

Research Paper

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The Asia-Pacific Power Balance Beyond the US–China Narrative



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Summary

There are numerous interpretations of the distribution of power in the Asia-Pacific, but for many in the United States and in the region the principal narrative currently revolves around the US–Chinese relationship. However, this simplistic perspective does not sufficiently take into consideration other regional actors such as Japan and India, new instruments of leverage in the region, or the extent and complexity of changing relationships.

In oversimplifying the situation, Asia-Pacific countries and the United States risk narrowing the aperture through which they evaluate policy choices regarding regional challenges. At the same time, the bipolar perspective, potentially invoking Cold War-type mentalities, could exacerbate tensions rather than relieve them. Seeing US–Chinese competition as the main variable in the region could become a self-fulfilling prophecy.

This paper seeks to go beyond this perception by laying out the major narratives of the region's power distribution currently in play in its four principal powers – the United States, China, India and Japan. Building on this, the paper reviews some of the main instruments of influence in the region, including military power, diplomacy, economic strength, development assistance and control over natural resources, and assesses each instrument's current and future potential for influence. Based on these national and regional analyses, the paper explores the likely distribution of power looking ahead to 2030, what might challenge this and what this could mean for regional relations.

Current narratives

Five principal narratives most commonly feature in interpretations of the Asia-Pacific power balance. These can be summarized as follows:

- **The rise of China:** This presumes that the rise of China has been the main source of change in the region. It considers the region first and foremost in bipolar terms – that is, as subject to competition between the United States and China that will likely become more virulent as the latter continues to rise.
- **Global flux:** This argues that the main shifts in power distribution are between the developed West and the emerging economies (particularly those in the Asia-Pacific).
- **Power diffusion:** This suggests that regional changes are fostering multiple centres of power in the Asia-Pacific, with none dominant.
- **Asia for the Asians:** This describes an Asia that is defined and managed within the region, with little role for outsiders, including the United States.
- **Norms and values-based polarity:** This presumes that regional dynamics are led by partnerships based on common values.

The instruments of power

The current narratives of power distribution in the Asia-Pacific oversimplify a number of the structural drivers of change in the capabilities of each state. These narratives also disregard the extent to which relations between the region's major powers are in flux. Ongoing transitions include the following:

- **Military:** The role of traditional military power is diminishing relative to other instruments, from development assistance to cyber offence. Despite this, spending on traditional military platforms and capabilities is rising fast among the key actors in the Asia-Pacific. By this measure, the United States has and will continue to have for some time the largest, most advanced, best-trained and most integrated military. While China's defence spending has been rising at double-digit rates for most of the past two decades, its capabilities remain weak in many areas. Their potential effectiveness is hampered by a lack of interoperability with other powers in the region. Meanwhile, the militaries of Japan and India are becoming – in very different ways – more versatile and potentially expanding their remit. In the future, there will be more capable military powers in the region, potentially able to act alone or jointly with others. Current perceptions of China's rising capabilities outstripping those of others in the region will need to be tempered.
- **Economic:** While China has the world's second-largest economy and – despite recent problems – is growing faster than other major economies, its growth rate is in secular decline. The United States is still the largest economy and will continue to be so for many years (though purchasing-power calculations complicate this). The future of Japan – the world's third-largest economy – is uncertain, and dependent on the success of Prime Minister Shinzo Abe's 'three arrows' of economic reform. India's economy remains notably smaller than those of the other three, but it is on the point of surpassing China's rate of growth, and the formation in 2014 of a new government led by Prime Minister Narendra Modi has significantly boosted confidence in it. If the Trans-Pacific Partnership (TPP) is successfully negotiated, the potential for growth-boosting integration between the United States, Japan and the other 10 TPP members may mitigate their current dependencies on China.
- **Demographics:** Japan (more immediately) and China (over the coming years) face significant demographic challenges from ageing populations, decreasing numbers of workers and gender imbalances. The United States is also beginning to age, although not as rapidly, while India, with its relatively youthful population, has some decades of demographic dividend ahead of it. The United States is a more open society in terms of immigration, something neither Japan nor China shows much likelihood of emulating.
- **Partnerships:** The historical US 'hub and spokes' model of regional relations is set to change. A more networked structure is developing within the region, with an increasing number of overlapping plurilateral groups. Japan and India, in particular, are building and participating in more formal and informal regional groupings, although these often focus more on strategic dialogue than action.

Characteristics of the Asia-Pacific in 2030

Building on these current contexts and trends, this paper proposes that the Asia-Pacific region in 2030 will have at least four principal characteristics:

- **Change will be more rapid and more volatile.** This will result in the power distribution between the principal actors becoming more complex, finely balanced and difficult to assess clearly. Change is already being facilitated by new technologies, particularly in media and communications, making control of information increasingly difficult. The rise of new, often disruptive businesses in the emerging Asian economies will affect the economic balance in unpredictable ways. Demographics are changing, with corresponding implications for social services. Natural resource challenges are becoming tougher.
- **Power will become more diverse and diffuse,** with more state and non-state actors having influential roles. Regional groupings are proliferating and in some cases becoming institutionalized, with varied impact. Moreover, power is becoming more diffuse within states, making it harder for governments to manage internal debates and to send clear messages to neighbours, particularly where nationalism is growing.
- **The region will become more complex,** unpredictable and thus hard to govern as a result of the rise of new actors, challenges and tools. This could lead to policy paralysis on the part of leading state actors, as a swiftly changing environment and too many choices lead to greater uncertainty and, in the end, hesitancy or no action being taken.
- **Countries, companies and other actors in the region will become more interdependent,** which makes the previous point troubling. Already, all states in the Asia-Pacific are increasingly dependent on one another for growth, stability and security.

The 2030 Asia-Pacific distribution of power

These regional characteristics mean that, in order to succeed, states will have to become more flexible and adaptable. They will have to diversify their policy-making – balancing investment in military capabilities with investment in other sources of influence, and opening up government to new partnerships with the private sector and civil society.

These characteristics and incentives for change will likely result in a region that can best be described as ‘flexi-nodal’ – along the lines of the ‘power diffusion’ narrative described above. In a flexi-nodal environment, there will not be one or two dominant powers but many influential actors taking the lead and/or collaborating on different issues of concern.

Regional alliances will vary, depending on the specific area of focus, and could play out formally or informally. Their make-up and leadership will depend on who has the interests, will and capabilities (with regard to the appropriate levers of power) to act. For example, with the United States and Japan taking the lead, the TPP could become the principal grouping through which economic issues, in particular trade and regulation, are governed. Meanwhile, the Association of Southeast Asian Nations (ASEAN) and its various iterations (such as ASEAN+1 or +3) could provide the right context for a discussion on a maritime code of conduct for the South China Sea. On broader security issues, such as territorial tensions in the South China Sea, an ad hoc coalition

could emerge involving, for example, China, the United States, India, Vietnam, the Philippines, Japan and Australia.

The ability of these states to work with one another will be vital in minimizing risk and addressing regional concerns, while still enabling them to promote and protect their particular national interests. Employing different policy-making tools and resources, states in the Asia-Pacific must become more versatile and adaptive. Successful states will not only need to work with non-state actors, but also, where appropriate, with other relevant external actors, including those in Europe for trade relations and those in the Middle East for energy security.

While this new flexi-nodal approach may reflect the future reality for the Asia-Pacific, existing and alternative narratives will also likely persist, driven as much by the interests (and ideologies) of various regional and extra-regional actors. As this paper argues, just as today's narratives do not entirely reflect reality, neither will some of the dominant narratives in the future. Ultimately, however, the ability to distil an accurate interpretation of the regional distribution of power will help the Asia-Pacific states to make appropriate and effective policy. In turn, this can reduce the likelihood of interstate misunderstandings and tensions in one of the most dynamic regions of the world.

Introduction

While there is much debate over whether the 21st century will be the so-called ‘Asian century’, there is little question that the attention of policy-makers and others over the past decade has moved towards the Asia-Pacific region.¹ This has been driven by a range of factors, the nature and implications of which are contested.

On the one hand, with Chinese GDP surpassing that of the United States at purchasing-power parity (PPP) in 2014² and a number of other Asian emerging economies boasting relatively steady growth rates, Asia has become the world’s economic powerhouse. At the same time, there are demographic and social trends that highlight the increased volatility of change within Asia. India’s population is growing rapidly and is expected to overtake that of China to make it the world’s most populous country in 2025.³ Ageing societies are a concern in other parts of Asia, most notably Japan and South Korea.

In the eyes of many, at least until unexpected challenges in Ukraine and the Middle East burst to the fore in 2014, the Asia-Pacific has been viewed as one of the more risk-laden regions of the world. Political and security relations between China and Japan are tense, amid disputes in the South and East China seas. Concerns remain over a nuclearized North Korea, and the long-standing impasse on the Korean peninsula continues. In Southeast Asia internal insurgencies, separatist pressures and the fragility of democratic institutions (for example, in Thailand) continue to threaten regional stability. If any of these tensions were to escalate into military conflict, the economic and security implications might prove catastrophic, not just for the region but for the world.

However these trends are interpreted, Asia is experiencing shifts in the distribution of power – the global shift of power *to the region* and changes between actors *within the region*. Given the importance of these changes, an accurate representation of the shifting power distribution and broader dynamics between the central players is vital. Providing this perspective by looking ahead to 2030 is the focus of this paper.

There is a common perception among actors within and outside the region that the Asia-Pacific’s power distribution has been dominated by the relationship between the United States and China, in a way somewhat reminiscent of the 20th-century bipolarity between the United States and the Soviet Union. However, this paper moves beyond this conception and analyses the complex and dynamic power distribution in the region, focusing on *four* principal players: the United States, China, India and Japan. Drawing on interviews with policy-makers, academics and commentators, it challenges the bipolar perspective and seeks to develop a more nuanced framework that gives equal weight to the region’s principal powers as well as accommodating other actors and regional organizations as

¹ We do not put strict limitations on the boundaries of the ‘Asia-Pacific’ region, since such demarcations depend on the observer and the issue at hand, and consequently the way the region is defined is itself a political question. Broadly, however, we consider the region to include New Zealand at its southern and eastern extremity and China at the northern one, and to extend westwards to encompass India. The United States is an Asia-Pacific actor.

² According to IMF data, China’s economy overtook that of the United States in terms of purchasing-power parity in August 2014. IMF, <http://www.imf.org/external/data.htm>, accessed 27 March 2015. Also see Chris Giles, ‘China poised to pass US as world’s leading economic power this year’, *Financial Times*, 30 April 2014, <http://www.ft.com/cms/s/2/d79ffff8-cfb7-11e3-9b2b-00144feabdc0.html>.

³ US Census Bureau, estimates as of February 2015, <http://www.census.gov/population/international/data/countryrank/rank.php>.

appropriate. It considers how the coming 15 years will play out, how current trends might change, and the implications for broader regional relationships.

The paper starts with the premise that the current dominant narratives oversimplify reality. Indeed, its key argument is that the changing power distribution in the Asia-Pacific is marked by growing geopolitical and economic complexity. The regional environment is going through enormous change, and what constitutes order and stability within East Asia (and potentially more widely) is increasingly contested. Part of this debate reflects changes in the internal dynamics and external aspirations of individual states; part of it is a function of the evolving character of regional institutions; and another part reflects the impact of non-state actors and extra-regional forces such as globalization. While the United States and China are themselves in a state of flux, so too are a number of other emerging or re-emerging powers such as India, Indonesia and Japan. Moreover, the international influence and roles of other states, including Russia, Australia, South Korea and Vietnam, are also in transition.

