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How to revitalise the G20: an Australian view

Mike Callaghan

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Unless steps are soon taken to rejuvenate the G20 leaders' process, its best days will be behind it, even in its role as a 'crisis responder'. This does not mean the G20 will be totally ineffective, but it will not fulfil its potential and provide the economic leadership the world needs.

The Washington, London, and Pittsburgh summits provided an effective response to the global financial crisis. G20 leaders pledged to: stimulate economic activity with combined fiscal action of over \$5 trillion; strengthen financial regulation; avoid protectionism; and, expand the lending capacity of the international financial institutions. Their action helped stabilise financial markets and contained a likely economic free-fall.

More recently, however, there has been growing criticism that the G20 has failed to live up to the initial high hopes of a new age of global economic cooperation. The anticipated transition from a 'crisis responder' to a 'global economic steering committee' appears to be running into the sand. For example, Tom Bernes described the St Petersburg summit as the most forgettable to date and said 'the G20 may be becoming forgettable as a forum to provide the global economic leadership that it was created to achieve.' In a recent article in the Financial Times, Philip Stevens described the G20 as 'moribund' and said that it has fallen into the familiar pattern with such international meetings, namely 'the responsibility to act in the global interest belongs to someone else'.

Much of the criticism is harsh and reflects unrealistic expectations of what can be achieved in an international forum. The G20 may be a victim of its own early success in responding to the global financial crisis. And a considerable amount of the criticism actually reflects the failure of governments to implement domestic economic policies. There can be no denying that the G20 has achieved much, including providing a forum at the highest political level for a deeper economic dialogue between countries that are not used to such a level of engagement. Moreover, notwithstanding the criticism of the St Petersburg summit, notable agreements were reached on tax, trade and the phase out of hydrofluorocarbons.

But the G20 does have problems and if these are not addressed its relevance will decline. It has failed to grapple with some of the thorniest issues confronting the global economy. It has not delivered strong, balanced and sustainable global economic growth. The addition of new items

to the agenda without the resolution of existing ones has given the impression of 'mission creep'. The G20's credibility has been damaged by the failure to deliver on key promises, such as commitments to complete the Doha Round and reforms to IMF governance. Its processes are becoming increasingly bureaucratic. The communiqués are getting longer and mainly endorse reports prepared by international organisations and officials. It is hard to see what leaders have actually decided.

Of particular concern is that leaders are not engaged in the lead-up to a summit. It has become but one more meeting on a busy international schedule of summits.

If the G20 is to provide global economic leadership, it needs to be refocused and reenergised. What needs to be done?

First, get leaders [re-]engaged. Leaders can get things done, overcome political roadblocks. But as British Prime Minister, David Cameron, has noted, leaders' time and political capital are limited. Accordingly, the agenda for summits has to focus on a few key international issues where progress will make a difference to the global economy. This does not mean abandoning all the current work. The G20 should formally adopt a twin track process, with the leaders' agenda limited to a few critical issues, while the rest of the work is advanced by ministers and officials.

Second, there needs to be greater coherence in the G20 agenda, with all the items being addressed clearly contributing to the overarching objective of achieving stronger economic and jobs growth.

Third, the chair should ensure that leaders are engaged throughout the year, working towards achieving substantial collective outcomes.

Fourth, the G20 has to deliver on its commitments. The existing self-prepared reports on members' progress in implementing commitments are perfunctory. The G20 has to strengthen its accountability. G20 leaders have to take the promises they make seriously. And leaders need to commit to specific action, not general endeavours. Leaders will take their commitments seriously if there is a domestic political backlash for not implementing a promise or achieving a targeted result. Towards this end, greater transparency over the G20's processes and improved communication as to what leaders have actually agreed will help strengthen accountability.

What should be the priorities for the leaders' summit in 2014? First, develop a 'G20 coordinated growth strategy', accompanied by countries releasing their own growth strategies. The G20 no longer has a consistent growth narrative; countries are not on the same page. But the public

needs to be involved. To achieve this, draft growth strategies should be released for public comment before they are presented at the Brisbane summit. Second, in the face of the problems with the Doha Round and the move towards mega-regional trading blocs, the G20 should aim to breathe life back into the multilateral trading system and start the process of revitalising the WTO. Third, maintain the momentum on combatting tax evasion and avoidance. This was a significant outcome from St Petersburg, but it largely involved the endorsement of high level principles. In 2014, the G20 has to demonstrate progress in tackling a complex and contentious issue. In addition, a bigger effort needs to be made in involving developing countries, because strengthening their revenue raising capacity is vital to their development prospects. The G20 has struggled with having a coherent development agenda. This is one way the G20 can have a real impact on assisting developing countries.

If the G20 can make progress on some limited, but vital international economic issues in 2014, it will demonstrate again what can be achieved when leaders from the advanced and emerging markets come together and that the G20 can provide global economic leadership.

How to Repond to the Global Challenge of Iran

Gareth Evans

International Crisis Group

I have been optimistic from the outset, and remain so – especially since the conclusion of the interim agreement between the P5+1 and Iran in Geneva last November – that the Iranian nuclear problem is capable of peaceful diplomatic resolution, and in a way that puts at risk no country's, including Israel's, vital national interests. The crucial requirement is that all the key players focus on what their respective vital interests really are, be prepared to compromise on lesser issues, stare down their more extreme respective internal constituencies, and above all stay calm, avoiding the kind of brinkmanship that can make a small stumble turn into a catastrophe.

Such optimism has long been a hard sell in the West and Israel, because of the widespread perception that Iran is hell-bent on actually acquiring a physical nuclear arsenal; that all else is dissimulation; and that negotiations can at best buy time. Certainly pessimists and sceptics have plenty to point to in Iran's long record of obstruction in the IAEA and elsewhere in addressing legitimate international concerns about its nuclear programs. Nor should one underestimate the difficulty of assessing Iran's real intentions. Mixed signals from competing power centres, whoever has been President, don't help; nor does the recurring contrast between Iranian officials' usually-strident public pronouncements and often-moderate private discourse—both of which I have had plenty of personal experience in Tehran and elsewhere, especially during the nearly ten years I worked closely on this issue as President of the International Crisis Group from 2000-09.

But my belief is that the situation has always been, and remains, less alarming, more containable, and more soluble than the doomsayers would have it. To justify that position, one has to have credible answers to three important questions: Why has Iran behaved as it has in the past? What possible grounds are there for taking seriously its insistence that it will not build nuclear weapons in the future if it has the capability to do so? What kind of negotiated agreement could actually meet the needs and interests of all the relevant players?

First then: why, if its ultimate intentions are not aggressive, has Iran played such a high-risk, ambiguous game for so long with its nuclear program – developing enrichment and other capabilities it did not strictly need for any civil nuclear energy program, and often being opaque, uncooperative, or both in explaining itself? For a possible answer here I don't think one needs to look very hard: when in doubt, never underestimate the motivational force in international relations of national pride. From my conversations with many Iranians over many years, the explanation I hear is that it's all about, in the eyes of the leadership and the public that supports it on this issue, redeeming the humiliations of the Mosaddeq era and beyond:

- partly politically, by staring down the West politically by not compromising on its “right” to enrich uranium under the Nuclear Non-Proliferation Treaty (and losing no opportunity
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in the process to point up the West's perceived double standards on WMD by abandoning Iran to Saddam Hussein's chemical warfare in the late 1980s); and

- partly technically, by demonstrating very high-level technological prowess to the region and the wider world. (One only wishes that something less sensitive than the nuclear fuel cycle had been chosen to make that point.)

But even if one were minded to accept that, the next big question, is why on earth Iran would now stop short of building the nuclear weapons that it may soon have the capacity to produce? How could anyone, least of all Israel – who has an obvious existential stake in the matter – ever be confident that Iran would not cross that line as soon as it could, and give itself whatever additional status, regional authority, and raw military power that possession of actual nuclear weapons might bring. I have asked this question many times over the years in off-the-record discussions with senior officials in Iran and elsewhere during my time at Crisis Group, and have heard five distinct answers stated with clarity and consistency. Not everyone will take the explanations, particularly the last, at face value, but in my judgement at least, they deserve to be taken seriously.

