great Wall since Richard Nixon visited in 1972 but Obama's trip stood in sharp contrast to the journeys of his predecessors. It was not a policy shift as such but what

12. Warren Mass, “China to Strengthen Trade Ties with Iran”, October 15, 2009, ...hina-to-strengthen-trade-ties-with-iran?tmpl=component&print=1&layout=default&page

13. Andrew Higgins and Anne E. Kornblut, “In Obama's China Trip, a Stark Contrast with the Past”, *The Washington Post*, November 18, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/11/17/AR2009111704225_...

was more dramatic was in the power dynamic, particularly in economics over the past decade.

In 1998 when President Clinton visited China, the US was still basking in its position as Cold War victor and the world's sole superpower. It sought China's help on only a narrow range of international issues, such as the spread of missile technology and North Korea. China was trying to recover from the stigma of 1989 crackdown. It was the seventh biggest holder of US Treasury securities. Today, China is the nation's biggest creditor and its trade with the US has grown sevenfold. Whether as a creditor, an emitter of greenhouse gases or a neighbour of Afghanistan, China has clout that the US now desperately needs.¹⁴ The US seems to be struggling to come to terms with Asia's increasingly assertive superpower.

Obama's China policy is thus neither strategic nor reassuring. China is producing long range missiles, radars, sensors, and torpedoes. Beijing is also moving ahead with a ballistic missile that could deter US aircraft carrier strike groups critical to the defence of Taiwan and the security of Washington's friends. Friends of the US in Asia urge the US for a robust and extended regional presence, irrespective of what Japanese Prime Minister Hatoyama might have said for an equal partnership with the US. Australia's defence White Paper of 2009 paints a grim picture of China contesting American primacy in Asia.¹⁵ Similarly, Singapore's Patriarch Lee Kuan Yew chides Washington for "giving China a free run in Asia".¹⁶

It was astounding when Obama suggested that Beijing and Washington "together can help to create international norms". How Obama wants to craft global rules with a country that coddles dictators from Pyongyang to Myanmar to Harare, and tramples on freedom of expression and minority rights domestically not only defies logic but also undermines American legitimacy to remain the sole superpower. A flawed strategy on the part of Obama will embolden Beijing, a rising power bent on pursuing its own

14. Ibid.

15. Defending Australia in Asia Pacific Century: Force 2030, http://www.defence.gov.au/whitepaper/docs/defence_white_paper_2009.pdf

16. Quoted in "Can US take China as an Equal?", November 23, 2009, <http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/world/04-Can-US-take-China-as-an-equal-qs-05>

interests. Parameswaran observes: “Instead of “strategic reassurance”, Washington should aim for a realistic China policy, working with Beijing where it can, pressuring Beijing when it should, and balancing China's influence where it must.”¹⁷

Obama's Japan's Policy

In 2009, the situation in East Asia, however, underwent a dramatic change. The US withdrawal from the region due to the ongoing war on terror elsewhere has become the primary concern for the allies. Both Tokyo and Seoul felt that the US withdrawal would eventually leave Pyongyang to brandish its nuclear weapons and allow China to expand its influence in the region. Divergence of security concerns among the US and its alliance partners made the three to drift apart further. As far as Japan is concerned, many feared that if Japan's concerns over North Korea's nuclear threat and China's rising military power are not taken seriously by the US, the alliance would definitely lose its vitality. South Koreans, however, seemed to be much more divided on the North's nuclear issue. While on the one hand Pyongyang severed many inter-Korean ties, it continued to have talks with the US at the bilateral level. Some South Koreans were apprehensive about such development considering that the bilateral talks would result in a deal that would leave the South marginalised. However, there were others who feared that failure of such talks would push the Korean peninsula eventually to a crisis exposing them to military provocations and the threat of war.

During the presidential campaign, on the issue of the US-Japan alliance, Obama stated: “The US and Japan have shared interest in promoting security and prosperity in Asia and around the world-shared interests that rest on a bedrock of shared values: in democracy, the rule of law, human rights, and free markets. Japan plays a vital role in working with the US in maintaining regional security and stability, promoting prosperity, and meeting the new security challenges of the 21st century... The US-Japan alliance must remain at the core of efforts to revitalise Japan's role in ensuring stability and security in the region”.¹⁸ Thus, Obama emphasised on the significance of the US-Japan relations in maintaining peace and security in the region.

17. Parameswaran, n.8.

18. Thomas Crampton, “Obama China and Japan Policies”, October 29, 2009, at <http://www.thomascrampton.com/china/obama-china-and-japan-policies/>.

The Japan-US security alliance faced major challenge over the issue of force re-alignment. Neither the Japanese politicians nor the public were agreeable to offer the kind of support Washington was expecting from Japan. Still, it was hoped that Obama administration would take initiatives to strengthen the bilateral relationship. Renewed US attention to broad security cooperation at a time of sharp economic downturn and North Korean nuclear crisis may, after some inescapable Japanese hesitation, would yield an increased and perhaps unprecedented commitment to joint endeavours.

It is interesting to note that support to the alliance in Japan is declining. A government survey conducted just before the inauguration of Obama administration clearly indicated that fact, as those who thought the relations between the two states were good had dropped to 68.9 per cent, the lowest since the survey was started in 1998. The survey results contrasts with the fact that the people in the US continue to believe that the bilateral relations continue to be good.¹⁹

In its election manifesto, the DPJ stated that if elected to power, the party would call for a 'close and equal' alliance with the US. However, after coming to power, the party seems to have softened its attitude towards the US. In fact, while proposing the formation of an East Asian community (EAC), Hatoyama pledged to maintain the bilateral alliance with the US as the cornerstone of Japan's foreign policy. Quite surprisingly, however, in the proposed EAC, while Japan, China and South Korea constitute the core members, the US was omitted from the group. That is why, critics argue that Hatoyama's policy on the alliance was contradictory. There is also a section of people who are at present debating over the issue of whether the alliance should be given preference over the proposed EAC or vice versa.

Many in Washington feared that by proposing the EAC, the Hatoyama Government was actually trying to emulate policies championed by former Malaysian Prime Minister Mahathir Mohamed earlier and former South Korean President Roh Moo-hyun recently. While the East Asian Economic Caucus proposed by Mahathir in the early 1990s did not allow the US as a participant, Roh proposed to play the role of a balancer between the US and China. According to many, Hatoyama was trying to copy Roh while

19. Hiroshi Nakanishi, "Will Obama's Promise of Change Include US-Japan Relations?" *The Japan Times*, January 1, 2009.

proposing to serve as a 'bridge' to other nations through the EAC.²⁰

In his first visit to the Asian region, President Obama took his message as the first Pacific President through eight-days, four-country tour of the region in November 2009. His first stop was Japan, home to the greatest concentration of the US military forces and its most important bases in East Asia. For Japan, Obama's visit was historic as the US was to deal with a non-LDP led government in Tokyo for the first time in Japan's history. So, apprehensions were naturally high over the Obama-Hatoyama meet in Tokyo.

The joint statement that was issued stated that both agreed on plans to cut their countries' greenhouse emissions by 80 per cent by 2050 and to support efforts by “the poor and most vulnerable” nations to combat climate change.²¹ Both the leaders also decided to join hands in making concrete efforts for the successful outcome of the upcoming Copenhagen conference on climate change in December 2009 during which a global conclusion on a renewed treaty on climate change to succeed the current Kyoto protocol (expiring in 2012).