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The region is further characterized by a complex web of bilateral and plurilateral relationships and organizations of varying effectiveness and legitimacy. Some of these – such as the East Asia Summit (EAS) – have been built, especially since the Asian financial crisis of 1997–98, around the Association of Southeast Asian Nations (ASEAN), the longest-standing significant Asian regional institution. Others, such as the Shanghai Cooperation Organisation (SCO), reflect responses to the end of the Cold War (and China’s attempt to establish, without US interference, more strategic space in areas it feels are of direct interest to itself). Meanwhile some of the plurilateral gatherings, such as the China–Japan–South Korea trilateral, or the US–Japan–India trilateral, are a response to economic and strategic factors. Some span the Pacific, most notably the Asia Pacific Economic Cooperation (APEC) forum and the Trans-Pacific Partnership (TPP), while the membership of others is contained within a more narrowly defined East Asia. Notwithstanding the apparent capacity of many of these forums to address regional challenges, there is no analytical consensus on how successful such bodies are likely to be in preventing or mitigating conflict and promoting cooperation over the longer term.

New actors are increasingly affecting international relations between the various Asia-Pacific states. Non-state actors, from the corporate sector to non-governmental organizations (NGOs) and the media, are becoming ever more relevant, whether with regard to foreign direct investment (FDI), aid or the public debate. While the state continues to be the main lens through which people think about international relations, and forms the building block for international or regional architectures, its influence over regional and bilateral relations is challenged by non-state actors and transnational forces. For example, in the United States, funding by the general public of international development causes exceeds that by the government. Most trade and investment decisions are made by corporate and institutional investors, who in turn influence government decisions about the regulatory architecture within which they operate. Therefore, consideration of non-state actors must play a role in any evaluation of influence and power, even though this paper’s framework primarily describes nation states.

The elements of power and their relative influence on regional relations are in flux. Traditionally in international politics, power has been conceived in military and economic terms. However, as Joseph Nye made clear in the 1990s in his identification of ‘soft power’, and later ‘smart power’, a country’s levers of influence go far beyond the traditional hard power of economics and the military. They include such factors as the media, academia and culture – with soft power conceived as ‘getting others to want the outcomes that you want’.⁴

It is also important to take account of concepts such as ‘normative power’, namely the ability to ‘shape what can be “normal” in international life’.⁵ More recently, Moisés Naím has argued that the very nature of power has changed since the end of the Cold War – that it has become ‘easier to get, harder to use, and easier to lose’.⁶ Similarly, Anne-Marie Slaughter claims that power can best be measured by the degree to which a particular nation is networked internationally.⁷ The Asia-Pacific region faces a plethora of challenges, from economic instability to food and water insecurity, pandemics and migration, to name but a few. These challenges cannot be addressed by military or economic means alone. They will need to be addressed through the application of additional elements of power: diplomatic engagement, development assistance, the deployment of media resources and the broader instruments of public diplomacy. Crucially, power and influence are relational, and the perceptions held by various actors are key to interpreting regional dynamics.

A bipolar US–Chinese perspective is not only an oversimplification, but it also has two potentially dangerous consequences. First, describing the region’s primary security dynamic as a bipolar stand-off may encourage politicians in the United States and China to believe they are in a zero-sum game. Parts of the Chinese and American leaderships may be led to see conspiracy and threats where there are none and prepare their strategies accordingly, prompting a ‘containment’ approach on the part of the United States and its allies reminiscent of the adversarial dynamic of the Cold War.⁸ Other states are then likely to find themselves caught between two competing hegemonies (one rising, the other static or at least perceived in some quarters as less willing to deploy its resources overseas) and forced to choose one over the other, thereby jeopardizing their own interests and reinforcing the narrative of a 21st-century ‘Cold War’. This has the potential to lead to a self-fulfilling prophecy of conflict.

At the same time, domestic political dynamics in both countries, including the US electoral cycle, often obscure a more complex reality of cooperation between the United States and China. This is true also with regard to Sino-Japanese relations, where economic interdependence has been increasingly obscured not only by strategic tensions but also by deepening mutual distrust and the growing salience of populist politics in both countries. It is wrong to see hegemonic conflict as inevitable, however. Simple bipolar narratives are often more attractive in a world driven by politics. But policy-makers not only have the power to affect how relations unfold, they are also able – and obliged – to direct the course of geopolitics in ways that minimize the chances of conflict.

⁴ Joseph S. Nye Jr, *Soft Power: The Means to Success in World Politics* (New York, NY: Public Affairs, 2004), p. 5.

⁵ Ian Manners, cited in Emilian Kavalski, *Central Asia and the Rise of Normative Power: Contextualizing the Security Governance of the European Union, China, and India* (New York, NY: Bloomsbury, 2012), p. 4.

⁶ Moisés Naím, *The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn’t What it Used to Be* (New York, NY: Basic Books, 2013), p. 2.

⁷ Anne-Marie Slaughter, *A New World Order* (Princeton, NJ: Princeton University Press, 2004).

⁸ See, for example, Aaron L. Friedberg, *A Contest for Supremacy: China, America and the Struggle for Mastery in Asia* (New York, NY: W.W. Norton & Co., 2011): ‘The really big change in U.S. policy [under the George W. Bush administration] was the revival of at least some elements of the old strategy of containment,’ p. 95; ‘China’s leaders appear to have concluded that the Americans hate and fear them not... for what they do, but for who they are and what they represent... According to a leading Chinese expert, “The US has... a desire to exert pressure on China and to restrict the growth of China’s national power and prestige,”’ pp. 135–36.

The second danger of simplistic bipolar narratives is that opportunities for cooperation may be squandered. While recent US and Chinese administrations have made efforts to increase bilateral engagement through strategic and economic dialogues, selective confidence-building initiatives, person-to-person exchanges, and senior-level and summit meetings, distrust remains a dominant feature of the relationship. This mutual suspicion has arguably increased since 2013 in the wake of renewed maritime tensions in the South and East China seas.⁹ While there has been some progress recently, such as the November 2014 agreement on cutting carbon emissions, underlying distrust may prevent opportunities for cooperation (on issues ranging from managing fisheries to increasing trade) from being realized.

A clearer, more sophisticated understanding of the power dynamics in the Asia-Pacific would likely lead to better policies by the relevant parties. It would also provide more options for managing the relations between various state and non-state entities.

After a brief overview of the historical background surrounding past notions of order within the region, this paper outlines the main current narratives of power distribution in the Asia-Pacific (Section 1). It then looks at how the elements of power might change (Section 2) and at the main variables in key states (Section 3). Finally, it evaluates these trends and anticipates how new regional scenarios might play out.

Competing historical models of order in Asia

Notions of order and understandings of the structure of interstate relations in the region have long been a source of contention, and they remain controversial today. State-centric models of international relations are, historically speaking, a relatively recent innovation in Asia. Efforts by different countries (whether jointly or separately) to promote order and structured relations in the region have taken a variety of forms in the past.

As (often acrimonious) contemporary debates over historical revisionism demonstrate, governments and public opinion frequently differ sharply in their views regarding the relative legitimacy of different patterns of order and their institutional expression, as well as the specific responsibilities of individual countries.

Some of the more prominent notions of order that have been at the heart of the region's development over an extended period are surveyed below, without a normative judgment on the merits of one over another. The intention is not to be exhaustive, but to highlight models that have been influential in the past or that continue to be important in shaping the outlook of the countries covered in this paper. Importantly, the models here reflect the perspectives of different regional actors over time. The historical reality in terms of the actual distribution of power, the legitimacy of the different polities, the relationships between various states and the motives of the key players is far more complicated and nuanced, and not something that can be easily encapsulated in a cursory overview.

⁹ Aside from the well-publicized Strategic and Economic Dialogue between the US and Chinese leaderships, a number of other high-level dialogues are currently in operation, including the US–China Counterterrorism Dialogue, the US–China Innovation Dialogue, the US–China Diplomatic Dialogue, the US–China Joint Commission on Commerce and Trade, and the US–China Dialogue on Strategic Nuclear Dynamics.

From Sino-centrism to colonial rivalry

In analysing the pre-modern and early modern periods, it has been customary to define China's influence in Asia as a function of a Sino-centric trade and tributary system, structured around a hierarchical model of interstate dependency (encompassing, but not limited to, the territories of modern-day Vietnam, the Koreas and Japan, as well as to some extent Thailand and Myanmar) in which notions of sovereign equality between nation states and societies were distinctly absent. This picture is radically different from the contemporary situation. Whether Sino-centrism was a formalized structure of power or simply a set of loose and ambiguous expectations among regional actors is a subject of debate among historians,¹⁰ but at the very least it offers a different context for thinking about regional interactions over an extended period up until the late Qing dynasty in the second half of the 19th century.

Colonial expansion in the 19th century, including the race by the imperial powers of Britain, France, Germany and Russia to carve up the 'Chinese melon', highlighted the clash between this traditional order and the Westphalian model of nation state sovereign equality that formally claimed the rule of law as dominant, albeit imposed via a form of highly interventionist gunboat diplomacy. For the states driving colonial expansion, framing their actions in the context of a legally sanctioned order defined on Western terms (but with theoretically universal applicability) helped justify actions that were little more than the naked application of power for national ends. Such an order frequently privileged the powerful developed states at the expense of the weaker emerging powers.

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For some states, such as Qing China (1644–1912), the response to this clash of competing orders was defensive and reactive, and ultimately unsuccessful. The West and Japan (victorious over the Qing in the war of 1894–95) made territorial and political inroads that ultimately heralded (in a context of debilitating Chinese domestic corruption and inadequate efforts at reform) the end of the Qing empire. For other states, most notably 19th-century Meiji Japan, the response was more proactive and, arguably, strategic. Its leaders sought to emulate their new European and North American rivals by explicitly importing Western constitutional, institutional and diplomatic norms and conventions, and by pursuing similar colonial expansionist ambitions to those of the Western powers, most notably through the annexation of Korea in 1910. Japan's modernization process, crystallized in the famous slogan of the Meiji intellectual Yukichi Fukuzawa, '*Datsu-A, Nyu-o*' ('Leaving Asia, joining Europe'), reflected this important shift from one order to another.

The shift was not, of course, a straightforward, linear progression. During the 1930s, the contest between traditional and modern models of interstate order was heightened by Japan attempting to impose a new paradigm of international relations in Asia. Its militaristic efforts, especially from the 1930s, to promote a Greater East Asia Co-Prosperty Sphere throughout Asia were motivated by many factors, including the need to access resources and a desire for regional dominance. They were also

¹⁰ For an extended discussion of this question, see David Kang, *East Asia before the West: Five Centuries of Trade and Tribute* (New York, NY: Columbia University Press, 2010).

partly an explicit rejection of Western cultural and political values, in which militarism marked an attempt to create a new sense of pan-Asian identity underpinning Japan's imperial ambitions while offering a different model of interstate behaviour to the Westphalian ideal. Ultimately, this initiative collapsed amid the nuclear devastation of Hiroshima and Nagasaki, but it reflected an effort to conceptualize order in a manner that departed from the Western state-centric model.

Liberal democracy versus communism and the Cold War struggle

In the post-1945 period, the contest to impose order continued regionally and globally, framed by the principal actors as an existential struggle between the two rival ideologies of liberal democracy and communism. This contest centred around the United States and its Cold War allies on the one hand, and the Soviet Union and the wider communist bloc on the other. For the competing hegemony involved in this struggle, the manifestations of these two rival systems were ideological and institutional. For the United States, institutional expressions included the Bretton Woods system of fixed exchange rates and the dominance of the dollar as a reserve currency; the Marshall Plan of 1947 and the commitment to rebuilding Europe economically after the devastation of the Second World War; the San Francisco Peace Treaty of 1951 that established the territorial and reparation settlements that ended the Pacific War; and collective security initiatives such as NATO, as well as a wider network of key US bilateral alliances, most notably in Asia with Japan, South Korea and the Republic of China (until the United States switched relations to the People's Republic of China in 1979, seven years after President Richard Nixon's ground-breaking visit to China). This US 'hub and spokes' approach has had important legacies for regional security and has ensured that the United States remains a central actor in security across the Asia-Pacific.