- The first reason is Iranian concern that Israel will indeed perceive the existence of one or two Iranian bombs as an existential threat, demanding a pre-emptive military attack – with or without US support, but in either case with resources that Iran knows it cannot match.
 - The second reason is that Iranians have long understood that there is zero tolerance in both Russia and China for an Iranian bomb, and for all the rope these powers gave them in earlier years in the Security Council, all bets would be off if Iran actually weaponizes.
 - The third reason is that there are limits (now becoming very apparent in a way which was not so clear earlier) in Iran's capacity to absorb international sanctions, especially financial sanctions, and Iranians know that in the event of them crossing the weaponization red-line those sanctions would become more completely universal and tougher still.
 - The fourth reason, readily acknowledged by the Iranian officials is that any regional hegemony bought with nuclear weapons is likely to be short-lived. There is some scepticism about the capacity of Egypt, Saudi Arabia, or Turkey to move quickly to build bombs of their own (less so about their willingness and ability of the Saudis to buy off the shelf from Pakistan); and it is also acknowledged that they would be under much international pressure, especially from the United States, not to do so. But there is also a clear view that Arab-Persian, Sunni-Shia, or more straightforward regional power anxieties would make a nuclear-arms race inevitable.
 - Finally, there is a religious reason: weapons of mass destruction simply violate the most fundamental precepts of Islam. Few in the West are likely to find this line very compelling, but it has echoed strongly in every conversation that I have ever had with Iranian officials, senior or minor, and was often repeated by President Ahmadinejad even when at his virulent worst fulminating against Israel. And it is not without plausibility: Iran did not, after all, respond in kind when it was bombarded with chemical weapons by Iraq.
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None of this suggests that Iranian intentions can be taken on trust. There is too much history, and there are too many continuing grounds for suspicion, for that. Any final agreement, if it is to bring an end to sanctions and the diplomatic isolation of Iran would need to:

- be accompanied by intrusive monitoring, inspection, and verification arrangements, covering not only all sensitive stages of the nuclear fuel cycle, but also any suspected weapons design or engineering facilities;
- give the international community real confidence that there would be enough lead time – twelve months or so – in which to respond to any evidence of real intent to move to weaponization;
- do that by dramatically reducing the number of operating centrifuges – to as few as 3000 or so compared with the 20,000 or so (albeit of variable quality) now installed – and setting strict limits on the amount of enriched uranium Iran could possess at any time;
- further limit Iran's capability by shutting down, or at least substantially altering, the design and purpose of the deep-underground enrichment facility at Fordow, and the reactor under construction at Arak (the heavy water design of which increases the amount of weapons-grade plutonium that could be extracted in a reprocessing facility); and
- be of a duration (certainly much greater than Iran's presently proposed five years) genuinely long enough to convince the international community of Iran's peaceful intentions.

In return, any agreement if it is to satisfy Iran's own political – and psychological – needs and interests, would have to:

- recognize, if not necessarily precisely in these words, Iran's "right to enrich" uranium under the NPT (even if that treaty, if it were being negotiated now, would be unlikely to be remotely as tolerant on the subject of enrichment facilities – sometimes referred to as 'bomb starter kits' – given the technological capability now possessed by many states); and
 - make provision for unwinding the sanctions regime – at the front end, back end and along the way - in an orderly fashion that gives Iran the necessary incentives.
 - So that is my answer to the third question I posed - what kind of negotiated agreement could actually meet the needs and interests of all the relevant players. The question, of course, now is whether any such agreement can in practice be delivered. The most heartening evidence to date that there is a will on both sides for a diplomatic solution is the agreement on Joint Plan of Action, that was at last reached – after years of both sides missing opportunities genuinely on offer at various times – in Geneva in November. Intended as an interim arrangement pending negotiation of a comprehensive agreement within six months, this involves Iran agreeing to:
 - halt the installation of new enrichment centrifuges;
 - cap the amount and type of enriched uranium that Iran is allowed to produce;
 - halt work on key components of the Arak heavy-water reactor; and
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- accept significant increases in oversight, including daily monitoring by international nuclear inspectors, In return for which it receives modest relief of trade sanctions and access to some of its frozen currency accounts overseas.

The hostile reaction to the November agreement from sections of the U.S. Congress and within Israel suggests that anything less than a total capitulation by Iran, and total dismantling of its nuclear program, will be met with serious opposition. But just as Iran has to understand (as I believe it long has) that none of the P5 is prepared to accept its emergence as a nuclear-armed state, and that the world has a right to demand credible and comprehensive proof of its assurances that it has no intention of acquiring nuclear weapons, so too must the United States and its friends modify their own expectations, accepting a reasonable level of enrichment activity under international supervision, and, more generally, finding some means of accommodating Iran's demand for positive (rather than negative) recognition as a country of global significance and unqualified admission to the society of advanced nuclear-capable states.

Cooler heads have so far prevailed, and it is desperately important that they continue to do so. While the rewards of Iran's full acceptance back into the international community are potentially very great, the risks of clumsy brinkmanship triggering inflammatory confrontation, or precipitate military action triggering large scale conflict, are very high. Catastrophe can be averted only by level-headed diplomacy of the kind that, until very recently, has been in unhappily short supply.

How to respond to the global challenge of Iran?

Anthony Bubalo

Lowy Institute for International Policy

There are reasons to be cautiously optimistic that the negotiations currently underway between Iran and the P5+1 will produce an agreement beyond the current interim deal reached last November.

There are two main reasons for this. First, both the United States government – and this really is about the United States and Iran rather than the P5+1 and Iran – and at least key parts of the Iranian regime see value in an agreement. More importantly they both see value in an accord at the same time. Too often in the past one side has seemed ready when the other was not.

America is recalibrating its position in the Middle East. President Obama believes that America is overinvested in the region, particularly militarily. He wants to be the American President that ended American wars in the region, not the one that started new ones. It does not mean that he is abandoning the region, but Obama wants America's engagement with the region to be more prudent, more restrained, more diplomatic, less ideological, less military, and much less expensive.

Incidentally, I don't think this is really about the pivot or the rebalance to Asia. Obama wants to lower America's profile in the Middle East for its own reasons, not because China is rising. The proponents of the pivot exploited that sentiment knowing that a shift in focus to Asia would be attractive to the President because it would provide a much stronger and strategically cogent reasons for reducing America's military footprint in the Middle East. This is illustrated by the way in which America's rebalance has begun to look hollow now that its chief proponents have left the Administration.

To recalibrate America's posture in the Middle East Obama needs to do many things. But the key thing he needs to do is to reach an accord with America's key adversary in the region, Iran, on the issue that most divides the two countries, the nuclear question. But I believe for Obama this issue is not just about defusing an issue that could start a war between America and Iran. It is about defusing an issue that could start a war between Iran and any number of its neighbours, into which America would almost inevitably be drawn. I also believe that Obama does genuinely see this issue in global non-proliferation terms.

For the Iranian regime the motivation is less easy to discern. Many have pointed to the crippling impact of sanctions on Iran. But while there is no question that this is a factor, I think it is actually much more complex than this. The Iranian regime has always been a complex mix of factions and power centres, any number of which could stymie decisions and policy directions set by others. But I think what we are seeing is a rare moment when the various power centres are either aligned in favour of an agreement or are not yet that vocally opposed to it. There is clearly a

rational, pragmatic group around President Rouhani who see value in a deal, not just to ease sanctions but because they have always understood that, as important as the nuclear program was, it took a slightly lesser priority than building the Iranian economy. They also understood that you could actually use the nuclear program to bargain away some of the international limits (even before the latest round of sanctions were imposed) on Iran's economic development.

At the same time, those opposed to the deal have either chosen or have been forced to watch from the sidelines. Here the Supreme Leader plays a key role. Last week he said "... I am not optimistic about the negotiations. It will not lead anywhere, but I am not opposed either". I think this is an accurate reflection of his position. He does not like America, does not trust America, and does not think Iran needs America. But he has been convinced to sit back and watch the negotiations unfold because it might be in Iran's interests. It is not clear why: it may be because he does want to alleviate the damage caused by sanctions, perhaps by using the negotiations to split the international community, an old and favourite Iranian tactic; it may also be that he feels that Iran is less threatened by an America that seem to be pulling out of the region and therefore that Iran can negotiate from a position of relative strength. Who really knows? But in any event the fact that he is sitting back and watching means other opponents more or less have to as well.

And this will really be the key to the successful conclusion of a deal. Ultimately, Iranian proponents will need to convince the Supreme Leader that the benefits of any final agreement outweigh the negatives. It is a classic Persian Bazaar scenario. The Supreme Leader does not love the carpet, he does not necessarily want to buy the carpet, but if he can get a good price for it then perhaps why not?