Futenma Base and Increasing Dissonance

The stalled relocation of the US Marines' Futenma airbase is now arguably the most entrenched political problem facing the Japan-US relationship. It will also be the first litmus test for the Obama-Hatoyama administrations in strengthening the bilateral relationship further. In May 2006, both countries agreed to move the heliport functions of Futenma air station located in Ginowan, Okinawa prefecture, to a less densely populated area in Nago, northern Okinawa by 2014. At that time, an agreement was also made to transfer 8,000 Marines from Okinawa to Guam.²²

The issue over Futenma somewhat was aggravated recently during US Defence Secretary Robert Gates' visit to Tokyo in October 2009. He was

20. Yoichi Funabashi, “Japan must reach out to both Asia and the West”, *Asahi Shimbun*, November 10, 2009.

21. Ibid.

22. “Hatoyama, Obama will skip in depth talks on Futenma: Okada”, *The Japan Times*, November 9, 2009. For a background on this Futenma issue, see Rajaram Panda, “Controversy over Relocating Futenma Base”, October 12, 2009. http://www.idsa.in/idsastrategiccomments/ControversyoverRelocatingFutenmabase_RPanda_311009

allegedly 'intimidating' the Japanese government over the relocation issue by pressing Japan to stick to the 2006 bilateral deal on the Futenma transfer and resolve the matter before Obama's arrival at Tokyo in November 2009.

While protesting against Gates' 'intimidation' and Hatoyama Government's vague stance in reviewing the transfer plan, around 21,000 people joined a rally on November 8, 2009 in Ginowan, calling for immediate closure of the US Marine Corps' Futenma Air Station and urged Hatoyama to reject the transfer in his talks with Obama. They also urged the Japanese Government "not to cave in to US pressure and convey Okinawan people's voices without hesitation to the US in bilateral negotiations from 'equal' position."²³

Obama and Hatoyama, however, decided to move expeditiously through a new ministerial level framework to implement the 2006 agreement on the relocation of Futenma air station in Okinawa. However, the timeframe for such a resolution was not mentioned.²⁴

The year 2010 marks the 50th anniversary of Japan-US security treaty. However, with the mounting political pressure in Okinawa and the rest of Japan for the relocation of Futenma base outside Japan, highly visible celebrations and public discussion may aggravate the friction between the two allies in the future. It was in this context that a Japan-based US government official rightly states: "Some in the US have recently been promoting, a little too loudly, 2010 as the fiftieth anniversary of the security treaty. Given the current political atmosphere in Tokyo and Okinawa, this is a mistake and may further strengthen opposition in Okinawa."²⁵ True to the speculations, 50th anniversary of US-Japan security treaty was celebrated without much fanfare.

The Obama administration has expedited its move to keep Japan in its fold sensing that Japan's entrepreneurial foreign Policy is driving it to forge closer ties with China, which in 2009 became Japan's largest trading partner replacing the US. In order to deepen interdependence between the two

23. "Demo of 21,000 People Demand Closure of Futenma Air Base", *The Japan Times*, November 9, 2009.

24. "Obama Pledges Commitment to Asia, Reaffirms Alliance with Japan in Tokyo Visit", *Xinhuanews*, November 14, 2009, at http://news.xinhuanet.com/english/2009-11/14/content_12456365.htm (Accessed November 18, 2009).

25. "Opposition to Futenma Move Won't Go Away", *The Japan Times*, November 19, 2009.

economies, the DPJ promised to “develop relation of mutual trust with China” in its election manifesto.²⁶ China's replacement of the US as Japan's largest trading partner is viewed in Tokyo as carrying a historic meaning with regard to its future position between the US and China in political terms as well. Japan's breach of protocol in arranging a meeting at exceptionally short notice between China's Vice President Xi Jinping (who is widely expected to succeed Hu Jintao in 2012) and Emperor Akihito is also seen as Tokyo's haste in forging greater ties with China. But the security threats emanating from North Korea compels Japan not to loose its security alliance with the US. It was the North Korean issue and assurance from Obama during his Tokyo visit to resolve the crisis which created goodwill and reaffirmed the alliance relationships.

Though Japan's security concern stemming from North Korean nuclear crisis pushes Tokyo to maintain stronger alliance with the US, its coalition partners are pushing for “re-examining the realignment of US forces and role of the US bases in Japan”, as per the three party accord.²⁷ Because of Hatoyama's junior coalition partner's (Social Democratic Party- SDP) anti-American stance, the stalled relocation of the US Marines' Futenma air base and Japanese naval refuelling mission remain the most entrenched political problem facing the Japan-US relationship. At one point, the SDP threatened to quit the coalition if Hatoyama honours the deal to move the Futenma air station. Thus, the internal dynamics of Japanese politics has left Hatoyama squeezed between domestic political imperatives and US expectations.²⁸ The ongoing movement by the Okinawa people demanding closer or downsizing American footprint on the island has become yet another problem for Hatoyama. In view of the volatile domestic political situation, Hatoyama kept the issue in abeyance till July 2010 when elections to the Upper House takes place.²⁹

Afghanistan remains yet another test case for Japan-US relations in the

26. The Democratic Party of Japan's Platform for Government (Election manifesto, 2009), p.28, issued on August 18, 2009.

27. Agreement for a three-Party Coalition Government ,<http://www.dpj.or.jp/english/news/?num=17017> (Accessed December 16, 2009)

28. “US struggles to keep step with Japan's shifting foreign policy”, *The Washington Post*, December 4, 2009

29. Futenma decision shelved till 2010, *The Japan Times*, December 16, 2009.

present government. Japan has already notified the White House and Defence Department about Tokyo's decision to terminate its refuelling mission in the Indian Ocean from January 2010.³⁰ But to assuage US criticism and to convey message that Japan is willing to make contributions in place of refueling, Hatoyama Cabinet approved \$ 5 billion towards reconstruction of Afghanistan.

Korean Peninsula and Obama's Policy

During presidential campaign in October, 2008, Senator Barack Obama emphasized the importance of South Korea as a military ally, a strong economic partner, and a nation that shares the values of freedom and democracy with the US. He also commented on the necessity for strong alliances with both South Korea and Japan in maintaining peace and security in the northeast Asia. He also described the bilateral alliance as a “remarkably strong and successful one that remains central to US security policy in East Asia.”³¹ He also promised to transform the existing military alliance into a 21st century strategic alliance that goes beyond deterring North Korean aggression and achieving denuclearization of the peninsula to address transnational threats such as terrorism, non-proliferation, energy security, trafficking in persons and pandemics.

South Korean President Lee Myung-bak visited Washington in July 2009. During the meeting on 16th June, both leaders agreed not to allow North Korea to go nuclear under any circumstance. According to both the leaders, the North had not taken appropriate steps towards denuclearizing despite its assurance earlier to do so in various occasions, particularly in the Geneva Agreed Framework (1994) and the February 13 Agreement (2007). The North had also failed to respond positively towards the international community's initiatives towards Pyongyang with the offering of fuel, food and economic aid. Considering that such measures also failed in bringing about the desired goal, both Obama and Lee reiterated that the US and South Korea would 'break that pattern' and would take measures to make

30. Japan Tells US it will stop Naval Mission: Kyodo, <http://news.theage.com.au/breaking-news-world/japan-tells-us-it-will-stop-naval-mission-kyodo-20091015-gyfc.html> (Accessed December 15, 2009)

31. Bruce Klingner, “Policy on Korea under Obama administration”, The Heritage Foundation, December 11, 2008, available at <http://www.heritage.org/press/commentary/ed121108a.cfm?RenderforPrint=1>.