For the Soviet Union, similarly, Comecon (the Council for Mutual Economic Assistance), the Warsaw Pact and the Sino-Soviet alliance were reflections of the effort by Stalin and his allies to construct an alternative vision of international order and to challenge the institutional and legal structures promoted by the United States.¹¹

These two competing attempts to define the post-1945 status quo clashed repeatedly, whether diplomatically in the contest for influence in new supranational bodies such as the United Nations, or via the struggle for hearts and minds in the persistent propaganda battles of the Cold War, or occasionally via direct military conflict, either on the Korean peninsula or in Indochina, or more commonly through a host of proxy wars in Africa and Latin America.

This division of the world, and East Asia, into two competing ideological and power centres was of course a simplification. Even at the height of early Cold War tensions in the 1950s, subordinate and weaker states within the region were inclined to question some of these certainties. For example, public (and in some cases elite) opinion in Japan questioned the appropriateness of US efforts to 'contain' China, and throughout the Cold War there remained an appetite among Japan's leaders for exploring, at least in an economic and diplomatic context, engagement with the Non-Aligned Movement,

¹¹ The Soviet Union, for example, stridently opposed elements of the San Francisco Peace Treaty of 1951 on a variety of grounds, including the alleged lack of consultation with it in the drafting process, the failure to impose limits on Japanese militarism and certain territorial provisions. Similarly, the People's Republic of China was not invited to the San Francisco Conference (a reflection of failure to reach agreement on whether it or Chiang Kai-shek's Republic of China should be seen as the legitimate representative of the country). As a consequence the People's Republic of China has questioned the legitimacy of the post-1951 legal order – a point that continues to bedevil territorial disputes in the region today.

symbolized by the Bandung Conference of 1955 in which states such as India and Indonesia played a leading role.¹²

The United States, in backing its key regional partners, was often forced to prioritize promoting regime stability over fostering democratic transitions. Whether in South Korea, Indonesia or South Vietnam, for example, US leaders were all too often obliged to align with authoritarian governments in the expectation that economic prosperity would eventually promote political modernization, and that this would ultimately ensure an organic transition to full-throated and popularly representative democracies. Security and strategic self-interest were frequently more important than nation-building.

Similar contradictions existed between the key actors on the other side of the Cold War divide. Stalin's relationship with Mao Zedong was more complicated than the public image of fraternal ideological unity suggested – a consequence of Stalin's realpolitik and his opportunistic efforts to exploit the rivalry between the nationalists and the communists during China's internal upheaval during the 1930s and 1940s, and also of Mao's desire for greater autonomy within the international communist movement, especially after Stalin's death. Indeed, the Sino-Soviet split that became pronounced from the late 1950s reflected the growing complexity of international relations as China and Russia competed for primacy as standard bearers of international communism. Such tensions between the world's two largest communist powers were part of the background to the Nixon administration's diplomatic overture to China in 1971 – which in turn was part of a triangulation strategy to extricate the United States from the war in Vietnam and to put the Soviet Union on the political and strategic defensive.

The various conflicts over Indochina, whether involving France (1945 to 1954), the United States (late 1950s to 1975) or Cambodia and China (1975 to 1990), were further confirmation of a more complex kaleidoscope of competing powers and interests. Within Southeast Asia, the reaction to the turmoil of Vietnam prompted the establishment in 1967 of ASEAN, which was founded on the principles of state sovereignty, non-intervention and a new evolving set of norms, sometimes referred to as the 'ASEAN way'. These norms encompassed consensual decision-making, recognition of the conflict-minimizing impact of economic integration, toleration of religious and ethnic diversity, and a post-colonial aversion to interference in the internal affairs of other states.

Democracy, development and post-Cold War norms

Notwithstanding these important sub-regional variations, ideological competition and rivalry (both rhetorically and politically) provided the framework for international relations in Asia and more widely. With the fall of the Berlin Wall in 1989 and the rapid dissolution of the Soviet Union in 1990–91, this traditional ideological division disappeared, leaving in its wake (at least initially) an assumption on the part of the United States and its partners that the West and liberal democratic values had triumphed.¹³

¹² Recent historical scholarship in Cold War studies has, for example, highlighted the divergence between the traditional superpower-dominated ideological narratives and the views of local actors. For an example of this in the context of Southeast Asia, see Mark Philip Bradley and Marilyn B. Young (eds), *Making Sense of the Vietnam Wars. Local, National, and Transnational Perspectives* (Oxford: Oxford University Press, 2008).

¹³ There remain in Asia important legacies of the Cold War in the form of the existence of the Democratic People's Republic of Korea and a host of unresolved territorial disputes (e.g. over Taiwan and over Japan's contested 'Northern Territories' with Russia), but these are much more explicitly about boundary and state identity issues, rather than a fundamental, existential contest between two mutually exclusive, competing ideologies.

It prompted in turn a neoconservative reassertion of liberal democratic principles in Asia (for example, in President George W. Bush’s policy towards Myanmar and North Korea) and a departure from the realpolitik of the Nixon era. It was echoed also in an uncharacteristically explicit values-oriented Japanese diplomacy by the first government of Shinzo Abe in 2006–07, which aimed to establish ‘an arc of freedom and prosperity’ in the Asia-Pacific.¹⁴ Such ideological positioning, framed in terms of universal values, could be expected by its proponents to have immediate political appeal and resonance in some parts of the region, particularly in legitimizing the selective application of political, economic and strategic power to advance the national interest. The difficulty with such arguments is that they often clashed with the more prosaic reality that many of the states in the region – including those that have had close ties to the United States, such as Thailand, or South Korea under the Park Chung-hee and Chun Doo-hwan regimes – have been more authoritarian than democratic.

The neoliberal model is also being challenged by China’s economic development, and the perception on the part of some actors in the region that the old Washington Consensus is less relevant than it once was and potentially due for replacement by a Chinese model.

The late 1980s and early 1990s also witnessed the emergence of a new debate in Asia about the nature of state capitalism. Politicians and bureaucrats in countries such as Japan, Malaysia and Singapore touted the merits of the ‘developmental state’ as a new model of political economy, one in which distinctive internal patterns of Confucian order and hierarchy as well as strategic planning offered an alternative model to the modern, liberal-democratic pluralistic polity. The debate – ostensibly much more about economic efficiency than about political values – was short-lived, foundering on the shocks of Japan’s asset deflation in the early 1990s, the 1997–98 Asian financial crisis and the subsequent exposure of patterns of ‘crony capitalism’ in South Korea, Thailand and Japan.

The ‘development state’ model still has its advocates, but the argument is much less powerfully felt today and was largely eclipsed by the views of neoliberal economists who questioned the merits of state-interventionist policies. Whether the consensus is about to change in light of the sovereign debt crisis in the eurozone, or widening income and wealth inequalities in developed and developing countries, remains to be seen. The growth of populism and nationalism in Europe and Asia has fostered a profound sense of uncertainty about how geopolitics will unfold in the future. The neoliberal model is also being challenged by China’s economic development, and the perception on the part of some actors in the region that the old Washington Consensus is less relevant than it once was and potentially due for replacement by a Chinese model. The replacement would not necessarily constitute a ‘Beijing Consensus’ as such. But it would mean an Asian variant of governance (influenced by the experience of Singapore and managerial developments in China) that combined authoritarian structures and small government.¹⁵

¹⁴ Seen from the vantage point of 2015, this confident assertion of Western values, reflected most controversially in Francis Fukuyama’s *The End of History and the Last Man* (New York, NY: Free Press, 1992), now seems dated and, at the very least, hubristic, given the emergence of radical Islam as a rival ideological focal point for individual and collective identity.

¹⁵ See, for example, John Micklethwait and Adrian Wooldridge, *The Fourth Revolution: The Global Race to Reinvent the State* (London: Penguin, 2014).

1. Current Narratives

Building on the broad dynamics outlined in the introduction to this paper, this section describes the main current narratives of the shifting distribution of power in the Asia-Pacific. Broadly, it identifies three principal existing narratives – ‘rise of China’, ‘global flux’ and ‘power diffusion’ – and two less dominant ones – ‘Asia for the Asians’ and ‘values-based polarity’. These narratives are summarized in Table 1. All need some unpacking at the global and regional levels, and each comes with different time frames and causal explanations for the changes witnessed. None of these narratives is restricted to one country or community; indeed, there is evidence that each is present across and within the key actors and states.

Table 1: Current narratives

| | |
|---|--|
| The rise of China | The rise of China has been the main source of change in the Asia-Pacific. A bipolar narrative has this rise disrupting a pre-existing order in Asia (the ‘status quo’) and significantly raising the risk of security competition within the region and between China and the United States. Alternatively, it implies at the very least a diminution in US regional influence in favour of China. |
| Global flux and the distribution of power in the Asia-Pacific | The main shifts in power distribution are between the developed West and emerging economies, many of which are in the Asia-Pacific. These changes are occurring alongside broader elements of ‘global flux’: diffusion of power within states, the growth of regional interdependence, etc. |
| Power diffusion: many powers in a changing region | Regional changes lead to a growing number of powers in the Asia-Pacific. China is one, as is the United States, but no one power will be dominant. |
| Asia for the Asians | Asia is defined and managed within the region, with no special position for external actors (in particular the United States). |
| Norms and values-based polarity | Regional dynamics are led by partnerships built on common values. |

Narrative 1: The rise of China

The rise of China has been the main source of change in the Asia-Pacific. A bipolar narrative has this rise disrupting a pre-existing order in Asia (the ‘status quo’) and significantly raising the risk of military competition within the region and between China and the United States. Alternatively, it implies at the very least a diminution in US regional influence in favour of China.

Over the past 35 years China has undergone major social and economic transformations that have had a huge domestic impact and redefined its relationship with the rest of the world. The timeline for this can be divided roughly by decade. The 1980s saw the first phase of ‘reform and opening up’. In the 1990s the pace of global economic integration increased after Deng Xiaoping’s ‘southern tour’ of 1992 kick-started further liberal economic reforms such as the privatization of many state-owned enterprises. These economic transformations entered a new and more substantial phase of global integration following China’s accession to the World Trade Organization (WTO) in 2001. In the 2000s the size of China’s economy became a dominant feature of narratives of global change, symbolized by its overtaking of Japan to become the world’s second-largest economy by aggregate GDP in 2010.¹⁶

¹⁶ Measured at US dollar market rates. Mure Dickie, ‘China economy overtakes Japan’, *Financial Times*, 14 February 2011, <http://www.ft.com/cms/s/0/3275e03a-37dd-11e0-b91a-00144feabdc0.html>.