Incidentally, I think the same logic works for opponents of the deal in the West. Yes there is opposition in Israel and Congress. It is at times vocal and hostile and potentially spoiling. But ultimately it is undermined by the fact that it offers no positive alternative, beyond perpetual sanctions or military action. I think even hardened opponents of the deal understand that the first is not sustainable and the second is not viable (unless of course the United States were to carry out the strikes). Sanctions are at their peak utility now. Better to use them as a lever in getting the kind of deal that you want when they are at maximum strength before they begin to erode. As for the military option – at least the Israeli military option – I can't think of another thing that Israel has threatened to bomb so many times without actually ever doing it. Debates about whether Israeli could bomb Iran's nuclear program are moot. If they could have done it by now, they would have done it by now.

What would a deal mean?

Of course none of this guarantees an agreement. All it really says is that the current circumstances are more propitious than in the past. A lot can go wrong during the negotiations. Opponents on both sides could throw up obstacles. And, as I have already noted, ultimately both sides will need to construct a deal that convinces the sceptics that the positives in any agreement outweigh the negatives.

A lot of time is being spent on what might happen if the talks break down. But I think it is actually more interesting to consider the implications of a deal that succeeds, which brings me to the questions posed for this session about whether the issue is really a non-proliferation issue or a regional balance of power issue; but also the question about the role of outside players.

There is no question that the Iranian nuclear question is both a global non-proliferation issue and a regional balance of power issue. If Iran is allowed to pursue an essentially open path to nuclear weapons it will have deep implications for global non-proliferation norms. One could also argue that if Iran is allowed to do the same it will have similar consequences for the regional balance of power in the Middle East, shifting it in Iran's favour.

In fact, I would argue that a successful nuclear agreement will actually do more to shift the regional balance in Iran's favour than a situation in which Iran acquires a nuclear weapon. I also think that proponents of a deal in Iran and opponents of it in the Middle East know this intuitively, even if they don't say so openly or directly.

The reason for this is that an Iran that is confident, economically successful and open to the world without a nuclear weapon will be a far more influential and powerful country than an Iran that is paranoid, underperforming, and nuclear armed. As any Iranian will tell you, Iran has always punched below its weight and has never realised its potential for a country of its size and population, with its natural and human resources. The key to unlocking that potential is an Iran that is connected with the world, not one that is isolated from it. There are plenty of examples of countries that have increased their national power and influence by opening to the world (you don't have to just look at the recent example of China). But there are almost no examples of countries that were successful by being isolated from the world.

The irony is that those countries that fear Iran, like Israel and Saudi Arabia, may have more to fear from an Iran that is not nuclear armed than one that it is. This is especially the case when you consider the current situation in the Arab world, where the big powers are either in internal turmoil (Egypt, Iraq, Syria) or have aged leaders (Saudi Arabia) whose ability to react nimbly and positively to a more dynamic region is limited. The opportunity for Iran and the threat to its regional adversaries is that Iran can fill this vacuum. The challenge for Iran is that the only way it will probably be able to do this is by giving up its nuclear weapons ambitions.

But there is also an opportunity here for those countries that fear Iran – albeit one with some risk. An Iran that opens itself to the world economically would be more likely to change than one which remains closed to it. And while it is true that not all of the hardliners in Iran are old, once Supreme Leader Khamenei dies, some of the suspicions that his generation hold of the world, and ideological convictions that they carry with them into it, will die as well. There has always been a pragmatic strain in Iranian politics that when tied to an opportunity for Iran to realise its true potential could see a regime far more willing to put aside hard-line positions than many might suppose.

This is also where the rest of the international community comes in. In the same way that the relative consensus of the international community around sanctions has been important in bringing Iran to the table, the willingness of the rest of the world to engage with Iran after any deal will be critical to ensuring that an agreement is maintained and consolidated. It comes back to what I said earlier. Iran will need to be convinced that the benefits of any deal outweigh what they will give up to achieve it. A significant improvement in Iran's economic but also diplomatic ties with the rest of the world will help achieve that outcome. Given the growing interest of at least Western corporates in a post-sanctions Iran, I suspect the rest of the world won't need much encouragement.

Minilateralism and Multilateralism in Asia

Yasushi Kudo

The Genron NPO

When it comes to considering a stable and effective security framework for East Asia, the key is our perception of the state of affairs in this region. My recognition can be summed up in the following three points.

First, East Asia does not aim to create a unified system like the European Union and in this context, the 10-nation Association of Southeast Asian Nations (ASEAN) would never become a unified entity like the EU. In fact, ASEAN has expanded the framework for regional cooperation in a concentric fashion. However, this grouping neither intends to complete regional integration with ASEAN at its core, nor desires to create a security regime like NATO. ASEAN just provides a venue for the multilateral dialogue in which the top leaders of the United States and China can take part. No more, no less.

There exist three multilateral frameworks for regional security dialogue: the East Asia Summit (EAS), the expanded ASEAN Defense Ministers Meeting-Plus (ADMM+) and the foreign-ministerial-level ASEAN Regional Forum (ARF). The Japanese government is obviously pinning high hopes on the role the EAS is expected to assume.

In my observation, these dialogue mechanisms have a certain significance. For instance, they deserve credit for facilitating dialogue for a peaceful solution to the conflicts in the South China Sea, due largely to the participation of the United States and China in the dialogue. Substantially, however, they are nothing but routine forums, and do not serve as functional and active entities that contribute to the prevention of conflicts.

Second, China's economic influence on ASEAN member countries is so strong that the bloc is trapped in a structure in which mutual economic reliance on China co-exists with anxiety about security. Japan's direct investment in ASEAN member countries remains larger than China's, but the value of trade between China and ASEAN surpassed that between China and Japan in 2006, and the gap is expanding every year.

Under such circumstances, the ASEAN countries are virtually divided into three groups – the pro-China group, the neutral group and the group involved in territorial disputes with China.

Naturally, ASEAN could not take unified action should a military conflict occur in the South China Sea.

Third, peace and security are the most fragile regional concerns for the people of East Asia echoing the above-mentioned circumstances. Now that China is overtly aiming to make the South China Sea to increase its influence on the South China Sea, the freedom of navigation there is being threatened.

Such fragile regional governance holds true for Northeast Asia. The Japan-China-South Korea summit and the six-party talks on North Korea's nuclear crisis are not able to mitigate the growing tension and prevent a conflict in waters around the disputed Senkaku Islands in the East China Sea. The trilateral summit has been suspended since 2013 due to friction between Japan and its neighbors, that is, China and South Korea.

In other words, there are no effective multilateral dialogue frameworks in Northeast Asia. Even worse, no governmental dialogues, either bilateral or minilateral, function at this moment.

Given such a perception of the state of affairs in East Asia, my answer to the guiding question posed to this session, namely, "What are the most effective and stabilizing ways to establish security and diplomatic cooperation in Asia?", is obvious. That is, I cannot single out a single effective tool, and there is no other option but to combine the existing multilateral, bilateral or minilateral frameworks in an effective way to secure regional peace.

How Japanese intellectuals evaluate existing frameworks for conflict prevention

This brings us to the next question. That is, how to combine the available frameworks. In this context, the findings of a questionnaire survey, which The Genron NPO conducted in early February, are indicative. Asked about the possibility of military conflicts in the East China Sea and the South China Sea, more than 40 percent of the Japanese intellectuals polled replied that such conflicts could occur sooner or later.

What is interesting are the replies to the questions pertaining to the effectiveness of the existing dialogue frameworks to prevent conflicts either in the South China Sea or in the East China Sea.

Only 24 percent of the respondents had high hopes that the EAS could prevent conflicts in the South China Sea, and a small 10.1 percent cited the foreign ministerial-level ARF. And 12.3

percent said all the existing frameworks for multilateral dialogue do not function at all for the avoidance of conflicts there.

To the same question regarding the East China Sea, as high as 31.3 percent said a minilateral framework for dialogue among Japan, the United States and China would help to avoid conflicts there, although such a framework does not exist. And 12.8 percent said that bilateral dialogue between Japan and China could do the same, although the summit talks between the top leaders of the two countries have remained suspended for many months. Put differently, more than 40 percent of the Japanese intellectuals regard either the non-existent minilateral framework or bilateral dialogue as being crucial for the prevention of military conflicts in the East China Sea. However, 18.4 percent cited the EAS, and we should give heed to the fact that some 20 percent of the Japanese opinion leaders are counting on the function of such multilateral framework.