Pyongyang dismantle its nuclear facilities and eliminate nuclear weapons in a complete and verifiable manner.³²

During the summit meeting, both Obama and Lee signed a vision statement emphasizing on the necessity of working jointly to promote respect for the fundamental human rights of the North Korean people. They also reiterated that the alliance would contribute to peaceful unification on the principles of free democracy and a market economy.

Wrapping up his tour of Asia in Seoul, Obama and Lee Myung emphasised the two nations' unified efforts to prod a defiant North Korea out of its nuclear weapon programme. He also praised the success of the South Korean economy, saying it was one of the reasons behind the South's emergence as a strong player on the world stage. He welcomed Seoul's recent decision to expand its reconstruction team in Afghanistan that has been instrumental in rebuilding the war devastated country. After two years of withdrawing its forces from Afghanistan following a fatal hostage crisis, Lee's government has also announced plans recently to dispatch police and troops to protect the reconstruction team.³³

The Korea-US (KORUS) Free Trade Agreement (FTA) remains a sticking point in the US-South Korea bilateral alliance. The agreement, signed on 30 June 2007 was to expand two way trade and investment in good and services well beyond the more than \$100 billion recorded in 2006. KORUS was the largest bilateral US trade initiative since the North American FTA (NAFTA). However, implementation of the KORUS FTA has not progressed due to Congressional concerns regarding provisions of the FTA that deals with the politically sensitive auto sector. Today, KORUS FTA remains a major challenge for both the governments.

One major area of US security concern in Asia has been North Korea. North Korea's first nuclear weapon test in 2006 indicated a failure of the Bush administration's hard line policy in dealing with North Korea's nuclear

32. Kim Sung-han, "The Lee-Obama Summit: Alliance for Peace and Unification", *East Asia Forum*, July 3, 2009, at <http://www.eastasiaforum.org/2009/07/03/the-lee-obama-summit/print/>. (Accessed November 18, 2009).

33. "Obama welcomed in South Korea as trip nears end", *Shanghai Daily*, November 19, 2009, at <http://www.shanghaidaily.com/article/print.asp?id=420005>. (Accessed on November 25, 2009).

weapon program. Following that incident, President Bush started adopting a much more flexible approach, including frequent bilateral talks with North Korean negotiators within the multilateral framework of the SPT, with the objective of denuclearising the Korean Peninsula. Although various agreements were concluded with the North, Pyongyang did not fulfill its obligations toward denuclearization. The North Korean problem became all the more threatening once Obama assumed presidency, because the North not only withdrew from the SPT, it also conducted a second nuclear test in May 2009.³⁴

Policy of Engagement and Dilemma

So far, the Obama administration's policy towards North Korea has been a mixture of comprehensive engagement as well as military hedging. At the time of presidential election campaign, Obama had declared that he would “hold dialogues unconditionally with North Korea”. After assuming presidency, he has taken actions including the dispatch of aide-level experts to North Korea.

North Korea presents litmus test for the Obama administration. While on the one hand, Obama promised to hold talks with the enemies to bring new results in foreign policy, he also wants to secure acceptance from US allies on such issues. These two principles are difficult to reconcile and apply to North Korea.

It has become difficult for the Obama administration pursue talks with North Korea due to its persuasion of missile and nuclear testing during the spring and summer of this year. The bilateral talk at the highest level still has not been possible. Media reports have made the situation turn worse. In the media, while Clinton has compared North Korea to an unruly teenager, North Korea, on its part, has called her 'funny lady'.

Possible Measures

Many analysts are of the view that even if the Obama administration's policy of 'comprehensive engagement' towards North Korea is carried forward, the measures the US policy would adopt in that state would vary depending on the actions taken by the North at that time. Three alternatives other than 'policy of comprehensive engagement' can be envisaged here: appeasement, coercion and regime change by military force.

Appeasement is a policy which involves authorizing North Korea as a

nuclear power, normalising diplomatic relations, concluding a permanent peace treaty, and taking measures for promoting large scale energy and economic assistance. As a part of the appeasement policy, the Bush administration delisted North Korea from the list of states sponsoring terrorism. In the future, Obama administration too may take steps towards appeasing Pyongyang.

Under the coercion policy, the US may impose military as well as non-military sanctions (economic sanctions) on North Korea to make the latter to go for denuclearisation.

Last but not the least is the regime change process by military force. It aims at transforming the country from a dictatorship into a democratic structure through the execution of military force. In this context, US wars on Afghanistan and Iraq can be cited as examples. The possibility of a similar step in North Korea cannot be ignored altogether, though very likely and inappropriate.

As far as 'hedging' is concerned, with the US-South Korea joint military exercises continuing, it is clear that the US is envisaging a wide array of scenarios with regard to North Korea including the military option. Taking this point into consideration, it appears that the Obama administration is in fact taking a pragmatic stance towards North Korea, in which it takes the 'policy of comprehensive engagement' as a basis, while also keeping hold of the military option in preparation for a worst-case scenario.

Conclusion

Obama's narrative helped catapult him into the Oval office as a leader who could bridge racial and regional divides. He has successfully used that message to greatest effect abroad – talking about his African roots in Ghana and infusing remarks about race relations in Latin America. He is breaking down the sense that America and America's leaders do not have any understanding of or identification with the rest of the world.

Despite having a Kenyan father, a Kansan mother, a sister who is half-Indonesian and married to a Chinese Canadian, Asia provides far less fertile ground for Obama's multiethnic biographical message than America, which is a melting pot for immigrants. As a continent, Asia is hugely diverse, but its individual countries tend to be far more ethnically homogeneous, and often wary of diversity.

That apart, beyond avoiding problems that are linked to North Korean and Chinese issues in bilateral allied relations, Obama has an opportunity to boost the alliance triangle to a level never before reached. To do this, Obama has to maintain careful relations with both Japan and South Korea. Engaging China is another challenge for Obama. As regards Japan, Obama needs to seek out ways to enhance their alliance by strengthening the mutually complementary roles of the two nations, focusing on the areas in which the two nations are skilled or influential. The Japan-US alliance will only be stable through smart management of military bases. Challenge before Japan is to develop trust with its Asian neighbours and to create a strong and multilateral framework for peace.

North Korea will be a real challenge for Obama. North Korea has repeatedly used negotiations over ending its nuclear weapons program as a way of extracting aid and diplomatic concessions from other countries. North Korea has so far received \$2.2 billion under failed international deals aimed at persuading it to dismantle its nuclear facilities. While the economic assistance China promised may elevate its leverage over North Korea, it may also deprive the US and South Korea of their sapping the strength of sanctions. Beijing's diplomacy is a combination of sanctions and engagement arising out of a concern that isolation and pressure alone would drive North Korea only to strengthen its nuclear weapons programs. Though there is an opinion that says that China's influence over North Korea is overstated, the fact remains that China's trade and aid (\$2.79 billion in 2007 but slipped to \$1.6 billion in 2009) and it is crucial to North Korea's survival. Though the US has expressed that it was open to direct negotiations with the North, bilateral discussions should not be a substitute for the SPT.