What is important here is to think about how these developments have affected narratives of power distribution in Asia. Of the many changes across the region, those in China have had the largest impact. This partly reflects China's geographical and demographic scale, as well as the openness of its expanding economy, which has enabled it not only to become the largest global trader in goods measured in aggregate annual trade volumes, but also to capture parts of global supply chains and production networks. As a result, China's importance to global businesses has often outweighed the actual economic value added to production taking place in China itself.¹⁷ At the same time, the relative importance of trade to China's economy has declined substantially since 2008.¹⁸

Interest in China's rise has been magnified by a number of factors, not least the rapidity of its economic growth, reflected in the frequent references to the 'miracle' of China's economic development since the 1980s.¹⁹ This is partly because its economic rise has come from a low base prior to 1978, and so the scale of the change has been that much greater than in other cases. There is also politics (and ideology) at play behind the interest in China. The Chinese Communist Party did more than survive the end of the Cold War, even though the amount of actual 'socialism' in its policy platform has declined in inverse proportion to China's economic growth and integration into the global economy. Even so, the sense that the political philosophy of China's leadership offers an alternative to liberal democratic capitalism is strong.²⁰ This reflects the attraction of the various ideas of a 'China model' or Beijing Consensus (in contrast to the Washington Consensus that was strong in the 1990s) in at least some parts of the world.²¹ Chinese leaders' insistence on a different political system and on the Chinese polity as a distinct and valid alternative to liberal democracy, as well as their ability to maintain this position in the face of external pressure and Western efforts to promote Western values in Asia,²² heightens the sense of challenge felt by many in the West as a result of China's rise. As Brantly Womack puts it, 'Inevitably China has become for the United States the symbol of a future in which its control is diminished.'²³

The scale and pace of change, combined with potential ideological tensions, have generated enormous interest in the question of China and its global and regional impact. The strong emphasis on the rise of China – particularly by the United States, echoed powerfully in Japan – has led to the growing dominance of a narrative of changing power distribution in Asia centred around an emerging bipolar scenario involving the United States and China. In various versions of this narrative, the United States and its key allies (Japan especially) are threatened by a rising China. This is often presented as a story about changes in global power distribution, with China depicted as the only country with the potential to challenge the United States in military and economic terms. For example, while

¹⁷ For a thought-provoking discussion of some of the issues here, see Pascal Lamy, "'Made in China' tells us little about global trade', *Financial Times*, 24 January 2011, <http://www.ft.com/cms/s/0/4d37374c-27fd-11e0-8abc-00144feab49a.html>.

¹⁸ For example, merchandise trade as a percentage of GDP in China has fallen from 56.2 per cent in 2008 to 41.5 per cent in 2014. World Bank, <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS/countries>, accessed 5 August 2015.

¹⁹ Justin Lin Yifu, 'The China Miracle Demystified' (World Bank, undated), <http://siteresources.worldbank.org/DEC/Resources/ChinaMiracleDemystified-Shanghai.pdf>, accessed on 18 September 2015; Justin Lin Yifu, Fang Cai and Zhou Li, *The China Miracle: Development Strategy and Economic Reform* (Hong Kong: Chinese University Press, 2003).

²⁰ Joshua Kurlantzick, 'Why the "China Model" Isn't Going Away', *The Atlantic*, 21 March 2013, <http://www.theatlantic.com/china/archive/2013/03/why-the-china-model-isnt-going-away/274237/>. See also Shaun Breslin, 'The "China model" and the global crisis: from Friedrich List to a Chinese mode of governance?', *International Affairs*, 87:6 (2011), pp. 1323–1343.

²¹ For a discussion of this with reference to the Middle East, see chapter 4 of Ben Simpfendorfer, *The New Silk Road: How a Rising Arab World is Turning Away from the West and Rediscovering China* (New York, NY: Palgrave Macmillan, 2009).

²² During the administration of George H. W. Bush, US Secretary of State James Baker gave three motivations for US interest in APEC, namely 'to secure economic access to the region; to spread value systems preferred by Americans; and to prevent domination of the region by other powers'. Quoted in Evelyn Goh, *The Struggle for Order: Hegemony, Hierarchy, and Transition in Post-Cold War East Asia* (Oxford: Oxford University Press, 2013), p. 40.

²³ Brantly Womack, 'Beyond win-win: rethinking China's international relationships in an era of economic uncertainty', *International Affairs*, 89:4 (2013), p. 926.

many states in East Asia share China’s rejection of America’s right to navigate without notice through waters in their exclusive economic zones, China is the only one to date that has had the capability and willingness to challenge the United States at sea.^{24,25}

Paralleling the image of China’s ineluctable rise, there is the controversial narrative of US decline associated with the reduction in America’s share of the global economy, as well as with partisan gridlock and dysfunctional leadership in its domestic politics. Analysis in many countries in the region views East Asia as increasingly dominated by adversarial power relations between the United States and China, potentially leading to military conflict. Offsetting this scenario is the instinctive position of many of the smaller countries and middle powers²⁶ that want to avoid being caught between the two ‘poles’, and that thus frame relations between the two larger powers in binary terms: needing the United States for security and China for economic growth. These smaller countries have agency and the ability to make choices, but a poor US–Chinese relationship increases the risk that they will feel pressured to take sides. The refrain across the countries of Southeast Asia is that this is not desirable for the region. In contrast to the image of conflict, some have suggested the possibility of a new condominium of power between the United States and China in which leaders in the two countries seek to accommodate their differences. For smaller powers in the region (and also for Japan), there is thus also some nervousness about too close a US–Chinese relationship, in effect a latent ‘G2’ that might isolate other regional players or result in their interests being decided by the United States and China.²⁷

Analysis in many countries in the region views East Asia as increasingly dominated by adversarial power relations between the United States and China, potentially leading to military conflict.

In the United States, there is also a tendency in some quarters to view Asia through a Chinese lens. For businesses, China represents an opportunity as an investment and trade market of over 1.3 billion consumers. Some of this optimism has been offset over the past five years or so by growing concerns about the commercial challenges of investing in or trading with China. Increasingly critical rhetoric has been directed at its industrial subsidies, formal and informal market barriers, indigenous innovation policies, intellectual property theft or recent slower economic growth. More powerfully than the economic dimension, the strategic challenge posed by China explains growing US distrust. For many in the US security community, China has become the new Cold War adversary, or at least a potential one, a ‘strategic competitor’ that constitutes the biggest threat to US interests. This sentiment tends to wax and wane as other threats or challenges rise and fall – whether that of Russia in Ukraine, Islamic State of Iraq and Syria (ISIS), or even non-state threats such as climate change or Ebola. In part this may

²⁴ This pattern of behaviour emerged around 2001, with the EP-3 spy plane incident, Chinese naval confrontation with USNS *Bowditch* and stand-offs later in the decade with USNS *Impeccable*. See, for example, Carlyle A. Thayer, ‘Navigating the currents of legal regimes and realpolitik in East Asia’s maritime domain’, in Shicun Wu and Keyuan Zou (eds), *Securing the Safety of Navigation in East Asia: Legal and political dimensions* (Oxford: Chandos, 2013), pp. 17–50.

²⁵ See Christopher Coker, *The Improbable War* (London: C. Hurst & Co., 2015), chapter 4, for an assessment of the likelihood of Sino-American conflict at sea, in space and in cyberspace. Qiao Liang and Wang Xiangsui, *Unrestricted Warfare* (Beijing: PLA Literature and Arts Publishing House, 1999) emphasizes the need for China to use alternative methods to direct military confrontation to defeat the United States.

²⁶ A ‘middle power’ has significant but not overwhelming military power, sizeable economic strength and regional diplomatic influence. See Brian Bridges, ‘From ASPAC to EAS: South Korea and Southeast Asia’, *Asian Affairs: An American Review*, 41 (2014), p. 34. The term ‘middle power’ is most prominently associated with the work of the Japanese scholar Yoshihide Soeya. See Yoshihide Soeya, ‘A “Normal” Middle Power: Interpreting Changes in Japanese Security Policy in the 1990s and After’, in Yoshihide Soeya, Masayuki Tadokoro and David Welch (eds), *Japan as a Normal Country? A Nation in Search for its Place in the World* (Toronto: University of Toronto Press, 2011).

²⁷ For a while around 2007 there was a flurry of interest in Niall Ferguson’s ‘Chimerica’ concept – though since the global financial crisis and with the ‘return of geopolitics’ this moment seems to have passed.

reflect the American predisposition to need an external adversary, particularly on the part of military and policy hawks who historically have required something or someone to plan against.²⁸ Over the past decade, however, a paradigm shift appears to have taken place, with increasing sentiment in the United States that China is more a challenge to be managed than a threat to be defeated.

The ‘rise of China’ narrative plays out somewhat differently regionally and globally. Some of the recent literature on it is sceptical about China’s ability to challenge the United States on a global scale, even in material terms.²⁹ David Shambaugh, for example, has argued that the consequences of China’s rise so far have been more at the regional than global level. Others, by contrast, have stressed a more deliberate, sustained and zero-sum effort by the Chinese leadership to eclipse the United States as the world’s most powerful country.³⁰ There is debate too over the nature of this regional power, from qualified visions of China emerging as the most powerful of a number of strong regional players, to more alarming scenarios that see it as the new regional hegemon promoting its own version of the Monroe Doctrine that obliges the United States to retreat from the region as China establishes its own Asian sphere of influence.

Narrative 2: Global flux and the distribution of power in the Asia-Pacific

The main shifts in power distribution are between the developed West and emerging economies, many of which are in the Asia-Pacific. These changes sit alongside broader elements of ‘global flux’: diffusion of power within states, the growth of regional interdependence, etc.

Another way of framing the ‘rise of China’ narrative is to view it less through the narrow lens of US–Chinese relations and more broadly within the context of the relative shift in power from developed economies to emerging economies.³¹ For many analysts within and outside China, a key question over the last five years has been whether the United States (and also, but less controversially, Europe) is in some sort of secular decline – and if so, to what extent. One prominent Chinese scholar has suggested that Chinese thinking was subject to ‘premature triumphalism’ in the aftermath of the global financial crisis of 2008–09 and misjudged the extent of the relative decline of the United States, with the result that Chinese policy may have pushed back against the United States too hard.³²

The debate over American decline is also present elsewhere in the region, particularly in Japan, India and Australia, but there it stems not just from a sense of US economic (or soft power) decline, but also from nervousness about the strength of the United States’ security commitments to its allies, despite regular American assertions that these remain robust.³³

This line of thinking brings to the fore a ‘global flux’ narrative: the sense that we are witnessing tectonic shifts in global order, featuring in particular the rise of Asia and shifts of power from west to east and

²⁸ Richard Hofstadter, ‘The Paranoid Style in American Politics’, in *The Paranoid Style in American Politics and Other Essays* (Cambridge, MA: Harvard University Press, 1964), pp. 3–40.

²⁹ David Shambaugh, *China Goes Global: the Partial Power* (New York, NY: Oxford University Press, 2013); Mel Gurtov, *Will this be China’s Century? A Skeptic’s View* (Boulder, CO: Lynne Rienner, 2013); Andrew J. Nathan and Andrew Scobell, *China’s Search for Security* (New York, NY: Cambridge University Press, 2012).

³⁰ See Michael Pilsbury, *The Hundred Year Marathon* (New York, NY: Henry Holt and Co., 2015); Stefan Halper, *The Beijing Consensus* (New York, NY: Basic Books, 2010); and James Steinberg and Michael O’Hanlon, *Strategic Reassurance and Resolve: US-China Relations in the Twentieth Century* (Princeton, NJ: Princeton University Press, 2014).

³¹ This is different from the question of US (or European) desire to engage with the Asia-Pacific (what is often called ‘commitment’ to the region), which under Obama’s ‘rebalancing’ is supposed to have increased, though some see the opposite taking place (isolationist thinking, populist pressures, domestic agenda, competing international priorities).

³² Shi Yinong, ‘“Triumphalism” and Decision Making in China’s Asia Policy’, *Economic and Political Studies*, 1:1 (2013), pp. 107–19.

³³ Michael J. Green and Zack Cooper, ‘Revitalizing the Rebalance: How to keep US Focus on Asia’, *Washington Quarterly*, 37:3 (2014), pp. 25–46.

north to south. The US National Intelligence Council's *Global Trends 2030* report predicts that by 2030 Asia is likely to have surpassed North America and Europe in global power; that the health of the global economy will depend mainly on China, India, Brazil and other emerging markets; and that, while the United States will still be the single most powerful country, the unipolar moment will be over.³⁴

To be sure, the rise of China is a big part of this global flux, but in this conceptualization the focus is not primarily on China. Possible trajectories open up in which the rise of China is not the dominant factor. Looking towards 2030, therefore, the areas undergoing the greatest change may still be in Asia (as they have been since the 1990s), but they may equally well lie elsewhere in or beyond Asia. As John Ikenberry has said,

in an important way, the rise of China is the wrong thing to look at. It's not the rise of China. There's something broader going on. There's a broader global transformation. If you simply talk about China, and I guess you'd say I'm preoccupied with China because it is the most dramatic (in some sense the swing) state, but there's a broader global transformation that is going on.³⁵

It is in economic and commercial terms that the 'global flux' debate has been more pronounced and stark, with multinational corporations and global investors looking to see whether the proverbial 'next China' will still be China or whether rapid economic growth and supply chains will shift to Southeast Asia or other regions. At the same time this debate applies to the military-strategic sphere, given that other regional powers such as Japan and India are also increasing military spending.