This poll was conducted only for one day and the number of effective replies was only 200. However, the respondents are Japan's influential politicians, business executives, journalists and government bureaucrats, among others, and I am sure its findings represent a consensus view of Japanese opinion leaders on matters related to the status quo in East Asia.

The findings of this poll show that Japanese intellectuals are making quite a practical judgment on this sensitive matter. They believe that the existing multilateral frameworks for regional cooperation in East Asia are insufficient to safeguard the freedom of navigation or to prevent conflicts in the South China Sea, although they are pinning certain expectations on their function. And eventually, they are becoming apprehensive about the eruption of military conflicts there.

In the meantime, many Japanese intellectuals believe that in the East China Sea, where there are no multilateral mechanisms for dialogue, the stalled Japan-China bilateral dialogue and a Japan-U.S.-China minilateral framework would be effective, and efforts should be made in this direction. My opinion is basically close to the consensus view of the Japanese intellectuals.

Tripartite approach toward practical solution to pressing challenges

The ultimate aim of efforts to ensure security and promote diplomatic cooperation in East Asia should be to establish the minimum for the public good, such as peace, systems for the prevention of conflicts, and safe and free navigation, which are definitely deficient in this region.

Fundamentally, this is an attempt to fully implement the Declaration on the Conduct of Parties in the South China Sea, adopted between ASEAN and China in 2002, and eventually to adopt a Code of Conduct (CoC) for the South China Sea, as stipulated in the declaration. China remains overtly reluctant to accept the participation of third-party countries in multilateral consultations and mediations for the resolution of conflicts, and insists that territorial disputes should be settled through bilateral talks between the parties involved. Nonetheless, it deserves high praise for the initiation of such multilateral talks between ASEAN and China, while discussions are under way on the venue for such multilateral dialogue frameworks as the EAS and ARF. It is important to make continuous efforts to pursue solutions to disputes through the institutionalized frameworks for multilateral consultations and in a manner based on the law, and such efforts will have a meaningful impact in the future on the establishment of regional governance in East Asia.

Yet, it is difficult to halt attempts to alter the status quo in the South China Sea by passively expecting developments of these multilateral consultations. My belief is that it is imperative to promote the tripartite tasks simultaneously for the practical resolution of the disputes.

One task is to evolve the existing frameworks for multilateral consultations from routine forums to more collaborative settings with practical effects. To this end, it is necessary to increase collaborative actions in some problem areas, such as the multilateral joint actions to solve common challenges in East Asia. For instance, joint disaster-relief drills are conducted at the initiative of the expanded ADMM+. Multilateral joint actions for lifesaving, such as anti-pirate and disaster-control operations, would contribute to the enhancement of mutual understanding and confidence-building among the militaries of the participating countries.

The second task is to reinforce bilateral relation. In order to enhance the prevention of accidents or conflicts at sea, it is necessary to strengthen bilateral alliance relations with the United States and to reinforce the coast guard capabilities of each country. On this point, Japan has decided to provide 10 patrol boats to the Philippines, using its official development assistance (ODA) budget, while a similar offer to Vietnam is under discussion.

And thirdly, such minilateral frameworks for military cooperation as the ongoing projects among Japan, the United States and Australia or among Japan, the United States and India, would work effectively as a deterrent to ensure regional stability for the protection of the freedom of navigation.

The role of civil diplomacy for the prevention of conflicts in the East China Sea

Compared to the South China Sea, the security risks in the East China Sea are not so complicated since the parties involved are limited to Japan, China and South Korea. Eventually, the prevention of conflicts and the establishment of on-site crisis management in the East China Sea are up to the consultations of the parties in the disputes. The instability of security in this sea arises from the halting of governmental dialogues and the resultant total breakdown in governmental diplomacy, whereas tension mounts over the possibility of unexpected accidents in waters near the Senkaku Islands and in the airspace above the East China Sea.

There are no on-site or government-to-government hotlines between Japan and China, and the official consultations on the establishment of such hotlines have been suspended since the nationalization of the disputed islets in fall 2012.

There are two ways for governmental consultations. One is the initiation of bilateral talks between the governments of Japan and China on the particular issue of crisis management. Another is to open minilateral governmental dialogue, involving Japan, the United States and China.

In the above-mentioned questionnaire survey, more than 30 percent of the Japanese intellectuals polled cited the minilateral framework for governmental talks, involving Japan, the United States and China, as the desired tool for the resolution of conflicts in the East China Sea. This is probably because the prospects for an improvement in the sour relations between the governments of Japan and China are poor. However, it is my opinion that the territorial dispute between Japan and China should be solved through bilateral talks.

The United States no longer hides its intentions to serve as a mediator for the betterment of relations between Japan and its neighbors. It has been announced that U.S. President Barack Obama will visit Japan in April in an apparent move to act as a mediator between Japan and China for the prevention of conflicts in the East China Sea.

I don't think Prime Minister Shinzo Abe is totally disqualified as a Japanese leader in charge of these formidable negotiations with China. Yet, China would never respond to his overtures for talks without Mr. Abe's drastic and bold action.

It is natural for any government to show little signs of compromise when it comes to the question of sovereignty of its territory. At the same time, we should recognize the simple fact

that the situation is likely to deteriorate and governmental diplomacy is likely to be bogged down if we become obsessed with solving the territorial dispute. We call this the “dilemma of governmental diplomacy,” which is the current state of affairs in Northeast Asia. At this difficult juncture, the private sector should assume a critically important role, I believe. The pressing task for the governments of Japan and China is to establish a bilateral maritime mechanism of communications and a high-level hotline. However, both governments hesitate to shelve the sovereignty dispute. In order to break the impasse, there is no other way but to create new public opinion toward the prevention of conflicts and toward peace-building, and this is a job for the private sector.

In this context, I would like to introduce to you a major development that occurred in Japan-China relations last year. Toward the end of October, Japan and China reached a “no-war pledge” agreement at a private-sector forum, and publicized it to the rest of the world. About 100 politicians, military personnel, business executives, journalists and others attended the forum sessions in Beijing as panelists, drawing a total of 3,000 participants. The get-together of so many influential figures from both countries underscored the shared sense of crisis felt by so many people about the critical situation in the bilateral relationship.

On the same day as the private-sector dialogue was held, Chinese President Xi Jinping delivered an important speech on China’s peripheral diplomacy, which resulted from deliberations among the Chinese Communist Party’s top leadership. In the speech, President Xi emphasized the importance of “friendship with neighboring countries” and “a close network of common interests” as the “consistent principle” of China’s diplomacy for the Asia-Pacific region. He also called for “public diplomacy” and “people-to-people exchanges” between China and its neighbors as an important tool for China’s peripheral diplomacy.

It remains to be seen how such a conciliatory diplomatic attitude toward its neighbors is consistent with China’s coercive behavior in the South China Sea and the one-sided establishment of the Air Defense Identification Zone (ADIZ) in the East China Sea. In their heart of hearts, however, the governments of Japan and China desire to create working mechanisms to avoid military conflicts, I believe. My hope is that the mutually agreed “no-war pledge” would be a guiding principle to be shared by all the concerned parties for building peace in the East China Sea. To this day, we have been waiting for the formulation of a code of conduct for the South China Sea through multilateral governmental talks. But it is high time that we initiate our own serious efforts to create a conflict-prevention mechanism for the stabilization of regional governance in East Asia.

Resolution of regional governance problems is a task that must be addressed not only by governments but also by private-sector actors. Private-sector efforts in this direction would help to create a new environment for governmental diplomacy and form the foundation for the creation of the most effective government-to-government framework for dialogue toward the realization of a conflict-free environment in East Asia.

Maritime Security in the Asia-Pacific: China and Geo-strategic Competition in the Pacific Islands

Jenny Hayward Jones

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The Pacific Islands region has a history of insularity. Tiny and once remote from the world's major powers and centre of economy gravity, the world was not interested in them and they were not much interested in the world. Apart from a brief flirtation with interest from Russia and from Libya during the Cold War in the 1980s, the Pacific Islands did not engage seriously beyond the region and its metropolitan powers, from the time most of the countries in the region won independence until the late 1990s.