The challenges that confront Obama are huge and it requires extraordinary maturity to handle the sensitive and critical issues that are unfolding in the Asian theatre. Obama as the head of a declining power has to deal with an assertive China and a Japan clamouring for more independence in foreign policy has tough task ahead of him. Posterity will judge if Obama has failed or succeeded and it is too early to predict his success or failure.

India-New Zealand Relations: Perspectives from New Zealand

Rupert Holborow

India-New Zealand bilateral relationship can be characterised as comfortable and warm but at least historically not particularly deep. Some signs of depth in the relationship, however, were beginning to emerge.

The history of the relationship had had its up and downs but a new phase of deeper engagement commenced with the visit in 2004 of then-Prime Minister Helen Clark. That visit represented something of a watershed as it was at that time that New Zealand really began to look at, and think about, the relationship differently.

Whilst New Zealand perhaps came to the India relationship later than a number of other countries, the process of re-engagement commenced with more 'name and brand recognition' than might have been expected this off the back of New Zealand's shared Commonwealth membership, the fact both countries are democracies, mutual love of cricket and shared love and reverence for the late Sir Edmund Hillary. Superficially, therefore, New Zealand was something of a known quantity in India.

In turn, India has always enjoyed a reasonably high profile in New Zealand albeit, until recently, more through a historical, cultural, spiritual prism than a contemporary one around the story of 'modern India'.

Against that backdrop, the bilateral relationship has begun to change positively and substantively. One important contributor to this is the Indian community in India some 120,000 people of Indian origin living, working and studying in New Zealand.

- Merchandise trade has close to doubled in the last two years alone from \$350 million to \$700million
- Tourism numbers, at around 25,000 visitors per year to New Zealand, have been growing strongly with India, as a source of visitors, jumping ten places in five years (from 19th position to 9th)
- Similarly, student numbers have grown strongly from around 400 five years ago to close to 7,000 today.

So the bilateral relationship has begun to get forward momentum moving recently from first to second gear. The aim in 2009 was to move the relationship into third gear something which will be assisted by the commencement of FTA negotiations that started in April 2010. Whilst that is a welcome development, this relationship will - if not now in the very near future - want to be in the top tier of New Zealand's bilateral relationships. This being the case, the aim is to move the relationship to the fourth gear.

For that to happen both India and New Zealand need to continue to add depth and breath to the relationship both in the economic sphere but also more broadly. That is going to take time and effort but the direction is clear and already some important new activities have been engaged. One such initiative, of course, is this important Track II activity itself. In addition to this new Track II initiative, the year 2009 also saw a number of other 'firsts' which have added depth and breath to the relationship:

How has this change in the relationship manifested itself?

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which have added depth and breath to the relationship:

- An inaugural science co-operation mission;
- The first ever visit to India of the New Zealand Chief of Defence Force;
- An inaugural visit of 60 officers from New Zealand Defence Force Staff and Command College;
- An initial/inaugural dialogue between the New Zealand Treasury and its sister organisation, the Ministry of Finance and finally;
- A decision to open a fully staffed and operational Consulate in Mumbai.

The relationship, therefore, must be regarded as moving in the right direction. The onus is on both countries to do more. The value of the bilateral relationship for New Zealand is obvious but it sometimes bears repeating in terms of what the gains might be/are for India:

- New Zealand has a high (ranking globally around 30th) per capita GDP with an economy just over 10 per cent that of India. So there is business to be done with and in New Zealand one only has to look at China's footprint in New Zealand to gain a sense of the potential opportunities for India;
- New Zealand is a world leader in agri-business/agri-tech and, in niche areas, can play a very helpful role in assisting India's agricultural productivity something which has been identified as a priority by Prime Minister Manmohan Singh in his advocacy of a 'Second Green Revolution' for India;
- New Zealand, whilst a small country, does believe in collective security, we maintain a high operation tempo and are active (and have been for some years) in the region namely Afghanistan;
- India and New Zealand also have some shared regional interests and are active working together in fora such as the East Asia Summit.

In conclusion, it is suggested that the bilateral relationship was healthy and comfortable but a bit under-developed. There was, therefore, a big job still to be done and there was a need to move the relationship forward rapidly increasing the tempo of engagement as well as adding breath and depth to those points of engagement.

Reconfiguring India- New Zealand Relations

Pankaj Jha

“New Zealand is very conscious of India's emergence as a nation of global significance and I was able to register the priority we attach to our relationship with India and our desire to deepen and broaden the bilateral relationship”

Anand Satyanand, Governor General of New Zealand

India's relations with its far South Pacific neighbour have been a history of differences and reluctant agreements. This was visible during the reluctant support given to India during the NSG waiver for India. Though this was under pressure from the US but it somehow addresses that India cannot remain ambivalent with regard to its relations with New Zealand. New Zealand also needs to address the issues that have been faced by India in the South Asian theatre which is very volatile strategically and witnesses maximum involvement of major powers including US and China. India has been trying to match up to its potential and safeguard its strategic interests in this region. New Zealand is also trying to come out of the US shadow and trying to proactively engage India. This was apparent during the last year visit of Anand Satyanand, Governor General of New Zealand to India immediately after the Nuclear Suppliers Group meeting. New Zealand Prime Minister John Key and Indian Prime Minister Manmohan Singh met at the sidelines of Commonwealth Summit in Trinidad in November 2009 and addressed the need for FTA between the two countries. This shows the emerging convergence between the two nations but it is not only limited to economic issues but also multilateral institutional architecture and Asian security.

India and New Zealand have been two buoyant democracies sharing similar historical past of being British colonies and Westminster type of government. The two countries are thriving democracies of the Asia-Pacific region. The past has witnessed closer ties between the two countries in the form of the membership of the Commonwealth. The two countries have configured the bilateral relationship to a certain extent to safeguard their strategic interests. On the one hand, India which espoused the recognition

of China, New Zealand did not accord it the status of a sovereign nation for about two decades. The issue of the infiltration of communism has changed New Zealand policy and this led to the difference of opinion between the leaders of the two countries at the international forum. The thaw in the relations happened due to the break-up of Soviet Union and the changed strategic environment, which propelled the two countries to seek more proactive engagement.

The relationship between the two countries is perfect example of different set of policy options combining both economic and strategic interests dictating bilateral ties. The subsequent globalisation and the changed policy stance from both sides saw mutual admiration and understanding of each others perspective. Apart from that there are only three reasons for states to come together: to aggregate power, to solve problems or to build community. If New Zealand and India were to come together for power aggregation purposes, there would be three sources of shared threat in the future. The first and most obvious threat is China, but none of the two countries would be interested in any balancing arrangement aimed at 'containing' China. The second is the rise of radical Islam in Indonesia so much so that it threatens the democratic fabric of Indonesia and the subsequent establishment of the 'caliphate' in Indonesia and subsequently to Malaya archipelago. Thirdly the convergence is likely to emerge in the future from the non-traditional, trans-border disruptive forces and issues. In that case cooperation through multilateral forums and bilateral engagement would be the benchmark for the engagement between the two countries. Of all the three the third issue has seen the potential for convergence more than the earlier two¹.