In examining the 'global flux' narrative from global and regional perspectives, two key watersheds stand out: the end of the Cold War (in the Asia-Pacific, 1991 is probably the most important marker) and the 2008–09 financial and economic crisis. A striking feature of many of the narratives of global flux is the diffusion of power within and between states, one element of which is the growth in networks across borders, leading to new dependencies and vulnerabilities. This interdependence is reflected in various phenomena: the diffusion of power within Asia, from states to non-state actors and hybrid actors (particularly in China where the dividing line between the state and non-state is often blurred); greater regionalization, in particular of production networks developed by corporations to enable most cost-effective manufacturing and assembly across different countries; the emergence of so-called non-traditional security threats (e.g. climate change, infectious diseases, cyber crime); and greater cooperation between states through regional institutions. This idea is reflected in models that emphasize economic interdependence and regional production networks, or point to a shift in the core of the global economy back to Asia, as was the case before 1800.³⁶

The end of the Cold War marked an important juncture for tracing shifts in the distribution of power globally and in Asia. The most significant of these has been a clear shift towards Asia in material capabilities (economic, military), and hence in the priorities of policy-makers and economic actors across the globe. From a normative perspective, the 2008–09 economic crisis opened up greater space for the promulgation of diverse approaches to economic and social development, and in the case of China strengthened the leadership's determination to pursue its own development path. Alongside this a new phase has begun in discussions of global governance, symbolized by the limited post-crisis rise of the G20; the emergence of the 'BRICS' countries (Brazil, Russia, India, China and South Africa) as a grouping with aspirational institutions and not just as an analytical acronym;

³⁴ US National Intelligence Council, *Global Trends 2030: Alternative Worlds* (Washington, DC, 2012), <http://www.dni.gov/index.php/about/organization/global-trends-2030>.

³⁵ G. John Ikenberry, 'The Rise of China and the Future of Liberal World Order', The C. Douglas Dillon Lecture, Chatham House, 7 May 2014, <http://www.chathamhouse.org/events/view/198377>, p. 7.

³⁶ Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-first Century* (London: Verso, 2009).

the recent creation of the Asian Infrastructure Investment Bank (AIIB); and investment from Asia into Africa and Latin America, often driven by the need to secure access to resources on the part of increasingly resource-hungry states.

Within Asia, these changes have had an impact on the regional distribution of power. Notable developments have included the following:

- The emergence of new economic actors such as India, Vietnam, Cambodia, Myanmar and Indonesia, echoing the growth experience of China through export-led development. These states have increased their integration into regional and global production networks as governments have liberalized economies in the face of GATT- and WTO-initiated pressure for enhanced market access.
- The continued rise of China, particularly the rapid growth in the size (and impact) of its economy. The biggest regional shift in power distribution has been between China and its neighbours, in particular Japan, as reflected in China's aggregate GDP overtaking that of Japan in 2010. (Today the Chinese economy is more than double the size of Japan's in nominal US dollars.)
- Expansion in China's military capability (especially following the 1990–91 Gulf War and the US bombing of its embassy in Belgrade in 1999) in the navy and air force, as well as the remarkable expansion in China's cyber security and space-development capabilities.
- Increased military spending and technical sophistication by other countries in the region in response to the perceived threats associated with China's rise.
- The diffusion of economic power within states and to non-state actors, particularly corporations, including non-Asian-domiciled corporations (with the 'commanding heights' of the global economy still, in effect, in Western hands).³⁷
- The rapid expansion after 1990 of a diverse and increasingly complex set of Asian and Asia-Pacific regional institutions, such as APEC, ASEAN+3, the ASEAN Regional Forum (ARF), the SCO, new trilateral groupings in Asia (such as those between South Korea, Japan and China, or between Australia, India and Japan), and most strikingly the region-wide EAS.

Such structural shifts over the medium or long term open up many possible paths for future change. But change is also shaped by agency, namely the decisions of state and non-state actors. As China has risen, so its regional and strategic policy frameworks have evolved to reflect its greater influence and economic weight. But, important in the 'global flux' narrative, China is not the sole agent of change, and the country's influence is not simply the consequence of the policy preferences or intentions of its elites. It depends crucially on the response of other actors in the international system. For example, China's expanding economy has a centripetal impact on other countries within and outside the region, attracting foreign trade and investment and creating a growing constituency of self-interested 'followers' who may not necessarily defer to China's leadership but who are increasingly part of an interdependent set of China-centric relationships.

Among other major regional powers, there have been in particular strategic shifts from Japan under Prime Minister Abe and variations in US policy, the latter including the American response to 9/11, the 'rebalancing' towards Asia and the initiative to develop the TPP. There have also been efforts by smaller powers to recalibrate their relations with larger ones. South Korea has sought to develop a

³⁷ Peter Nolan, *Is China Buying the World?* (Cambridge: Polity Press, 2012), p. 134.

new strategic partnership with China alongside its traditional alliance with the United States. Indeed it has been suggested that the United States is one of the most change-seeking states in Asia, whether out of a desire to promote its values or out of a determination to maintain its hegemony.³⁸ Revisionism in the region is not the sole preserve of China, and the policies of major states across the region include both revisionist and status quo elements.³⁹

Another major shift is the diffusion of power away from state actors, a phenomenon that has captured the attention of Chinese academics as well as those in the West.⁴⁰ There is much to be gained from thinking more about non-state-based challenges and security threats, especially since this suggests that an excessive preoccupation with the dynamics of power between China and the United States alone fails to capture the broader and more complex realities of change within East Asia.

One way of encapsulating the power relations of regional change, and which goes beyond a reductionist ‘rise of China’ narrative, is found in Evelyn Goh’s conceptualization of changes in terms of the renegotiation of order.⁴¹ This does not dispense with material power in its various manifestations, but brings to the debate questions of norms, and in particular the legitimacy of international order. It also helps to explain why, even though some material indicators might suggest that China is catching up with the United States, this does not translate readily into the sense that China might become dominant or hegemonic any time soon.

Using this framework the idea of a possible power transition, or of a developing bipolar scenario, is better replaced by a model of renegotiation of regional order between a range of actors. Among the attractions of this view are that it more readily incorporates the other ‘global flux’ features of change in Asia, such as regional institutions and multiple emerging power centres, the latter of which in realist thinking are often narrowly and mistakenly reduced to balancers or bandwagoners in a fundamentally bipolar structure. For example, Chinese and Japanese diplomacy with India can be interpreted as efforts to negotiate regional order, rather than as a zero-sum struggle for primacy. Even the China–Japan stand-off, which led to a cool handshake between President Xi Jinping and Prime Minister Abe in November 2014 and to a more harmonious meeting in April 2015 rather than to conflict, may be best understood as part of a renegotiation of the two countries’ regional influence (and of that of the United States) rather than as a power transition in which military conflict is latent.

Narrative 3: Power diffusion – many powers in a changing region

Regional changes lead to the emergence of many powers in the Asia-Pacific. China is one such power, as is the United States, but no single power will be dominant. The elements of diffusion of power identified in Narrative 2 are also relevant here.

While the focus in many narratives has been on China, the rise to prominence of new powers in the region has arguably been neglected. These states include other large powers such as India, so-called ‘middle powers’ (such as Australia, Indonesia or South Korea) and smaller powers

³⁸ See Goh, *The Struggle for Order*, p. 19. G. John Ikenberry, *Liberal Leviathan* (Princeton, NJ: Princeton University Press, 2011) argues that the US-led liberal order is sustainable and is incorporating China, but his account also highlights the extent to which US policy has changed in the 21st century.

³⁹ See Giovanni Grevi, *The inter-polar world: a new scenario* (Paris: European Union Institute for Security Studies, 2009).

⁴⁰ Yaqing Qin, ‘Power Shift, Governance Deficit and a Sustainable Global Order’, *Economic and Political Studies*, 1:1 (2013), pp. 89–106.

⁴¹ ‘Based on the “English school”, order may be understood as denoting the patterns of state behaviour and the norms that underpin them in the context of a particular distribution of power.’ Michael Yahuda, ‘China’s multilateralism and regional order’, in Wu Guoguang and Helene Landsdowne (eds), *China Turns to Multilateralism: Foreign Policy and Regional Security* (London: Routledge, 2007), pp. 75–76. Or order may be seen as ‘norm-governed interaction produced by a social compact among members of the regional society of states’. Goh, *The Struggle for Order*, p. 28.

with notable influence in economic and sometimes strategic affairs, such as Singapore, Thailand and Vietnam.

The concept of multipolarity is perhaps the narrative that most accurately reflects this trend. A typical definition of a ‘pole’ is a state ‘endowed with the resources, political will and institutional ability to project and protect its interests at the global, multi-regional or regional level, depending on the size of the power in question’.⁴² Several actors are acquiring a prominent position in the Asia-Pacific in such a way. These include the United States, China, India, Japan, and possibly South Korea and ASEAN. All of these are currently undergoing changes (see further below). For example, within the next decade and a half, Indonesia is likely to become more influential as a regional and global actor (though it is unlikely to drop its non-aligned stance). Arguably ASEAN can also be considered as a power, despite not being a state, given that it has played a central role in the evolution of Asian regionalism since the 1990s.⁴³

At the moment, power and influence in Asia are concentrated among the United States, China, India and Japan, which in turn operate within a hierarchy or hierarchies of influence, depending on the issues under discussion.⁴⁴ The key point that stands in sharp contrast to the idea of a bipolar, zero-sum contest for influence between the United States and China is that the leading actors within these hierarchies frequently need to act collectively and cooperatively in dealing with regional transnational challenges such as protecting the environment, combating piracy and terrorism, or promoting cost-effective and sustainable resource management.

In the official Chinese discourse, the concept of multipolarity is an important one. Major statements of foreign policy have identified an ‘inevitable trend’ towards multipolarity since the end of the Cold War, not least President Xi’s comments at a major meeting on diplomacy in Beijing in November 2014.⁴⁵ However, in policy as in developing diplomatic theory, China has had to cope with the dominance of the United States during most of this period, leading its foreign policy scholars to put forward ideas such as ‘one superpower, many strong powers’ (*yichao duoqiang*). Others have responded to the realist critique of multipolarity that sees it as unstable and therefore as unsustainable or a poor basis for conceptualizing order and power narratives in Asia. In a recent article on governance models, Chen Zhimin argued that a multipolar world was the most likely form given current trends, and that this could provide a stable order.⁴⁶ Within multipolarity, Chen identified three possible governance models: major-power coordination among a number of actors (transcending any notion of a G2 condominium); a Western liberal international order; or regional governance.⁴⁷ Current regional relations in East Asia embody elements from all three models, according to Chen, but major-power coordination is fast developing into the dominant form of governance.

⁴² Grevi, *The Interpolar World*, p. 9.

⁴³ Rodolfo C. Severino, ‘ASEAN’s role in East Asian regionalism: manager or leader?’, paper delivered at the international conference on ‘Emerging Regionalism: Paradigm Shift of International Relations in East Asia?’, Chinese University of Hong Kong, 9 March 2012, <http://www.cuhk.edu.hk/hkiaps/conference/Mar2012/download.html>.

⁴⁴ Goh, *The Struggle for Order*.