Australia dominated as the regional superpower and guided or tried to guide the Pacific Island countries' interactions with the world. New Zealand has also played a key role in representing the region's interests globally.

The rise of China has changed all of this. China's engagement with the Pacific Islands has increased over the last five to ten years, particularly since the 2008 truce with Taiwan on competition for diplomatic recognition. This engagement has manifested itself primarily in investment, aid, and the opening up of the region to Asia.

China's rising influence in the Pacific Islands has helped to drive much more international interest in developments in the region than otherwise would have been the case. The United States, officially the region's pre-eminent power, has re-engaged after a period of inattention.

U.S. Secretary of State Hillary Clinton said in 2011 that the United States was in competition with China for influence in the Pacific Islands. She moderated that statement in 2012, saying the region was "big enough for all of us," but doubts about China's real intentions in the region prevail in Washington, Tokyo, and to a degree, in Canberra and Wellington.

AUSTRALIA'S POSITION

Successive Australian governments have publicly welcomed China's rise in the Pacific Islands region while privately worrying about the negative impacts of some Chinese aid projects and China's success in wooing the affection of the leaders of Pacific Island countries. Australia's efforts to persuade China to be more transparent about aid by joining the Pacific Islands Forum's Cairns Compact for Strengthening Development Cooperation have spiked public arguments with Chinese officials.

The Defence White Paper of 2013 was more ambivalent about China's role in the Pacific than it was about China's wider role, warning that the "growing reach and influence of Asian nations" in the Pacific was a challenge for Australia, as its contribution may be "balanced in the future by

other powers.” It also maintained previous language about a potential hostile power in the region establishing bases, suggesting the threads of the China threat narrative still have some currency.

Pacific Island officials and analysts of the region frequently suggest that China is seeking to replace the west in the Pacific as a means of leveraging the anxiety of western governments about China to encourage more western interest.

These arguments are based largely on conjecture. An investigation into China’s activities in the Pacific Islands region reveals little evidence of either geo-strategic ambition or a threat.

There are three main elements of China’s engagement with the region:

- Trade and investment
- Aid
- Diplomatic and military ties

China’s trade with region is growing much faster than Australia’s, but its overall bilateral trade is only \$2 billion—one-third the value of Australia’s trade with the region.

The investment scene is diverse, with a number of Asian players—particularly in Papua New Guinea—including Malaysia, Thailand, South Korea, the Philippines, and Japan, as well as Australia, the United States, New Zealand, and France. China is a significant player but it is not dominating. China’s interests appear more visible because they are relatively new and tend to look different. Chinese companies tend to be active in rural areas where any new player attracts attention. China’s growing investments in Fiji and Papua New Guinea have attracted attention but none is of a size to rival ExxonMobil’s \$19 billion LNG project in Papua New Guinea. The total stock of Australian investment in LNG is \$18.6 billion, just \$1 billion short of the total stock of Australian investment in China itself.

China’s aid has been held up by many analysts as evidence of its rising influence. Samoan Prime Minister Tuilaepa, an outspoken but generally conservative and pro-United States leader, said in an interview in June 2012 that he considered China a better friend to Pacific countries than the United States. He accused the United States of showing a lack of interest in the South Pacific and said China, by being flexible about aid delivery, filled a gap that Australia and New Zealand could not.

China’s aid to the region is estimated to have totalled about \$850 million over the 2006–2011 period. Compared to OECD donors over the same period, China comes out fifth on the league table. Australia is first by a long way—contributing \$4.8 billion from 2006 to 2011. The United States, New Zealand, and Japan are all more generous donors than China to the Pacific Islands. In 2011, Australia held a 62 percent share of all bilateral aid received by the region.

China delivers its aid to Pacific countries largely through granting concessional loans. Despite China’s November 2013 announcement that \$2 billion in loans would be made available to the Pacific Islands, the reach of this type of aid is likely to be limited. Countries such as Samoa,

Tonga, and the Cook Islands are in debt distress and unable to take on more loans. Six other countries in the region are ineligible because they recognise Taiwan rather than the People's Republic of China. Papua New Guinea and Fiji are the only countries with economies of a size and situation that make concessional loans a viable option.

Diplomatic ties are extensive in that China invests in the Pacific as it does in the rest of the world, running sizeable embassies and sponsoring soft power initiatives to influence Pacific Island countries' support for their international policy. China has developed strong ties with a number of Pacific Island nations, particularly Fiji, with the Fijian Prime Minister Commodore Bainimarama stating on a visit to China in 2013 that "the Fiji–China friendship has strengthened considerably since we first established diplomatic relations." But Chinese diplomats are working in a competitive field and there is little evidence that they are dramatically more successful than other countries.

Military assistance—uniforms, non-lethal equipment, and refurbishment of barracks—to the three defence forces of the region—Fiji, Papua New Guinea and Tonga—is superficial. Senior Chinese military officers have visited Fiji, but actual levels of security cooperation are minimal. There is no support from China to rival the \$53 million Australia spends per annum on defence cooperation with Papua New Guinea and the Pacific Island countries and the \$130 million it spends securing the neighbourhood.

WHY IS THIS IMPORTANT?

China's economic interests could be transformative for the region, but Pacific Island countries need some assistance in absorbing and managing China's investment, trade, and loans so that they can manage debt and maximise benefits from China's contributions. If Australia and the United States are focused on seeing China as a potential future threat and hedging, however subtly, for that, they risk losing sight of the here and now.

Any characterization of these investments as "strategic," at least in geopolitical terms, is misleading. There is no evidence that they are coordinated by Beijing. The case is similar with China's aid giving in the region. While many have claimed or implied that China is extending aid and soft loans in a deliberate, top down manner designed to buy strategic influence in the region, the reality is almost the complete opposite. The process is much more haphazard and bottom up, in the sense that it is Chinese companies and Pacific Island governments that are driving the process, with Chinese companies seeking out commercial opportunities in the region, and then lobbying local officials to ask Beijing for loans to finance the projects.

Only 4 percent of China's global aid is devoted to the Pacific Islands. China's central government agencies have very little expertise on the Pacific Islands region. While the Department of Aid to Foreign Countries in the Ministry of Commerce coordinates the ministry's assistance, there are a number of other actors in the aid field which are not subject to any central

direction. Aid is delivered in a variety of forms by a variety of agencies, which makes coordination with both recipient countries and other donors challenging.

Cooperation between China and traditional donors would assist in managing suspicions about strategic threats. Pacific Island countries would also be better off encouraging more cooperation and leveraging China's economic interests for what they are, not to encourage strategic competition that is not appropriate for a peaceful and largely non-milita.

Building Maritime Security Confidence in East Asia

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The issue of maritime security is an enduring topic in history. As a region encompassing the continent and the ocean, East Asia has been struggling with maritime issues because of geopolitical significance. Therefore, how to promote security confidence and lessen potential security dilemmas by fostering mutual trust is a significant issue for many of the regional countries, especially in recent years when some sensitive issues have tipped out during the transformation of regional themes. This memo is divided into four parts:

I. Maritime Security in East Asia

Maritime security is becoming more and more important in recent decades because: 1. of the pace of growth of human activity; 2. maritime routes are much busier; 3. some geographic positions have become particularly significant; 4. increased attention is now devoted to maritime natural resources; and 5. modern countries care more about the maritime sovereignty.

Maritime border disputes are more difficult to resolve as hot topics because they are involved with territorial integrity. Non-traditional maritime security issues have also become pressing with the growth of regional integration initiatives. The situation will only further be complicated by the convergence of traditional and non-traditional security issues in the development of national security strategies.

Non-traditional security issues may emerge even if the relevant parties are willing to cooperate and share some functional sovereignty, to build confidence, and to trust. On the other hand, traditional security issues are difficult to resolve because relevant parties are not willing to share, transfer or cede/surrender their territorial sovereignty.

II. Maritime Security Governance in East Asia

There are some traditional maritime security issues in East Asia, in Japan Sea/East Sea, East China Sea, South China Sea, and Sulawesi Sea. Almost all the countries are involved.

These issues are more complicated when they are entangled with the following elements:

1. Historical inheritance and complexity should be prioritized.
 2. Nationalism should be lessened. National interests, not national emotions, should determine the process and result of the negotiation.
 3. The importance of natural resources has risen in the context of territorial sovereignty.
 4. Coercion or war cannot solve these issues, but it can exacerbate conflicts of interest .
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Military demonstration or coercive declarations usually have had negative effects in East Asia during the latest years.