Prior to fathoming the different aspects of the bilateral relations between the two countries it is important to scrutinise the historical past.

Historical background

Historically, relations between New Zealand and India go back to the time when both were parts of the same British Empire. Within this imperial structure of exchange, consumer goods from India--such as rum, tobacco,

1. Varun Sahni, "New Zealand, India and the Emerging Asian Order", *New Zealand International Review*, New Zealand Institute of International Affairs, July 2007

tea, rice and curry powder--regularly found their way into New Zealand markets in the 19th century, and New Zealand timber was shipped off to India to pay for these imports. However, it was also this imperial connection that shaped the Indo-New Zealand relationship after India achieved independence in 1947, as the Commonwealth now became the bond between the two countries. As India came out of the empire New Zealand Prime Minister Peter Fraser welcomed the new nation, and persuaded Jawaharlal Nehru to remain in the Commonwealth. Nehru agreed; but his countrymen did not like dominion status and India decided to move towards becoming a republic. Fraser felt uncomfortable with the idea, as he believed that the presence of a republican India would weaken the traditional bonds of the Commonwealth².

Subsequently Nehru's policy of 'non-alignment' was neither understood nor appreciated in New Zealand, which was gradually moving towards the anti-communist camp under the leadership of the United States, ultimately signing the Australia- New Zealand-US Security (ANZUS) treaty in 1951. Particularly in 1950-51, during the Korean War, Nehru's policies came under criticism, as India, unlike some other Commonwealth countries, refused to be involved as a belligerent in this conflict. New Zealand's adherence to the Colombo Plan and her ambivalent attitudes to the Bandung conference of the non-aligned nations in 1955 revealed her fear of communism and suspicion of the non-aligned movement. The situation improved with a Labour Prime Minister, Walter Nash, in office (1957-60). Asia once again figured prominently in New Zealand foreign policy. Although Nash's attention was occupied more by South-east Asia, he maintained a warm friendship with Jawaharlal Nehru, visited New Delhi in 1958, and contributed \$1 million for the foundation of the All India Institute for Medical Sciences (AIIMS). But before these overtures could go further, India became embroiled in two wars--one with China in 1962 and the other with Pakistan in 1965. New Zealand's anti-communist position led her to lend support to India during her China war, and this was gratefully acknowledged by Prime Minister Indira Gandhi, when she visited New Zealand on May 27-29, 1968. However, it was not until Norman Kirk's

2. Sekhar Bandyopadhyay, "India and New Zealand: a Sixty-year Roller Coaster", *New Zealand International Review*, New Zealand Institute of International Affairs, July 2007

tenure as the Labour Prime Minister (1972-74) that New Zealand-India relations acquired any substance³.

When the West Pakistani genocide had started in East Pakistan in 1971, Kirk was one of the very few Western leaders who had raised a voice of protest, doing so as the chairman of the Asian Bureau of Socialist International. When the Western world refused to listen, the Indian Army marched into Dacca and Bangladesh was born against the wishes of the United States. Kirk was the first Western statesman to visit that war ravaged country. India had good reasons to feel grateful. At the end of her visit Indira Gandhi therefore 'expressed the appreciation of her Government for the new outlook and attitude of New Zealand'- not influenced, of course, by any US diktat. The joint communiqué that was issued expressed their support for the Middle East peace talks and making the Indian Ocean 'a zone of peace', Kirk also expressed 'firm support for an immediate and permanent cessation of all test explosions of nuclear weapons'. Kirk talked about the prospect of a South Pacific Nuclear Free Zone. He promised more aid to India and agreed to explore possibilities for bilateral trade and closer co-operation in the fields of education, agriculture, medicine and animal husbandry. This was followed by an Indian official delegation visiting Wellington in March 1974. It seemed as if New Zealand and India were almost on the road to a more substantial bilateral relationship⁴.

Nuclear Explosion and Isolation

Kirk's efforts did not, however, lead to a quantum leap in bilateral relations, as India within four months of his visit exploded her first nuclear device on May 19, 1974. The New Zealand media fiercely criticised the Indian action, as the anti-nuclear movement had by this time gathered momentum in New Zealand. By contrast, the government's response was more cautious and reflected greater understanding of India's position. On May 22, in his first public statement on the issue, Kirk said that New Zealand understood India's desire for peaceful use of nuclear energy and respected India's scientific capability and resources that went into this experiment. He also expressed his faith that India would not manufacture nuclear weapons. The

3. Ibid.

4. Sekhar Bandyopadhyay, no. 2

fallout of the nuclear controversy was that India almost completely disappeared from the radar of New Zealand foreign policy, at least for some time. The next Labour Prime Minister Bill Rowling outlined his government's foreign policy in Asia in February 1975; India was nowhere in that long policy document. And then as a national government came to office at the end of 1975, there was a distinct shift in focus in New Zealand foreign policy--from Labour's emphasis on morality and idealism to Sir Robert Muldoon's preference for trade and alliance with the United States, India became irrelevant to this new policy⁵.

High Commission Episode

However, India began to figure in New Zealand headlines again when in early 1982 Robert Muldoon decided to close down the New Zealand High Commission in New Delhi. He announced on February 16 that the New Zealand mission in New Delhi along with the consulates in Toronto and Port of Spain would be closed to reduce the cost of the Ministry of Foreign Affairs by three per cent as a part of a general cost cutting measure for all government departments. Muldoon branded the New Delhi mission as the 'least productive', as trade with India was declining. The Indian Government did not reciprocate the measure; it announced that it understood the financial difficulties of the New Zealand Government and hoped that the mission would soon be reopened⁶.

Then in December 1983 Muldoon's Government decided upon a step that would take the diplomatic relations between the two countries to an all time low. It proposed to sell the piece of land in the exclusive Chanakyapuri area of New Delhi which had been given to New Zealand twelve years before by the government of India to build the chancery building. Meanwhile, the 1984 election approached and this was perhaps the only New Zealand election to hit the headlines in Indian newspapers. The Labour victory was front page news.

India's Initiatives in Commonwealth

In fact, from the time of the New Delhi meeting of the Commonwealth

5. Ibid.

6. Ibid.

Asia-Pacific Regional Leaders (CHOGRM) in September 1980, Muldoon's relations with India and the Commonwealth had been deteriorating over the forthcoming Springbok tour⁷ and other issues.