⁴⁵ ‘We should ... recognize that the growing trend toward a multi-polar world will not change.’ Xi eyes more enabling int’l environment for China’s peaceful development’, Xinhua, 30 November 2014, http://news.xinhuanet.com/english/china/2014-11/30/c_133822694.htm. See also Shaun Breslin, ‘China and the global order: signalling threat or friendship?’, *International Affairs*, 89:3 (2013), p. 624.

⁴⁶ Chen Zhimin, ‘Duoji shijie de zhili moshi’ [‘Governance models for a multipolar world’], *Quanqiu zhili [Global Governance]*, 10 (2013), pp. 4–23.

⁴⁷ This has some similarity to the conclusions of Amitav Acharya, *The End of American World Order* (Cambridge: Polity Press, 2014).

While China's relationship with the United States has, in practice, been at the heart of its foreign policy since the end of the Cold War, official Chinese rhetoric suggests that this is no longer clear cut. The country or geographical focus of the most recent Chinese foreign policy statements has been on two dominant areas: major-power relations (including with the United States, but also with Russia, and in some contexts the European Union); and China's immediate neighbourhood, covering much of Eurasia (via various 'Silk Road' initiatives) as well as the Asia-Pacific broadly defined. Some scholars, such as Yan Xuetong, have suggested that the Asian neighbourhood ought to be the top priority. A more multipolar Chinese approach does seem to be emerging, at least in terms of official pronouncements.

For many American officials, China is one element of US foreign policy in Asia, rather than the dominant focus that conditions policy towards the rest of the region.⁴⁸ While China stands out, there is definitely not a 'G2 world' in which the United States and China are the primary actors in terms of policy implementation and outcomes. The two countries cooperate selectively, but decisions about policy involve a range of international actors. The concept of multipolarity in Asia was particularly visible during the early years of George W. Bush's presidency, with the rise of US–Indian engagement reflecting India's increasingly important role.⁴⁹ At the same time, America's closest alliance remains with Japan, followed by an increasingly important bilateral partnership with South Korea, each of which is cemented in treaty obligations. More broadly, President Barack Obama's 'rebalancing' of US foreign policy towards Asia is an acknowledgment of the roles that a variety of large and small actors play within the region. America has deepened relations with traditional allies and partners (such as Australia and Singapore) and has broadened links with new or historically important actors (such as the Philippines and Vietnam).

In India too, there has been a change in perceptions over the past 10 years. In particular, the concept of the Indo-Pacific has acquired increasing prominence as the conceptual framework for assessing regional dynamics since 2012–13. This analysis includes multiple power relations and alignments, centred around, but not limited to, China and India. This has been described as a 'flexi-nodal world' in which the various actors have stronger or weaker attributes of influence, depending on the issue to be resolved.⁵⁰ An accurate and relevant representation of power in the region needs to include this characterization. Interestingly, for some Indian observers, the United States, given its geographical position outside the region, does not figure as a major actor in this view.⁵¹

Notwithstanding these arguments, as Amitav Acharya has pointed out, power distributions at the regional and global levels are different.⁵² He suggests that a plausible scenario is for global power distribution to be multipolar, but for the Asian region to be dominated by the United States and China as the two poles. While there is debate about the role of Japan, and the extent to which recent developments in its foreign policy (including a more formal and explicit concept of national strategy and the establishment of a new National Security Council in 2013) reflect growing Japanese agency, some in China see the United States as shaping changes in Japan's approach.⁵³ From China's perspective, the concept of the 'new type of major-power relations' between the United States and

⁴⁸ Xenia Wickett, interview with senior State Department official, Washington, DC, January 2012. See also Kurt M. Campbell and Ely Ratner, 'Far Eastern Promises: Why Washington Should Focus on Asia', *Foreign Affairs*, May/June (2014), <https://www.foreignaffairs.com/articles/east-asia/2014-04-18/far-eastern-promises>.

⁴⁹ That role is a function of its nuclear status, its complicated, adversarial relationship with Pakistan, its increasingly dynamic economy and the willingness of its political leadership to become increasingly involved in foreign policy matters.

⁵⁰ Xenia Wickett, interviews with former Indian military and diplomatic officials, Delhi, June 2014.

⁵¹ Xenia Wickett, interviews with former Indian government officials, Delhi, June 2014.

⁵² Acharya, *The End of American World Order*.

⁵³ For example, China has blamed the United States for Japan's military strengthening. 'China accuses US of damaging regional stability with Japan defense radar', *Russia Today*, 23 October 2014, <http://rt.com/news/198528-china-japan-us-radar/>.

itself – based on no conflict, no confrontation, mutual respect and win-win cooperation – is designed to manage the inherent risks in that relationship (in particular, the risk that conflict may occur as an established hegemon is challenged by a rising power). The concept also seeks to reshape the relationship as one that is less hierarchical.

From China’s perspective, the concept of the ‘new type of major-power relations’ between the United States and itself – based on no conflict, no confrontation, mutual respect and win-win cooperation – is designed to manage the inherent risks in that relationship.

While the dominant narratives here embody the notion of multipolarity, a simpler descriptive account merely highlights the emergence of many powers – as one Chinese observer has noted, talking of ‘poles’ sounds dated.⁵⁴ Thinking in terms of multiple power centres – and, equally important, multiple perceptions within the region of the nature and likely direction of Chinese and American power and the influence of other states within the region – is a useful reminder of the unpredictability and dynamic nature of change within Asia.

Narrative 4: Asia for the Asians

Asia is defined and managed within the region, with no special position for external actors.

In addition to the narratives of bipolar hegemonic competition and multipolarity, there are models that draw on identity politics and important normative questions. These have varied in prominence and breadth of acceptance over time, but remain important in understanding the debate over how best to conceptualize shifting power relations in Asia.

The first model is the concept of ‘Asia for the Asians’, envisaging a set of regional relationships in which Asian states take the lead, with at best a marginal role for external actors such as the United States. These ideas have deep roots, going back to the anti-imperialism of pre-war pan-Asianism, the Japanese Greater East Asia Co-Prospersity Sphere of the 1940s, and the post-1945, post-colonial, Non-Aligned Movement symbolized by the Bandung Conference of 1955. During the 1980s and 1990s, similar ideas of Asian exceptionalism, but with a primarily economic focus, derived in part from the Japanese developmental state model and the related ‘flying geese’ pattern of regional economic growth, became prominent within the region. Prime Minister Mahathir Mohamad of Malaysia sought to capitalize on these ideas with his distinctive ‘look east’ policy in the 1980s. In the early 1990s Japanese writers, such as Ministry of Finance official Eisuke Sakakibara, were quick to assert the primacy of Japanese-inspired strategic economic planning, in contrast to the alleged policy deficiencies of laissez-faire Western economics. Similarly, Prime Minister Lee Kuan Yew’s ‘soft authoritarianism’ in Singapore has been viewed by some states within the region, including China, as an alternative to Western models of political and economic development. Such ideas have found institutional expression in ASEAN as well as the later ASEAN+1 and ASEAN+3 regional institutional structures in which outside powers (notably the United States) did not play a role. There is evidence that this notion of a distinctive Asian identity, whether reflected in geographical exclusivity or in

⁵⁴ Comment by participant at project workshop on ‘Distribution of Power in the Asia-Pacific Region: New Narratives’ organized by the Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy, and Chatham House in Singapore, 24–25 November 2014.

the prominence of indigenous Asian-led institutional innovations, may be playing a stronger role in Chinese economic and foreign policy thinking.⁵⁵

Chinese government officials and many Chinese analysts refrain from talking in terms of a power transition in which China completely supplants the United States (in Asia or globally), or of a qualified shift of power and influence in which the United States is pushed out of or marginalized in Asia. None the less, Chinese diplomacy under Xi Jinping has focused strongly on the Asian neighbourhood (encompassing the entire Asian region around China, not merely the Asia-Pacific to China's east). It has featured a series of high-level visits by Xi within the region and institutional overtures towards specific Asian states and organizations.⁵⁶ The main context for this form of activism has included: China's more active diplomacy in the SCO; the Conference on Interaction and Confidence Building Measures in Asia (CICA), hosted by China in Shanghai in June 2014;⁵⁷ the announcement of the AIIB; policy emphasis on building a 'New Silk Road' across Eurasia (the 'One Belt, One Road' initiative); and new diplomatic rhetoric on Asia's 'common destiny'.⁵⁸

Given strong Chinese engagement with existing institutions, from APEC to the United Nations, proponents of this narrative reject the notion that such actions constitute a crude effort to build a new Sino-centric world order.⁵⁹ They argue that China's hosting of APEC in November 2014 showcased its engagement in a broader Asia-Pacific regionalism, and that this was consistent with the more open, inclusive regional approach exemplified by China's willingness to allow US participation in the EAS since 2011. Inclusivity notwithstanding, it is still plausible to see China's aim as one of boosting institutions and relationships that offer alternatives to a US-centric liberal international order, at least by creating space for them to operate meaningfully alongside each other. Much, though, will depend on the approaches of other major powers, in particular the United States, and whether they are prepared to reform existing institutions to accommodate shifts in the distribution of power.

This trend towards a focus on institutional innovation within Asia by Asian powers is also reflected in some Indian thinking that the US role in the region should be (and increasingly is) less influential. This view sees America as shifting from having a central guiding presence to playing a supportive role, but not one that determines outcomes and policy priorities within the region.⁶⁰ This perspective depicts the United States as effectively ceding power to states such as China, India and Japan.

Narrative 5: Norms and values-based polarity

Regional dynamics are led by partnerships built on common values.

There is also a strong, though not universally accepted, normative story to be told around regionalism in Asia, alongside the debate over economic efficiency. The 'ASEAN way' born out of the Indochina

⁵⁵ For example, Xi Jinping, 'Asian countries [having taken] their destiny into their own hands' and 'an Asian way of cooperation', speech to the Boao Forum, 28 March 2015, http://news.xinhuanet.com/english/2015-03/29/c_134106145.htm.

⁵⁶ Since Xi became general secretary of the Communist Party in 2012, half of his state visits have been within the region. He has visited Australia, New Zealand, Fiji, Tajikistan, the Maldives, Sri Lanka, India, Mongolia, South Korea, Indonesia, Malaysia, Turkmenistan, Kazakhstan, Uzbekistan and Kyrgyzstan. In September 2015 he will travel to the United States. Ministry of Foreign Affairs of the People's Republic of China, http://www.fmprc.gov.cn/mfa_eng/topics_665678/.

⁵⁷ The Conference on Interaction and Confidence Building Measures in Asia is a forum designed to enhance cooperation towards promoting peace, security and stability in Asia. Since its first meeting in 2002, it has grown from 16 to 26 member states, with the United States and Japan as observer states.

⁵⁸ China's diplomatic rhetoric focuses on inclusive, cooperative security rather than on exclusive security structures, as exist now in the Asia-Pacific.

⁵⁹ As one Chinese participant said at the project workshop on 'Distribution of Power in the Asia-Pacific Region: New Narratives', the current international system suits China's interests well.

⁶⁰ Xenia Wickett, interviews with current and former government officials in Delhi, April 2014.

conflict in the late 1960s, with its stress on non-interventionism, the primacy of state sovereignty and peaceful resolution of conflict through dialogue, has been derided in some quarters as lacking teeth or constraining institutional deepening. But in the 1990s ASEAN expanded not only to encompass all the major Southeast Asian countries, but also to form the core of the various East Asian regional groupings. Furthermore, in 2003 China and India became the first non-ASEAN members to sign its 1976 Treaty of Amity and Cooperation, followed by Russia (2004), the United States (2009) and the European Union (2012). These Southeast Asian-led initiatives have competed for prominence alongside Asia-Pacific ones and now, along with the Indo-Pacific concept (Australia, India and Japan promote these various groupings in different ways), demonstrate the politics behind the formation of regional institutions.