5. Diplomacy rather than international arbitration could prove more effective. Any country can refuse the decision of international arbitration if it is against its interests. However, they are prone to implement the agreement with others after negotiation by diplomacy.

There are several multilateral fora dedicated to security issues in East Asia, such as the ASEAN Regional Forum, Shangri-La Dialogue and ASEAN Defense Minister Meeting Plus. They vary in membership, themes, and roles in regional security governance.

III. South China Sea Issue: Essence and Evolution

The islands and features as well as their adjacent waters in South China Sea belong to China. The South China Sea issue is not an issue between China and all the ASEAN countries, nor China and ASEAN, but China and some of the members of ASEAN.

There are some landmark events in managing the potential South China Sea conflicts: 1. ASEAN Declaration on South China Sea in 1992; 2. Declaration on Conduct of South China Sea in 2002; 3. Guideline for implementation of the DOC in 2011. These initiatives are all based on the consensus.

The Chairman's Statement of the 20th ASEAN Regional Forum in 2013 had stated some principles concerning the South China Sea issue: 1. non-claimants are excluded in the negotiation of disputes. 2. UNCLOS is just one of the referents, and history and some other elements should also be considered. 3. Any party in consulting COC, claimant or non-claimant, the Philippines or China can veto the result which is against its national interests.

Confidence of relevant parties is quite high though strategic trust is weak. All the parties are confident that the aspirations of TAC will be realized. That's the reason why some small or weak countries dare to bully big or strong ones.

VI. China's Endeavors in South China Sea Issue

There were some breakthroughs of China's policy in South China Sea in 2013:

1. making cooperative development and joint development initiatives with some neighboring countries.
 2. COC consultations made noteworthy progresses with ASEAN countries.
 3. the strength and capability of managing safety governance in South China Sea has increased. 1) Aircraft carrier finished a series of tests; 2) Hainan Province passed "Measures on the implementation of the Fisheries Law of the People's Republic of China."
 4. China refused international arbitration requested by the Philippines because the
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Philippines' behavior is against the spirit of many documents between China and the Philippines in bilateral and minilateral occasions.

China doesn't feel it necessary to establish an ADIZ over the South China Sea in the foreseeable future when enjoying close and amicable relations with ASEAN countries. The South China Sea lies in the forefront of the "Maritime Silk Road of the 21st Century" initiated by China, which has received active echoes from ASEAN countries. The Chinese Navy is going to participate in the 2014 Pacific Rim military exercise-RIMPAC. It is the first time China has joined the exercise with most of Pacific countries. It is expected to serve as a confidence and security building measure.

In conclusion, there is little possibility of maritime security tensions in East Asia leading to war because almost all the countries are more rational and realize that it'll cost too much for itself if trying to change the status quo unilaterally. The maritime security issues can be managed in the absence of strategic trust between China and ASEAN countries in the South China Sea because all the parties keep close contacts and consultations and make strong commitments to solving the relevant issues in the peaceful way. The maritime challenge within minilateral fora of negotiating a code of conduct in the South China Sea between China and ASEAN countries will be lessened. However, the prospects of such an agreement are still ambiguous if additional elements are included.

Coping With China For Maritime Security and Regional Stability: From a bilateral communication mechanism to a multilateral, cooperative and coequal regime

Osamu Onoda

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IMPROVING OR WORSENING? MARITIME SECURITY IN ASIA

There have been remarkable changes happening in the Asia region. The biggest factor is that the emerging states have grown rapidly, and their industrialization needs more energy and other resources for economic development. Among those states, China's rapid economic development and its military modernization have caused many problems and tension in the seas of the region. China is attempting to expand its territory and jurisdiction backed by strong military force, ignoring international rules and norms. China challenges the rights of the coastal states of the exclusive economic zone (EEZ) and the determination of its boundaries dictated by the United Nations Convention of the Law of the Sea (UNCLOS). Second, the world economy is much more interdependent than in the past and the rapid development of emerging states accelerates the interdependence of the global market. That means the sea lanes become more and more important as "global commons." Third, non-state actors, such as pirates or terrorists, have emerged as clear threats to these lanes of communication. The emerging states have been modernizing their military capabilities to protect sovereignty and secure economic benefit in the disputed or dangerous areas.

WHAT IS HAPPENING IN THE EAST CHINA SEA?

The Senkaku Islands are located at the edge of the continental shelf. The waters between the Senkakus and the Southwest Islands (the Ryukyu Islands) are deep and abundant fishing grounds. In September 2010, a Chinese fishing trawler collided with Japan Coast Guard (JCG) vessels off the Senkakus. After the incident, "Haijian" (China Marine Surveillance) and "Yuzheng" (fishery patrol) ships intruded into the same territorial waters in August 2011, and March and July 2012. Such vessels have gradually increased activities in the territorial waters in recent years. Ever since ownership of three of the Senkakus was moved from a private Japanese citizen to the government in September 2012, Chinese Coast Guard (CCG) vessels have repeatedly entered the territorial waters. Since September 2012, the frequency of the incursions had reached 74 days at the end of 2013. The JCG has been on 24/7 surveillance and has

responded every time Chinese vessels have entered the contiguous zone. The JCG also checks whether fishing boats are operating properly. The number of Chinese fishing boats is increasing, and they are becoming both larger and more modernized. The JCG usually acts with self-restraint to avoid an escalation and uses water cannons to respond to any aggressive action.

Japan Maritime Self-Defense vessels are usually far enough from the islands and P-3C patrol aircraft regularly police the area. If Chinese military vessels approach the islands, JMSDF vessels and aircraft will respond.

In December 2012, Y-12 fixed-wing aircraft of China's State Oceanic Administration (SOA) violated the territorial airspace over the islands for the first time. Since then, SOA aircraft have frequently flown near the airspace.

Regarding the activities of the Chinese Navy (People's Liberation Army Navy, or PLAN), surface vessels have advanced through the Southwest Islands to the Pacific Ocean in recent years, and such activities are increasing and being routinely conducted today. It seems that they have improved their open sea deployment capabilities. A PLAN vessel directed fire control radar at a JMSDF destroyer as well as a helicopter based on the ship in January 2013. There were 38 scrambles by the Japan Air Self-Defense Force (JASDF) against Chinese aircraft in JFY2009, and this increased to 156 in JFY2011 and 306 in JFY2012.

CHINA'S OBJECTIVES OF ACTIVITIES IN WATERS

Taking into consideration China's geopolitical position, history, political and economic relations, and the priority of its military modernization, and so on, Beijing seems to have the following objectives for its maritime activities.

First, China tries to engage rival navies in waters and airspace farther from the mainland. Its long-range attack capability is being improved in precision and range due to recent scientific and technological progress. Extending the line of defense far from the coastline to deep-sea waters is the core of its military strategy.

Second, China denies any foreign intervention in solving the Taiwan issue and realizing the unification of China. The Taiwan Strait crisis in 1995 provided the PLA with many lessons on how important it is to keep strong foreign naval power away from the coastal area such as the East China Sea.

The third objective is to weaken the effective control of other countries over the islands that China claims through territorial sovereignty and jurisdictional rights by all means, including the use of force. At the same time, China tries to strengthen its maritime rights and interests by constructing its properties such as oil and gas wells, and facilities on the islands in the East China Sea and South China Sea.

Fourth, China is going to defend its sea lanes of communication (SLOC), which include its crude oil transportation routes from the Middle East.

COPING WITH CHINA FOR MARITIME SECURITY AND STABILITY

In recent years, China has proactively joined nontraditional security missions such as peacekeeping, humanitarian assistance and disaster relief, and anti-piracy actions. The reason for that is because China's national interests have expanded beyond its national borders and as a great power, China wants to show it is willing to shoulder its responsibilities to the international community.

The PLA has just begun to join international cooperation missions like PKO, HA/DR and anti-piracy, and it is a very important step for the world. The world's sea lanes are very important global commons not only for China but also for all of us. Regional states will be able to cooperate with China in multilateral organizations in order to protect the SLOC even if some states have serious territorial or jurisdictional disputes with China. Regional organizations should promote such frameworks and activity for regional states, including China.