A year later, at the Commonwealth Heads of Government Meeting (CHOGM) at Melbourne in October 1981, Muldoon wanted an endorsement that his government's actions during the 1981 Springbok tour had been adequate under the Gleneagles Agreement⁸ of 1977. Indira Gandhi emerged from this meeting as the leader of the new Commonwealth and in recognition the next CHOGM was awarded to New Delhi. Whether or not the unpleasant experience at Melbourne had anything to do with Muldoon's decision to close down the New Zealand mission in New Delhi four months later is, however, a matter of conjecture. After the elections in 1984, Indira Gandhi sent a warm congratulatory telegram to David Lange, and Lange announced that the New Zealand mission in New Delhi would be reopened as soon as possible. By the end of September 1984 it was known that Sir Edmund Hillary would become the new High Commissioner in New Delhi and the mission would be opened by the end of December at the latest. On October 4 Lange came to New Delhi on a 36-hour visit. At the Indian capital he formally announced the appointment of Hillary and discussed with Gandhi 'a wide range of international issues.'⁹

Warming up in ties

The Lange period was indeed the high point of Indo-New Zealand bilateral

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7. The 1981 South Africa rugby union tour of New Zealand (still known by many in New Zealand as The Springbok Tour) was a controversial tour of New Zealand by the South African Springbok rugby union team. South Africa's policy of racial apartheid had made the nation an international pariah, and other countries were strongly discouraged from having sporting contacts with it. However, rugby union was (and is) an extremely popular sport in New Zealand and the Springboks were considered to be New Zealand's most formidable opponents. There was therefore major division in New Zealand as to whether politics should interfere with sport and therefore whether the Springboks should be allowed to tour. http://en.wikipedia.org/wiki/1981_Springbok_Tour (Accessed November 2, 2008)
 8. The Gleneagles Agreement was unanimously approved by the Commonwealth of Nations at a meeting at Gleneagles, Auchterarder, Scotland. In 1977, Commonwealth Presidents and Prime Ministers agreed, as part of their support for the international campaign against apartheid, to discourage contact and competition between their sportsmen and sporting organisations, teams or individuals from South Africa. http://en.wikipedia.org/wiki/Gleneagles_Agreement (Accessed November 3, 2008)
 9. Sekhar Bandyopadhyay, no. 2

relations. His friendly gestures managed to heal some of the emotional wounds inflicted by Robert Muldoon's actions. There was a visible eagerness on the part of India to develop a more substantial relationship with New Zealand. During his first meeting with Prime Minister Rajiv Gandhi, Lange identified a number of possibilities for developing bilateral relations in terms of nuclear policy, negotiating a zone of peace in the Indian Ocean, joint naval exercises and, above all, trade. This new turn, he described, as the 'new awakening' in New Zealand foreign policy. This happened partly because Lange was being drawn away from the United States as a result of his anti-nuclear policy, but largely because of his personal fascination with India and his matured understanding of the country and its politics. The high point of this new cordiality in the Indo-New Zealand relationship was certainly Rajiv Gandhi's visit to New Zealand in October 1986. This visit was prior to the visit to China and Indonesia and showed how India tried to reconfigure its engagement with New Zealand. Gandhi charmed the New Zealand public as he told them what they wanted to hear. He praised New Zealand for its anti-nuclear policies and claimed that India had shown 'nuclear self-restraint' by not weaponising her nuclear capability for the last twelve years. India had voluntarily chosen that option and would continue to do so in future. The visit resulted in the signing of a double taxation treaty and the New Zealand/India Trade Agreement. Under its provisions a New Zealand-India Joint Trade Committee was formed, and it has continued to meet regularly since its first session in New Delhi in June 1987¹⁰.

The strong condemnation that the second Indian nuclear explosion in May 1998 evoked in New Zealand was expected, given the fact that there was now an even more firmly grounded national consensus on anti-nuclear policies. A National-led government was now in power. Almost immediately after the explosion, the New Zealand High Commissioner in India was called back - the same measure that was taken when the French had resumed nuclear testing at Mururoa Atoll in south Pacific in 1995. A condemnatory resolution in Parliament was passed with the support of all political parties. And the new Indian High Commissioner was summoned to the Beehive for a 'dressing down' even before he had presented his diplomatic credentials¹¹.

10. Ibid

11. Ibid

Clark's visit in 2004 was clouded by the nuclear controversy even before it began. A story in the *Hindustan Standard* quoted her as saying that during her visit to India she would raise questions about Kashmir, take a strong position in expressing New Zealand's displeasure at India's nuclear programme and urge signature of the Nuclear Test Ban Treaty. Clark immediately refuted the report and both she and Indian Prime Minister Manmohan Singh tried to move past this controversy. Singh announced that India had 'a close, very cordial relationship with New Zealand'. This visit, he hoped, would give this relationship a 'more solid content'¹². Even later, the visit of Governor General Satyanand to India in September 2008 shows the need for enhancing ties between the two nations.

So as a whole the ties between the two countries have been dictated by ideological policy stance and the differing perceptions about each other's national interests. The crest and trough in ties had seriously influenced the economic ties between the two countries.

Trade and Economic Relations

New Zealand Trade Minister Tim Groser prior to his India visit to discuss Joint Study Group on India-New Zealand Free Trade Area in February 2009 stated,

"An agreement with India is potentially of huge long term importance to New Zealand. India is becoming a regional and global powerhouse - it is already a significant source of global capital and of specialist skills such as IT, science, and engineering"¹³.

If historically the peak period in the Indo-New Zealand relationship was the David Lange period, at that time trade between the two countries was worth only \$99 million each way. Since then things have certainly moved, although rather slowly. In the year to June 2005 New Zealand's exports to India increased to \$194.4 million and India became its 25th biggest trading partner. Although the growth had been modest, it was, of course, the result of the initiatives taken by successive Labour-led governments since 2000, despite

12. Ibid

13. New Zealand Trade Minister Travels to India and Thailand at <http://www.nzembassy.com/news.cfm?CFID=29868261&CFTOKEN=92630466&c=26&l=72&i=5678> (Accessed December 2, 2009)

China being at the centre of New Zealand's Asia policy. The high point of this initiative was Clark's visit to India in October 2004 - exactly twenty years after Lange's first official visit¹⁴. In 2008, the total trade (as shown in table below) between the two nations reached the volume of \$494.59 million, which increased to \$612 million (more than 50 per cent increase) in 2009 but less than 2007 level when it peaked at \$768.55 million which is low in comparison to the stature of New Zealand in international market.

India- New Zealand Trade-(In US \$ millions)

S.No.	Year	2004-05	2005-06	2006-07	2007-08	2008-09
1	Export	93.22	141.90	502.97	158.51	188.62
2	%Growth	8.43	52.21	254.46	-68.48	18.76
3	%Share	0.11	0.14	0.40	0.10	0.1
4	Import	127.96	216.63	265.58	336.07	423.74
5	%Growth	62.20	69.30	22.60	26.54	26.14
6	%Share	0.11	0.15	0.14	0.13	0.14
7	Total Trade	221.18	358.53	768.55	494.59	612.36
8	%Growth	34.16	62.10	114.36	-35.65	23.77
9	%Share	0.11	0.14	0.25	0.12	0.13

Source: Ministry of Commerce at [http:// dgft.delhi.nic.in/](http://dgft.delhi.nic.in/)

Now when India and New Zealand have also initiated talks on signing of bilateral FTA, there is hope about further streamlining of trade and also looks for new avenues for increasing trade¹⁵. The agreement would not only address tariff barriers, which for New Zealand agricultural products are at high levels, but also other potential barriers such as technical barriers to trade, sanitary and phyto-sanitary restrictions and customs procedures¹⁶.