In a different vein, some in India believe that regional groupings will coalesce not so much in terms of geography or economic complementarity, but more on the basis of common values and interests.⁶¹ Consequently, according to this view, liberal democracies such as India and Japan will naturally align with the United States in opposition to authoritarian regimes such as China, producing in the process an inherently competitive dynamic of ‘China versus the democracies’. How compelling this argument is at a time when rising populism, whether in Europe or Asia, is putting democratic institutions under strain and fuelling competitive nationalism is unclear. At the very least, the prospect of a simple values-based alignment is open to question, even if framing these changes in terms of norms and identity politics poses a legitimate counter-argument to the structural focus that has been a dominant part of realist and idealist theories in international relations. And it may underplay the non-aligned, post-colonial drivers of foreign policy that have made India unwilling to move too close to the United States.

Other states in the region, most notably Australia during the government of Prime Minister Kevin Rudd from 2007 to 2010, have been wary of overstressing values when shaping policy towards China, for fear of fostering a containment-like approach that may alienate it.⁶² Promoting Western or liberal democratic values may, by reinforcing China’s sense of encirclement and victimization, provoke the very oppositional dynamic and heightened risk of conflict that so many states in the region are keen to avoid. Far better, in the judgment of the critics of values-led diplomacy, to focus on confidence-building and the promotion of mutual, practical benefits.

Conclusion

At present, the balance between these last two very different approaches – ‘Asia for the Asians’ and norms-based – is unclear. However, amid signs of more activism on the part of Indonesia and the Philippines in recent months, and following transitions to conservative governments in Australia and Japan in 2012–13, the values argument has come back on to the agenda.

These narratives reflect divergent ways of interpreting the distribution of power and influence across the Asia-Pacific. To assess their persuasiveness, the next section examines the various dimensions of national power – military, economic, demographic, partnerships and alliances, diplomacy, development assistance, cyber and natural resources – and how they are changing.

⁶¹ Ibid.

⁶² Defence White Paper 2009, *Defending Australia in the Asia Pacific Century: Force 2030*, http://www.defence.gov.au/CDG/Documents/defence_white_paper_2009.pdf.

2. Auditing Power and Changing Externalities

This section lays out the main ingredients of power in the Asia-Pacific, how they have changed over recent years and how they are likely to change in the future. This breakdown of power among the principal actors can then facilitate an assessment of how states are likely to interact in the future. A purely material assessment of the ingredients of power is, however, only the first step. Section 3 will build on this with an assessment of the national environments in which these levers are employed.

The principal power levers regionally and globally have changed over recent decades. Following the two world wars, power throughout the Cold War was largely perceived in terms of the size and capabilities of a country's military, and was measured in its ability to achieve traditional security goals – protect (or breach) borders, take territory or threaten action to achieve other goals. Economic strength and technological capacity were also of critical importance during the Cold War, but the bipolar nature of the international system encouraged policy-makers to give relatively more attention to assessments of military strength than to those of economic strength.⁶³

After the Cold War, the changed global strategic environment brought economics to the fore. It also placed an imperative on strengthening norms against the use of military force to effect change. These factors were particularly important in the Asia-Pacific, where economies grew rapidly and became increasingly interdependent, which in turn spurred global economic growth. For example, India and China put aside territorial disputes – postponing their resolution so that they could focus on much-needed economic growth. The rise of the BRICS has further focused attention on economic factors, particularly GDP growth.

At the same time, other instruments of power are increasingly becoming relevant. Diplomatic relations, whether formal or informal, bilateral or through networks, are – together with alliances and partnerships – vital means of influencing the actions of other states. Other forms of soft power such as culture, the media and education are also believed by many to play an increasingly important role in bringing countries together and building cooperation to advance mutual goals. However, it is not just the levers themselves that are important in understanding power and its application. A number of other factors play a role:

- **Intent:** Why do states pursue power and to what ends do they choose to wield it? Offensive and defensive power, whether political or military, must, for example, be considered separately. The ability to veto an action (for example, in the UN) is quite different from the ability to proactively build something as ambitious as a diplomatic coalition (such as the one President George H. W. Bush formed in the first Gulf War). So too, the ability to go on the offensive militarily is very different from that of defending oneself.
- **Will:** It is not just having instruments of power that matters, but also the will and confidence to use them. If that will is doubted, then the deterrent effect is diminished. Policy-makers are also, in democratic and authoritarian regimes alike, increasingly subject to public opinion in

⁶³ 'The error [of failing to predict the peaceful end of the Cold War] arose ... from the way we calculated power during the Cold War years. We did so almost entirely in monodimensional terms, focusing particularly on military indices.' John Lewis Gaddis, *We Now Know: Rethinking Cold War History* (Oxford: Clarendon Press, 1997), p. 284.

deciding whether to act, especially as social media and instant communication impose real-time pressures and limit the ability of leaders to pause and reflect before acting.⁶⁴ If public support or political will is lacking with respect to a decision or policy, then that too has consequences. A clear example of this was the 2013 vote in the British parliament not to use military force against the Syrian regime, which ran counter to the positions of the US and British governments and appeared very much a reaction to public opinion.

- **Vulnerabilities:** A state might have great power capabilities – whether in the military, economic, energy or cyber areas – but if it also has major vulnerabilities in those areas, these capabilities can count for nought. For example, if one state or actor can bring down another’s communications systems, then having a capable military dependent on the cyber system renders this military power useless or at the very least perilously vulnerable to attack. Dependence or interdependence, whether in terms of economics, natural minerals, trade flows, energy or other natural resources, can also create significant vulnerabilities.
- **Interdependence:** Most instruments of power are interdependent. For example, changes in economic strength have implications for security. Thus an improvement or degradation in one area has consequences for others. Chinese financial investment, for example, in the US Treasury bond market can provide the wherewithal for the United States to finance its military, but it also creates mutual dependence.

The rest of this section isolates the principal instruments of power and evaluates them individually. While the list of possible tools available to individual states is extensive, the focus here is on the major components of power in the region for the principal actors.

Table 2: Instruments of power and their distribution

| | China | India | Japan | United States |
|---|-------|-------|-------|---------------|
| Military | ●● | ●● | ●● | ●●● |
| Economic | ●●● | ● | ●● | ●●● |
| Demographic | ●●● | ●●● | | ● |
| Partnerships, alliances and networks | ● | ●● | ●● | ●●● |
| Diplomacy | ● | ● | ● | ●● |
| Development and humanitarian assistance | | | ●● | ●●● |
| Cyber | ●●● | ● | ● | ●●● |
| Natural resources | ●● | ● | | ●●● |
| Other soft power instruments | ● | ●● | ● | ●● |

Limited ●
 Moderate ●●
 Strong ●●●

⁶⁴ ‘Policy-makers are expected to have formulated a position within several hours and to interject it into the course of events – where its effects will be broadcast globally by ... instantaneous networks.’ Henry Kissinger, *World Order: Reflections on the Character of Nations and the Course of History* (London: Penguin, 2014), p. 357.

The military

Defence expenditure by the major actors (excluding the United States) in the Asia-Pacific has more than tripled since the turn of the century, from \$124 billion in 2001 to \$398 billion in 2014.⁶⁵ The region's defence spending is now the second-highest in the world after that of North America, and continues to grow at a rate significantly above the global average.⁶⁶ This is in large part due to China, which now has the second-largest defence budget in the world and accounted for approximately 8 per cent of global defence expenditure in 2014. However, countries such as Indonesia and Sri Lanka are also rapidly increasing their defence budgets. With regard to force capabilities in the region, the United States continues to surpass all other states (even considering that the country has only 50 per cent of its naval forces positioned in the Pacific – a share projected to grow to 60 per cent by 2020).⁶⁷ Meanwhile, China's military capability continues to grow broadly in line with its wider economic strength. Although its defence spending as a percentage of GDP declined in the first decade of the 21st century, and has remained consistently under 1.5 per cent, in aggregate terms there has been a substantial spending increase given the rapid growth in the size of China's economy (see Figure 1 and Box 1).⁶⁸ The People's Liberation Army outstrips US forces in terms of active personnel by nearly two to one. Outside of the principal actors listed in this paper, South Korea and North Korea also have extensive militaries.⁶⁹ Indeed, in numerical terms both outstrip the US military due to their extensive use of reserve and paramilitary personnel.

Taiwan's military strength remains significantly bolstered by US support, which in 2013–14 included the delivery of Apache attack helicopters, utility helicopters, P-3C anti-submarine aircraft and PAC-3 missiles.⁷⁰ Given China's sizeable investments in its armed forces, Taiwan appears to have altered its military strategy. Instead of attempting to match Chinese spending, Taiwan is moving towards a more compact, highly modernized force.⁷¹ A decision by President Ma Ying-jeou to phase out conscription as part of force reductions has been pushed back to 2017.

The United States currently spends more on its military than the next seven countries combined.⁷² This ratio is forecast to narrow in the coming decades (accelerated by the 2013 budget sequestration spending cuts). Yet even assuming China maintains its current growth in defence spending, the country's military expenditure is not predicted to surpass that of the United States in absolute terms until approximately 2035.⁷³ India's defence spending as a percentage of GDP has surpassed China's for several decades.⁷⁴ And as Japan develops a more proactive security posture, it too is likely to increase its spending in the coming years. Japan's Self-Defense Forces (SDF) are technologically advanced,

⁶⁵ Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database. States included in the Asia-Pacific region: Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, North Korea, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The 2001 figure does not include an estimate for North Korean military expenditure. http://www.sipri.org/research/armaments/milex/milex_database/milex_database.

⁶⁶ Ibid.

⁶⁷ As stated by the then US secretary of defence, Leon Panetta, in a speech to the Shangri-La Security Dialogue, 2 June 2012, <http://www.defense.gov/speeches/speech.aspx?speechid=1681>.

⁶⁸ Adam P. Liff and Andrew S. Erickson, 'Demystifying China's Defence Spending: Less Mysterious in the Aggregate', *The China Quarterly*, 216 (2013), pp. 805–30.

⁶⁹ According to the International Institute for Strategic Studies (IISS), *The Military Balance 2015* (London: Routledge, 2015), South Korea had 655,000 active and 4,500,000 reserve personnel, and 3,000,000 paramilitary personnel in 2014. North Korea has 1,190,000 active and 600,000 reserve personnel and 5,700,000 paramilitary personnel.

⁷⁰ IISS, *Military Balance 2015*, pp. 287–89.

⁷¹ See IISS, *Military Balance 2015*, p. 287 on force reductions and procurement drivers. On Taiwan's military strategy, see J. Michael Cole, 'Is Taiwan's Military Becoming Too Small to Fight?', *The Diplomat*, 19 March 2014, <http://thediplomat.com/2014/03/is-taiwans-military-becoming-too-small-to-fight/>.

⁷² SIPRI, Military Expenditure Database.

⁷³ *The Economist*, 'The dragon's new teeth', 12 April 2010, forecast based on SIPRI and IMF data, <http://www.economist.com/node/21552193>.

⁷⁴ India's spending in 2013 was \$47.4 billion; China's was approximately \$188 billion according to SIPRI. Defence spending as a proportion of GDP was 2.5 per cent and 2.0 per cent respectively in 2013 according to SIPRI, or 2.2 per cent and 1.2 cent respectively in 2014 according to IISS. According to SIPRI data India has spent approximately 1 per cent more of GDP on defence than China every year since 1989.

and increasingly agile and mobile at sea and in the air. Relaxation of the rules governing Japan’s participation in collective self-defence and the easing of the post-Second World War ban on arms exports make it likely that Japan will become more closely involved in regional security issues.

It is not, however, the size alone of a given military that matters, nor how much is spent, but what it can do. What are its capabilities, its ability to act? Is there the political and public will to use it? Does it have vulnerabilities? And, is it focused on the right emerging threats?

Over recent decades, the US military has operated the most intensively. It has access to some of the best equipment and training. It has worked closely either through long-term treaties (e.g. with Japan and South Korea) or joint operations (e.g. with Australia and the Philippines) with allies in the region. Together these factors raise the United States’ effective military capabilities above and beyond the levels implied by personnel or spending numbers.