Second, since 2008, the Japanese and Chinese governments held working groups aiming at establishing a bilateral maritime communication mechanism that is expected to help prevent contingencies at sea. Unfortunately, the meetings stopped in 2012 and the two countries have yet to reach an agreement. Japan has had the same kind of mechanism with Russia since 1993 and it has worked effectively to avoid accidental collisions. It is difficult to solve the territorial dispute itself, but it is possible to avoid an unexpected military collision that would only exacerbate the situation. It takes time to build mutual trust between governments, but it is easier to build personal trust. It is definitely important to have military to military, fleet to fleet, ship to ship and member to member exchanges in order to understand each other, and to mitigate unfavorable impressions.

Even if these two aspects are feasible, Chinese assertiveness in the waters around the disputed area will not stop. I do not have a good idea of how to halt China's coercion other than

establishing a balance of power. This may be more difficult because the dominant power of the U.S. seems to be relatively and gradually decreasing. Moreover, Chinese soft power called “Three Warfares” -- “Psychological Warfare,” “Media Warfare” and “Legal Warfare” -- is effective and strong. Especially, we should be careful about China’s legal approach, which challenges international rules and norms little by little by accumulating a fait accompli like slicing salami. For example, China’s East China Sea Air Defense Identification Zone (ADIZ) challenges the international principle of “freedom of navigation” above the high seas. China has announced the coercive action it intends to take within the ADIZ, even if it is the airspace above the high seas. China also intends to prohibit military activities within the EEZ without the agreement of the coastal state. The international community should protest against these attempts to change the rules and norms by the Chinese government, and avoid Chinese domination of the legal world.

China’s vast economic power, market, population, etc., makes its continued economic success and cooperation essential for the region and for Japan. However, Japan should pursue the establishment of a multilateral cooperative and coequal regime in the region, not a regime dominated by China or Japan alone. Problems should be solved within the regime in the regional framework. If China needs to set up the ADIZ for its security, it should be discussed with the relevant countries in the regional framework like the ICAO or the UNCLOS. Japan and China should set aside disputing issues and find some projects and coordinate with each other in developing infrastructure, resource or economic benefits for the region as a whole. That is the way for improving the relationship and easing the tension in the region.

Trans-Pacific Partnership

Stephen Grenville

Lowy Institute

1. The world needs more international rules to govern economic relationships. The domestic sphere has far more comprehensive frameworks of rules that govern economic interactions between different parties. Nobel prize-winner Douglass North made the case for developing 'institutions': organisational structures, rules and accepted ways of doing business, which make things work better for everyone. A similar idea is Tom Friedman's 'Golden straitjacket'. But who will write the rules?
 2. Ideally this would be a multilateral process, where the key characteristic is that the rules are the same for all parties and all parties have made the choice to participate. This would be simple and fair. But the WTO multilateral trade framework seems to have run its race, at least in its current form. It's just too hard to get unanimous agreement among 159 countries. Even the very limited Bali deal done late last year, with its unambiguous 'motherhood' benefits (who wouldn't want to smoothen the administrative arrangements for trade?) nearly failed because a couple of countries were ready to use it as a bargaining weapon to achieve other objectives. Maybe the WTO can find a new formula, but it's not surprising that the substantive action on trade has shifted elsewhere.
 3. This makes the case for agreements like TPP, its US/Europe counterpart (the TTIP) and the ASEAN-based RCEP. These are not 'free trade' agreements – they are actually preferential trading agreements (PTAs) in which participating countries agree to take imports from their partners, not necessarily the cheapest source of imports. A multi-party PTA, however, is less distortionary than a bilateral PTA, and the TPP has enough members (nearly 40% of world GDP, 25% of world trade) to minimise distortions. TPP would also achieve a greater uniformity of rules than the 'noodle-bowl' of bilateral PTAs.
 4. Thus we should start with a favorable view about the TPP.
 5. Turning to the specifics, there is a preliminary point. The TPP negotiations comprise some trade issues, and many more issues not directly related to trade: labour standards; intellectual property rights; investment dispute settlement processes; environmental
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issues; and competition policy, including codes of conduct for state-owned enterprises (SOEs).

6. There is a fundamental difference between trade issues and these 'behind-the-border' issues. Reducing trade barriers is beneficial for all participants – win-win. One of the few things economists agree on is that free trade is a Good Thing. With a few minor footnotes, economists agree that lowering trade barriers will deliver increased welfare to a country, *even if other countries don't follow suit by lowering their trade barriers*. In this bargaining environment, how could you make a mistake? But once we start horse-trading over behind-the-border rules, it's quite likely that there will be winners and losers compared with the status quo. For example if intellectual property (IP) rules are shifted in favour of countries which own a lot of IP, countries which are net users of IP will lose.
 7. Even countries which negotiate a poor deal may still sign up, because the overall agreement might still be net-beneficial, even if inequitable. Or they may sign up because of peer pressure; or because the agreement is part of a more nebulous but important process of building strong relations with powerful allies. But, just as a successful business agreement requires that all the parties feel that they have shared equitably in the benefits, a successful international agreement should leave all parties feeling that a there was a fair division of the much-touted benefits of globalisation.
 8. Intellectual property rights illustrate the point. Many economists start out with a view that the current framework for intellectual property rights is very much 'second-best.' How can it be a good idea to create monopolies? Of course we believe that, morally, those who invent things should get some reward. Beyond the moral case, it is in everyone's interests to encourage the march of technological progress. Thus the IP rules should reward inventors. But in what form and how much? To reward them by giving them a monopoly clearly slows down progress because it stops others from tweaking and building on their idea to make it better. Newton said that, if he saw further than most, it's because he stood on the shoulders of those who came before. IP monopolies hinder the next generation of innovators from standing on the shoulders of those who came before.
 9. Sometimes there may be no practical alternative to rewarding innovation by offering a legally-enforceable monopoly. But this idea has been perverted and misused by the commercial interests of the owners of IP. The Disney Corporation persuaded the US Congress to keep the Disney copyright going (the 'Mickey Mouse Act') for 70 years after
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Walt's death. There is no way that this can be an appropriate incentive for innovation. In trying to set a reasonable balance between owners of IP and users, is it in Australia's interest to have the set of rules hammered out between the conflicting lobby-groups in America: Hollywood versus Silicon Valley?

10. The issue is of huge importance. There are plenty of other valid complaints about IP: 'ever-greening' of patents. Achieving the full global benefits from innovation in pharmaceuticals, for example, depends on getting the right balance between rewarding innovation and maximising access to the benefits of life-saving drugs.
 11. There is an extra element. I have little faith in the ability of our negotiators to get an appropriate answer when the negotiations are packaged up in a gleaming 'platinum-standard' package, with all the political pressures to 'get with the strength' and not stand in the way of a platinum-standard agreement. I recall how our US/Australia FTA negotiators essentially had to reach an agreement: if not, the then-Prime Minister would have had to admit that he was not as good a friend of the U.S. president as he wanted us to believe. This is the environment for bad deals.
 12. One more issue, of a very different nature. China is not one of the current participants in negotiation. It is universally assumed that China will not be an inaugural member, supposedly because it may not want to meet the requirements for environmental protection and SOE business-conduct. Is this part of a process of containing China? Several American officials have denied this, and say China will be welcome when it is ready to sign up to the entry conditions, although it would be much harder to join later when the new member has to sign up without any opportunity to soften any of the conditions through exclusions. The purported stumbling block relating to SOEs is hard to follow, as Vietnam must have the same issue. Does China's absence matter? China is the world's largest international trader. They are Australia's largest trade partner. Does excluding them help in the effort to make them a 'responsible shareholder'? The China aspect needs urgent clarification. Unless a way can be found to signal that there is a realistic prospect of China joining and that China would be welcome to do so, we need to recognise that this will be seen by China as containment. Is this our intent?
 13. WTO is unlikely to make much progress so long as unanimity is a key negotiating feature. Even if agreement is sought in a smaller group, it is likely to be confined to 'motherhood' issues. Thus we are left with bilateral PTAs, RCEP, and the possibility of TPP-style agreements. Even though the TPP rules will be slanted to US interests, there still should be net advantage for other participants. The challenge for US policymakers
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should not be to get an agreement which maximises US advantage, but to get an agreement which will truly enhance global economic interaction. The indirect spin-offs of this would be of greater advantage to the US (and certainly to the rest-of-the-world) than any narrow advantage coming out of pandering to domestic vested interests. In this, there is a 'Catch 22.' It looks like Congress will not give the president the necessary negotiating freedom without imposing conditions that slant the agreement heavily in America's favour. But if the draft is slanted heavily in America's favour, how can other participants feel they shared equitably in the benefits?