14. Sekhar Bandyopadhyay, No. 2

15. India New Zealand Joint Study for a Free Trade Agreement/Comprehensive Economic Cooperation Agreement at http://commerce.nic.in/WhatsNew/India_NewZealand_Joint_Study_Report_2009.pdf (Accessed November 24, 2009)

16. Good progress towards India New Zealand Free Trade Agreement at <http://www.beehive.govt.nz/release/good+progress+towards+india+%E2%80%93+new+zealand+free+trade+agreement> (Accessed November 10, 2008)

New Zealand's main exports to India are coal, wool, wood pulp, machinery, hides and skins. New Zealand's coal exports, in particular high quality coking coal used in India's growing steel industry, are flourishing. Coal has also figured in the investment pattern, with two Indian companies Saurashtra Fuels and Gujarat NRE Coke Limited, having taken a stake in the Pike River Coal project on the West Coast. Traditionally, India's main exports to New Zealand have been gems and jewellery, though Indian exports are becoming more diverse, and now include a wide range of manufactured products¹⁷.

New Zealand Trade and Enterprise already has an office in New Delhi and opening of new office in Mumbai in 2008 highlights the growing importance of the India/New Zealand trade relationship¹⁸. In terms of investment New Zealand have to do lot of catching up with other western nations and even Southeast Asian nations like Singapore and Malaysia. New Zealand investment in India has been to a tune of US\$ 13.55 million which comprise only 0.02 per cent of total FDI inflows in India. As discussed investment options are sought by both sides and the business meetings need to be activated in new global economic scenario.

Areas of Divergence

With regard to the bilateral relations, there have been two major irritants which have time and again locked the two countries against each other at global forums. These include:

Nuclear Stance

In fact one the issues where both countries have found themselves on opposite sides has been the nuclear issue. In 1974 when India exploded its peaceful nuclear device and again in 1998, there was a very strong opposition from New Zealand at the global stage. Though New Zealand's stance being anti- nuclear and has been espousing the cause of nuclear free world. India also has initiated Rajiv Gandhi Plan of Action for Nuclear Disarmament and still vouches for the complete disarmament but then national interest comes

17. Phil Goff Speech at the India New Zealand Business Council, October 24, 2007 at <http://www.beehive.govt.nz/speech/speech+india+%E2%80%93+new+zealand+business+council> (Accessed November 3, 2008)

18. New Zealand Strengthen its Trade Relationship with India at <http://www.indiaprwire.com/pressrelease/other/200803268322.htm> (Accessed November 3, 2008)

prior to that and so it has to explode its nuclear device for peaceful purposes. This is not to say that India does not have a nuclear programme but with two nuclear capable neighbours, India is left with no choice. This divergence should be addressed by the two nations so as to create the mutual understanding about issues. In the NSG voting for India specific exemptions, New Zealand's hard-line anti-nuclear policy had threatened to create a diplomatic storm with India. Also with hyperactive media in India, New Zealand along with few more countries have been painted as the hindering countries for India's nuclear energy.

The issues are serious and this needs to be addressed at the high level. India's benign role in the Asia Pacific region and a clean record of nonproliferation should be taken into consideration by New Zealand prior to taking any policy decision.

New Zealand Disarmament Minister Phil Goff had said that while India had a good non-proliferation track record, it has developed, tested and possesses nuclear weapons. New Zealand also wants limits on the scope of the technology that can be given to India and that could relate to nuclear weapons. While New Zealand remains a strong advocate of the Nuclear Non-proliferation Treaty and the Comprehensive Nuclear Test Ban Treaty, it has stated that it would welcome India's accession to these treaties¹⁹.

WTO negotiations

For a number of years, India had maintained quantitative import restrictions on a wide range of agricultural, textile and industrial products (over 2,700 different types of products). India claimed it was entitled to maintain these restrictions for balance of payments reasons. In 1997, New Zealand, the European Union, the United States, Australia, Switzerland and Canada were all of the view that India could no longer justify these restrictions under the WTO rules. In July of 1997, each requested consultations with India under the WTO Dispute Settlement Understanding. The United States and agricultural exporters like New Zealand also want major developing countries to open their markets to more foreign farm goods. Big developing

19. 'New Zealand wants more nuke controls on India', *The Associated Press*, August 26, 2008 at <http://www.iht.com/articles/ap/2008/08/26/asia/AS-New-Zealand-India-Nuclear-Talks.php> (Accessed November 3, 2008)

countries like India and Brazil for whom agriculture is the top priority feel their farmers have long suffered from rich country farm subsidies and want more parity in tariff reduction vis-à-vis rich nations²⁰. Phil Goff had stated that India and other major developing countries need to improve their market opening offers and has addressed the concerns of the developing countries. But New Zealand, a major agricultural exporter that gave up farm subsidies years ago, would also like to see the United States and the European Union cut farm support “a lot more” than they have already offered²¹. In this regard New Zealand can become a mediator with regard to coaxing the developed nations in reducing subsidies and thereby making progress on Doha round negotiations.

Areas of Convergence

Despite the major issues of divergence, with the changed geo-political set-up, there is a lot that the two countries can cooperate which includes:

Asian Security Architecture

Asian Security architecture and promoting peace and security in the Asia Pacific region should be the motto of the two countries. Also with both countries forming the part of the ASEAN +6 community as well as members of East Asian Summit, there is immense scope for cooperation in promoting mutual interest. With both Australia and Japan sponsoring their forms of multilateralism like Hatoyama concept of East Asian Community and Kevin Rudd's proposal of Asia Pacific Community shows the fault lines in Asian multilateralism. Also with the US involvement in different theatres like Iraq and Afghanistan and rise of China, there is need to strengthen multilateral institutions in Asia. Also any escalation of tension in the Southeast Asian region or any US-China balance of power initiatives is likely to affect both countries, so the two countries should work together in various forums in confidence building and acting responsible powers in diffusing

20. WTO disputes with New Zealand as a principal complainant India - Quantitative Restrictions on Imports of Agricultural, Textile and Industrial Products (WT/DS/93) at www.mfat.govt.nz/Treaties-and-International-Law/02-Trade-law-and-free-trade-agreements/0-India-Imports.php

21. New Zealand eyes WTO farm deal, US scolds India, June 9, 2008 at <http://www.reuters.com/article/politicsNews/idUSN0927547620080609?pageNumber=2&virtualBrandChannel=0> (Accessed November 3, 2008)

tensions in the region. While both countries promote cooperation with China as well as US but in terms of strategic needs their policies has been slightly anchored in favour of US. New Zealand and India had different policy with regard to non-aligned movement as well as New Zealand's accession to ANZUS while India signed a Treaty with Soviet Union (Indo-Soviet Treaty of Peace, Friendship and Cooperation) in the past. But the geo-strategic permutations have changed since then and it would benefit both countries to promote regional peace and harmony. As both the countries are democracies so promoting good governance and stability could be the common convergence point.

Indian Ocean

One area which becomes an important strategic point is Indian Ocean and so maintaining peace and tranquillity in this ocean which is a major transiting zone would benefit trade of both countries. Also India and New Zealand can cooperate in raising voice against any great power domination in the Indian Ocean. In terms of non-traditional security issues the two countries can cooperate also. The major areas of cooperation could be countering transnational crime, intelligence sharing and increased defence cooperation.

Cooperation in science and technology

This is one area which has been least explored though India's IT skills are known globally. Indian technocrats have propelled many economies and are at the forefront of software revolution. New Zealand could benefit from Indian technical expertise. Also with regard to defence manufacturing, India and New Zealand can look for complementarities. Space technology and nano technology are the other two areas for cooperation between the two countries.