Should There Be Rules For How States Exploit Cyberspace?

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'Total liberty for wolves is death to the lambs, total liberty for the powerful, the gifted, is not compatible for the rights to a decent existence of the weak and less gifted.' ~ Isaiah Berlin.

1. There are many purposes (some of them conflicting) for which cyberspace rules may be sought. We might first of all want **rules to facilitate** the use of cyberspace if we see cyber activities as providers of wealth, mutual understanding, happiness, and security. Here the main rule might be an informal agreement to avoid rules which constrain the exploitation of cyberspace. In this case the rule-making is analogous to the creation of a cyber free-market and it operates on the basis that barriers to entry and exchange are seen generally as unfair. The main concern here is efficiency.

2. But as soon as we don't trust some other actor (state or non-state) in their use or potential use of cyberspace, we are tempted to want **rules to constrain** what we view as threatening cyber activity. Here the exploitation of cyberspace is more likely to be viewed as hazardous. To call for any cyber-security rule is to declare that one does not trust all actors to behave responsibly and with restraint (and sometimes that one does not trust oneself to refrain from copying them or taking provocative action to stop them). But that same lack of trust can be an obstacle to agreement on what these rules should be. This is especially pertinent because of the ubiquity of access to networked Information and Communication Technologies (ICT) among literally billions of non-state and state actors. But it is also pertinent because of disagreements between the main state actors on the nature and origin of some cyberspace security threats and on the right relationship between security and liberty.

3. We also find disagreements occurring within states in domestic debates about the right balance between individual liberties and national security when it comes to cyberspace. In such cases a number of polities seek **rules to negotiate** (and renegotiate) what might be called the cyber social contract. Public knowledge about the extent of data harvesting that is possible for intelligence organisations via new ICT technical capabilities, including from coverage of the NSA's abilities and practices, has been an important ingredient in this picture. Our greater distance from the major catastrophe of the 9/11 attacks, which for a time gave security arguments an edge over liberty concerns, is also a factor here.

4. Concern about the use and misuse of cyberspace capabilities for intelligence purposes is not just a feature of domestic political debates, but also, courtesy of the Snowden era revelations, has become a major subject in some interstate relations. Here the problems are not between potential (and actual) adversaries who worry about nationally authorized cyber-attacks between themselves, including the use of non-state proxies for malicious purposes. These

problems have been occurring due to revelations about intelligence practices involving close partners, including Germany's concerns over U.S. practices and Indonesian concern over Australian activities. In these cases there have been calls for **rules to reassure** partners. These would involve public and private steps to reassure the governments of partner states and public steps to reassure the domestic publics to whom these overseas governments answer. Indonesia's insistence on a new code of conduct with Australia on general principles is one such example.

5. An attempt at a typology of these four categories of rules by different purposes is provided in the table at the end of this memo. It would appear that some of the problems often seen as ubiquitous in cyberspace, including the **difficulty of attributing attacks** (and the exploitation of this characteristic) apply in some cases and not in others. It also appears, unsurprisingly, that **enforcement** is a greater problem confronting the effectiveness of any rules designed to either facilitate or constrain the use of the internet which need to rely extensively on global cooperation.

6. It also seems to be the case that there is little hope for the establishment of a set of **formal rules** to deal with the majority of these purposes. One of the exceptions is the ability of individual governments to enact laws to restrict the activities of their own intelligence services in the use of cyberspace for domestic purposes. Even in such a case, the effective working of this renegotiated social contract would still require citizens to **trust** the government of the day (and the overseers they appoint) to observe the new rules. One sign of the challenges involved here comes from the intense debate that occurred in New Zealand over recent changes to legislation on the authorization, collection, and oversight of signals intelligence. (These changes were prompted by revelations about the surveillance of businessman living in New Zealand whose file storage site on the internet has been the subject of an American legal investigation).

7. That requirement for trust grows in the case of efforts to reassure partner governments and publics about the activities of intelligence agencies. Any code of conduct between Australia and Indonesia, for example, seems likely to involve a very general set of principles. Aside from their generality, short of another Snowden-style set of revelations, it will be difficult for publics to know exactly how much these principles are being adhered to. But because another such revelatory experience might well occur, it is important for governments to ensure that the **gap between declaratory and operational policies** is as small as it can be. This should be a warning against making public promises that cannot be kept. As much as anything else, efforts to **build confidence in an overall bilateral relationship** may be more crucial than any specific cyber-intelligence rules. One wonders if this might be the case for Germany-U.S. relations.

8. The Snowden and NSA effects have for a period turned the cyber-security tables around into a problem of managing intra-alliance relations and expectations for a number of western countries. But this should not obscure the likelihood that the cyberspace debate and the **main rule-making challenges will more closely mirror the dominant tensions in international politics**. The different philosophies on rules between the United States, the United Kingdom,

and some of their main partners on the one hand, and Russia and China and some of theirs on the other, is part of a cyberspace relationship which mirrors their sometimes challenging strategic relationship.

9. There are some pieces of good news on this front. The first is that at least in their public cyberspace rule-making diplomacy, there is something less than an out-and-out cyber Cold War occurring between these groups of states. There are some common interests (including the avoidance of malicious cyber attacks by some common threats) as well as competing ones. And there is a proven capacity through the recent work of the **Group of Government Experts on Information and Telecommunications** (chaired by Australian diplomat Deborah Stokes) for the emergence of some language which representatives of the main players have agreed on (see UNGA A/68/98 of 24 June 2013).

10. This work also reflects an implicit agreement that the United Nations is a central international venue for this dialogue. It is preferable to the stand-off over the cyberspace treaty advocated by Russia and China, some of whose less than liberal principles were reflected in the **code of conduct** they presented to the UN in 2011 with two of their Shanghai Cooperation Organisation partners (see UNGA A/66/359 of 14 September 2011). In recommending the application of the norms of behaviour in established and widely supported international agreements, principally the UN Charter, the Group of Government Experts' work also avoids the false promise of brand new global governance arrangements for cyberspace when existing rules can be utilized. But we can expect deep differences to occur in working out how and where (and indeed whether) those established international principles can be applied to constrain unwanted cyberspace activities.

11. There is likely also to remain strong differences in the pecking orders of which activities need to be constrained in the first place. Here the difference in value systems cannot be ignored. We may be seeing an implicit agreement that there is more mileage to be made from building common norms than proposing grand treaties. But differences will remain on which norms require our attention. And there will be a temptation (among both officials and scholars) to argue that the norm exists because it appears in a report, rather than because it exists as a social institution generated by the practice of states (and other actors). The real boundaries that make cyberspace rules work will be shaped by behaviour. This means, above all, that cyberspace rules will rely on **self-restraint**.

12. As was the case with a good deal of Cold War arms control, many of the important steps will be **unilateral** ones taken by governments who choose to restrain their own behaviour. When this is replicated by other states, it can become a social convention or rule without any noticeable or separate agreement. But quite unlike the arsenals of the superpowers, a great deal of the internet is in private hands. It is one thing for states to set rules (formal and informal, explicit and implicit) about the behaviour between themselves when it is their behaviour that determines outcomes in the part of international life which the rules are about. It is even more ambitious to set rules which also apply to actors who are neither citizens in a social contract

(and thus not necessarily subject to domestic law) nor recognized participants in interstate political relations, but whose cooperation is needed if rules are to be suitable and effective. This is especially ambitious for a reason raised right at the start: until such time as the facilitation of cyberspace use is no longer a proper aim (and we should hope that should not come to pass), the central – and implicit –rule continues to argue for freedom to exploit it.



Table: Cyberspace Rules: An Approximation of Current Categories

Purpose of rules	Rules set by	Rules apply to cyber activity by	Attribution problem?	Enforcement problem?	Main type of rules
Facilitate cyber activity	All states, groups of states, individual states	States & non-state actors	N/A	Yes	Norms (reflected in self-restraint), plus existing multilateral agreements
Constrain cyber threats	All states, groups of states, individual states	States & non-state actors	Yes	Yes	Norms/principles, observed unilaterally & cooperatively; some use of existing int. law
Negotiate cyber social contracts	Individual states	Individual states (oneself)	No	Potentially	Domestic legislation + governance arrangements
Reassure overseas partners	Individual states, (small groups of states?)	Individual states (oneself)	Potentially	Potentially	Agreed principles (reflected in self-restraint), codes of conduct?