Cooperation in Education

Education, for example, has become a key sector for the two countries. Both governments recognised the enormous potential for cooperation in the education sector both in terms of Indian students studying in New Zealand, and in establishing joint education ventures in India. Following a tertiary education-focussed mission in 2005, both countries signed a bilateral Education Cooperation Arrangement. This led to the establishment of an Education Joint Working Group, the first formal meeting of which is scheduled to take place early next year. The focus on education has already

had tangible results from New Zealand perspective. A decade ago there were around two or three hundred Indian students in New Zealand. In 2008 the expected the number of students are likely to be around six thousand. Further major growth can be expected in this sector over the next decade. Reflecting the importance of this sector, the Government has established an education counsellor position at the New Zealand High Commission in New Delhi, to promote and advance the opportunities offered by New Zealand education²². Also Indian educational institutions could look for joint ventures with their New Zealand counterparts.

Cooperation biotechnology and cold chain management

New Zealand agricultural technology, biotechnology and infrastructure engineering all have a big potential role to play in helping India lift food production²³. The biotechnology business is about partnering in a borderless world and companies that learn to access global opportunities are those that will succeed. There are more than 280 companies in the Indian biotech sector and among the big pharma pursuing drug development in the country are Merck, Eli Lilly, GSK, AstraZeneca and Pfizer. In March, 2008 Syngene, a Biocon spin-out and provider of research services, announced a partnership with Bristol-Myers Squibb. But there's still plenty of room for New Zealand to bring its excellence to India's playing field²⁴. Also with regard to cold chain management New Zealand can share its expertise with India.

Agriculture and Processing Industries

On the issue of cooperation in agriculture and green revolution, Anand Satyanand, Governor General of New Zealand during his visit to Delhi stated,

“We also noted that as India looks to embark on a 'Second Green Revolution' to enhance India's agricultural productivity, there could be possibilities for enhanced cooperation given New Zealand's world recognised expertise in agri-business/agri-technology whether that related to storage, transport, research and development or marketing. We agreed that the two countries could

22. Phil Goff Speech, no. 17

23. <http://www.beehive.govt.nz/release/good+progress+towards+india+%E2%80%93+new+zealand+free+trade+agreement> (Accessed November 3, 2008)

24. India-New Zealand Connection, May 29, 2007 at <http://www.investmentnz.govt.nz/section/14237/17173.aspx> (Accessed November 6, 2008)

cooperate more closely in the area of climate change given that we both have large agricultural sectors and New Zealand has an objective to be the world leader in research relating to methane gas abatement from agriculture. Another area much discussed was the potential to enhance our people-to-people links through continuing to grow our tourism and education links”²⁵.

India and New Zealand agreed to increase co-operation in agriculture and sort out issues relating to bio-security at the earliest. In the delegation-level discussions the Agriculture Minister Sharad Pawar, proposed to have an 'umbrella agreement' to raise the level of co-operation and expand co-operation in the agriculture sector. The proposed umbrella agreement between Ministry of Agriculture, India and Ministry of Agriculture, New Zealand, will cover agriculture and allied activities including food processing, agricultural research, phytosanitary issues relating to trade in plants and animal products, engagement of private sector of both the countries and exchange of information in the areas of mutual interest.

The proposed agreement would supplement each other's efforts being made by the two governments to strengthen co-operation and encourage trade. India and New Zealand already have a MoU on plant quarantine issues. A tripartite MoU among Indian Council of Agricultural Research, Land Care Research and Massey University, New Zealand, is being discussed and will be signed as soon as all the clearances are available²⁶. As both India and New Zealand are agriculture intensive economies, the potential is immense.

Tourism

There is vast potential for increasing inflows of tourists and students into his country of four million. New Zealand is also home to 105,000 Indians²⁷. Apart from that many Indian movies are regularly being shot in New Zealand and this would enhance better understanding among the people of two countries. Tourism numbers have been increasing steadily, and now

25. Anand Satyanand, Governor General of New Zealand, during the maiden visit to India in September 2008 at <http://www.nzembassy.com/news.cfm?CFID=29868261&CFTOKEN=92630466&c=26&l=72&i=5240> (Accessed November 23, 2009)

26. India, New Zealand for increasing farm ties, <http://www.thehindubusinessline.com/2008/03/25/stories/2008032552271000.htm> (Accessed November 2, 2008)

27. India, New Zealand to initiate free trade pact, http://www.bilaterals.org/article.php3?id_article=8374 (Accessed November 8, 2008)

exceed 20,000 in each direction for New Zealand a 14% increase in Indian tourist numbers in 2007. In 2008, 23,000 Indian tourists and 5,000 students²⁸ visited New Zealand. This includes a significant number of Indian honeymooners - no doubt inspired by some of the popular Bollywood movies made in New Zealand. To facilitate the increasing tourism traffic New Zealand signed an air services agreement with India in May 2008, which allows for direct flights between Auckland and Mumbai. An Indian carrier is likely to start flying to Australia next year, which will improve the range of options available to travellers in both directions. There is potential for providing facilities for tourists and also marketing India's tourism potential because of its landmark monuments. The forthcoming Commonwealth games in 2010 in Delhi would give exposure of India to New Zealand people.

Indian Diaspora

Indian community in New Zealand comprise about two per cent of the total population and have a greater share in New Zealand's economy. The Indian migrants to New Zealand are mostly engaged in domestic retail trade though the community also has a fair number of professionals in medical, engineering and IT sectors. Few are also engaged in hotel industry and agriculture²⁹. As Governor-General Anand Satyanand has stated in one of his speeches,

“The relationship between our two countries then is based on many common linkages, including history, a Westminster constitutional heritage, language, sport, migration, cultural links and increasingly business ties. As India aspires to a powerful place in topmost world affairs, I believe the success of the India community here in fostering positive inter-community relations will ensure there is a solid foundation upon which to foster and strengthen our inter-country relations”³⁰.

India and New Zealand can benefit hugely through the tier two engagements between the people of the two countries through Indian Diaspora. Also the

28. New Zealand and India Agree to Commence FTA Negotiations at <http://www.nzembassy.com/news.cfm?CFID=29868261&CFTOKEN=92630466&c=26&l=72&i=5691> (Accessed November 12, 2009)

29. Report of the High Level Committee on the Indian Diaspora, 2001, p.286

30. Speech by the Governor-General, The Honourable Anand Satyanand, India-New Zealand Business Council 11th Joint Meeting, Stamford Plaza, Auckland, October 24, 2007 (Accessed November 3, 2008)

number of business migration has increased in the last two years with the figure rising from nine in 2008 to 53 in 2009. This shows that New Zealand is being seen as a major business destination for Indian businessmen for setting up shops and setting intermediaries.

Conclusion

The ties between the two countries have gone through the roller coaster ride but there is a sense of stability in the relations. This has been propelled by the advent of globalisation as well as increasing interdependence brought about by the investments and capital. The world has become a global manufacturing hub. While New Zealand cannot ignore India's huge market and the services industry, India cannot overlook the important position of New Zealand in Asia Pacific as well as increasing clout in various global and regional forums. There has been growing convergence but there is a need for mutual understanding which can be promoted through greater investments, trade and people to people contacts. Though on the regional scenario, both countries have been part of the East Asian Summit and have addressed the non-traditional security concerns but there is need to address the differing policy perceptions and work collectively for promoting peace and promoting trade.