Of concern to many is the increase in spending on ‘offensive’ military capabilities in the region. Legislation passed in the Japanese parliament in July 2015 that allows Japan to reinterpret the role of the SDF to carry out ‘collective self-defence’, which includes coming to the assistance of allies such as the United States, also supports the trend towards more proactive capabilities and intentions in the region. Since 2010, China has taken a more assertive approach to its long-standing territorial claims in the South and East China seas. It is also seen by most analysts as developing an ‘asymmetric’ strategy of anti-access/area denial (A2/AD) in the region in order to constrain America’s ability to project military power.⁷⁵ Attention is also being paid to force projection in China with the delivery in 2012 of its navy’s first aircraft carrier and first carrier-based fighter aircraft (which are not yet in active service), though currently the country’s ability to project force beyond its immediate neighbourhood remains limited. India is also expanding its ability to project force beyond its territorial boundaries. The United States retains the greatest capabilities by some measure, though China in particular has gained the ability to disrupt US operations over the past decade.⁷⁶

Table 3: National military capabilities

| | Total defence budget 2014 | Air force (active forces) | Navy (active forces) | Army (active forces) | Other |
|---------------|---------------------------|---------------------------|----------------------|----------------------|--|
| China | \$129 bn | 398,000 | 235,000 | 1,600,000 | Strategic missile forces: 100,000 Paramilitary active forces: 660,000 |
| India | \$45.2 bn | 127,200 | 58,350 | 1,150,900 | Coastguard active forces: 9,550 Paramilitary active forces: 1,403,700 |
| Japan | \$47.7 bn | 47,100 | 45,500 | 151,050 | Central staff and paramilitary active forces: 16,150 |
| United States | \$581 bn | 334,550 | 326,800 | 539,450 | Marine Corps active forces: 191,150 Coastguard: 41,200 |

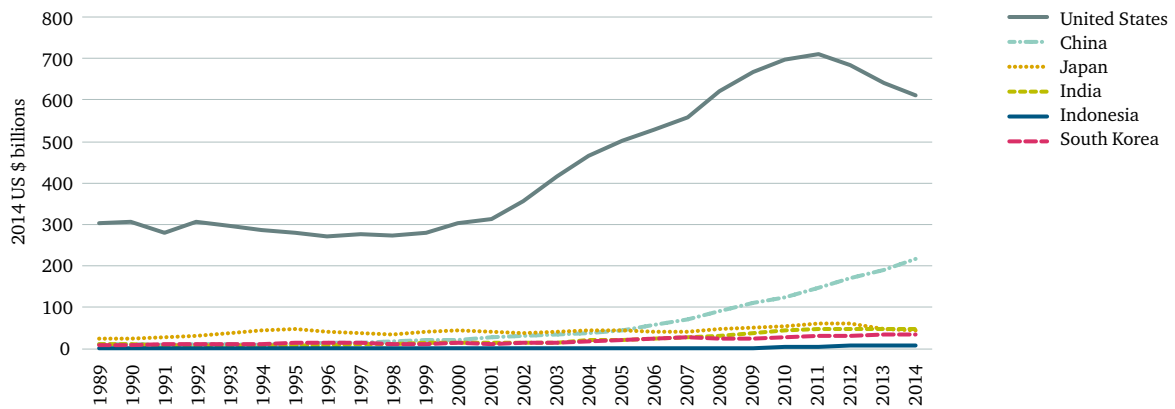
Note: The measurements of a country’s armed forces by SIPRI (military expenditure) and by IISS (defence budget) include slightly different calculations. For example, some countries may not include certain domestic security forces in their defence budget, while others do. SIPRI and IISS also provide differing estimates for countries that are widely believed not to publish accurate spending data, such as China. This study includes both measurements.

Source: International Institute for Strategic Studies, *The Military Balance 2014* (London: Routledge 2015).

⁷⁵ For an interesting opposing argument that suggests counter-intervention is not a Chinese military strategy, see M. Taylor Fravel and Christopher P. Twomey, ‘Projecting Strategy: The Myth of Chinese Counter-intervention’, *Washington Quarterly*, 37: 4 (2015) pp. 171–87.

⁷⁶ See, for example, Hugh White’s argument that China and several other countries are developing ‘sea denial’ capabilities in the region, which make the uncontested dominance of any power more difficult. Hugh White, *The China Choice: Why America Should Share Power* (Collingwood: Black Inc., 2012) pp. 65–81.

Figure 1: Military expenditure by state, 1989–2014



Source: Stockholm International Peace Research Institute, Military Expenditure Database.

Figure 2: Annual change in military expenditure, 1989–2014



Note: Countries included in the Asia-Pacific number are China, Japan, India, South Korea and the ASEAN members.
Source: Stockholm International Peace Research Institute, Military Expenditure Database.

Box 1: Chinese defence spending and capabilities

There has been much debate in the United States and the Asia-Pacific about increases in China’s defence spending and what this means for its military capability. In aggregate terms, China’s defence spending is now second only to that of the United States, though exact comparisons are difficult because of inflationary effects and changes in exchange rates, as well as the different categorizations for spending employed by different countries and substantial variations in purchasing power. Because China’s aggregate spending has risen at a much faster pace than that of any of its neighbours, closing or extending gaps in capabilities, this has prompted concerns that in turn have stimulated greater investment in military capability by a number of other Asian countries.

When measured as a proportion of GDP, China's defence spending has steadily declined since the beginning of the 1980s and remained constant in recent years, consistent with the official policy during this period that economic development was the national priority. Spending has also fallen as a proportion of total government expenditure (from 9.5 per cent in 1994 to 5.5 per cent in 2011), though this trend may now have stabilized and recent increases in the military budget are broadly in line with overall government spending increases. The formal annual military expenditure budget is due to rise by 10.1 per cent in 2015, compared with 12.2 per cent in 2014 and 10.7 per cent in 2013 (all in nominal terms – the real increase in 2015 is expected to be a little over 7 per cent, in line with overall GDP growth). Internal security expenditure is separate from defence expenditure, and is now greater in aggregate terms than the latter, though most of this money is spent at local government levels while defence spending is almost all carried out at national level. At the time of writing, the Chinese military looks like becoming increasingly caught up in President Xi Jinping's ongoing anti-corruption drive, with the former vice-chair of the Central Military Commission, Xu Caihou, the most senior military figure to have been investigated for corruption and over 30 other senior officers (rank of major general and above) detained for corruption. (Xu's death was announced in March 2015.)

In recent years there has been greater clarity about the intentions underpinning defence spending, which is focused mainly on modernizing the armed forces, developing personnel (including ensuring that remuneration does not fall too far behind that in civilian sectors), and meeting operational requirements in an increasingly complicated regional strategic environment – China has 14 land neighbours and half a dozen maritime neighbours, with several of which it has maritime disputes, as well as a difficult strategic relationship with the United States.

The implications of greater defence spending for China's military capability are not straightforward to assess. In some areas, such as ballistic missiles, its capabilities are relatively strong, while in other areas the gaps with the United States and many other countries remain substantial. While China's capabilities have been enhanced considerably, it still has a lot of catching up to do. What may be more interesting is the extent to which its ambitions to develop 'asymmetrical warfare capabilities' may require substantial re-evaluation of the ways in which military capability is measured.

Source: Based primarily on Adam P. Liff and Andrew S. Erickson, 'Demystifying China's Defence Spending: Less Mysterious in the Aggregate', *China Quarterly*, 216, December 2013, pp. 805–30; and accounts of military capability in volumes such as Tai Ming Cheung (ed.), *Forging China's military might: a new framework for assessing innovation* (Baltimore, MD: Johns Hopkins University Press, 2013). Data for the 2014 and 2015 budgets are taken from reports presented to the National People's Congress in March 2014 and March 2015.

The future

While increasing resources are being focused on offensive capabilities, force projection and A2/AD – all fairly traditional security objectives – it is not clear whether that is where the new challenges lie. The nature of warfare and conflict may be changing. Recent clashes involving China, North Korea, Russia, Iran and the United States (to name just some) have increasingly engaged non-traditional tools, in the cyber arena in particular, to disrupt a potential adversary's systems and processes before or even instead of engaging in traditional security conflicts. As the 2014 Chatham House report *Asia-Pacific Security: A Changing Role for the United States* suggested, conflict in the region is increasingly likely to break out in non-traditional ways, only escalating to the more traditional use of force later.⁷⁷ While many governments (including those of China, the United States, India, Japan and South Korea) are increasing spending on non-traditional areas, in most cases (excepting possibly China and the United States) this is still at a relatively low level compared with financial commitments for more traditional military capabilities.⁷⁸

⁷⁷ Xenia Dormandy with Rory Kinane, *Asia-Pacific Security: A Changing Role for the United States*, Chatham House Report (2014), http://www.chathamhouse.org/sites/files/chathamhouse/home/chatham/public_html/sites/default/files/20140416AsiaPacificSecurityDormandyKinane.pdf.

⁷⁸ Reportedly, China has more than 60,000 cyber experts working in the military field and it arguably has the most effective and robust cyber-espionage system in the world. Coker, *The Improbable War*, p. 159. Meanwhile, the United States is undertaking potentially significant strategic transformations in the cyber offensive and defensive space with changes announced at the CIA and the creation, announced in February, of a new Cyber Threat Intelligence Integration Center. Ellen Nakashima, 'New agency to sniff out threats in cyberspace', *Washington Post*, 10 February 2015, http://www.washingtonpost.com/world/national-security/white-house-to-create-national-center-to-counter-cyberspace-intrusions/2015/02/09/a312201e-afd0-11e4-827f-93f454140e2b_story.html.

Probably the most striking shift in attitudes towards military power in the region is taking place in Japan. In the past two years the Abe government has instituted a variety of important institutional innovations, including:

- the establishment of a new National Security Council to harmonize and coordinate crisis management and policy-making;
- the strengthening of provisions governing state secrets via new national security legislation;
- the relaxation of rules governing arms exports to allow industrial collaboration with various foreign partners;
- the relaxation of rules governing official development assistance (ODA) to allow aid to be targeted in supporting explicitly security-defined needs; and
- more flexible interpretation of the constitutional and legal prohibitions limiting Japan's right to participate in collective self-defence.

Such changes are taking place in the broader context of a 2.8 per cent annual rise in defence spending announced in 2015. This is the third year in a row that Japan has boosted its defence budget, and marks a noted departure from reductions in past years. At \$46 billion, Japan's military spending is significant, but it remains far behind China's estimated \$216 billion and a mere fraction of the \$610 billion that the United States spends.⁷⁹ Amid the more fervid talk in some circles in the region of a return to militarism by Japan, it is worth keeping in mind that the country ranks relatively low down the global military expenditure league table, being the ninth-largest spender, and that its strategic capabilities are explicitly defensive.⁸⁰ Japan still lacks the power projection capabilities (whether in terms of manpower, long-range aircraft, missiles or naval deployment) that would be required to threaten its neighbours.

Amid the more fervid talk in some circles in the region of a return to militarism by Japan, it is worth keeping in mind that the country ranks relatively low down the global military expenditure league table, being the ninth-largest spender, and that its strategic capabilities are explicitly defensive.

Effecting Japan's new proactive security policy will require important legislative changes at home, but there is little doubt that the ability to deploy its military forces beyond its borders to defend its core national interests, and in partnership with countries other than its traditional ally, the United States, is likely to have a significant impact on the military balance in the region.

While it is less often noted in debates on military capabilities, the Asia-Pacific region has four actors with nuclear weapons (the United States, China, India and North Korea) and two other border states with such capabilities (Pakistan and Russia). This, together with the increased ability to deploy these nuclear assets more accurately and over longer distances, also has significant implications for deterrence, most notably in the case of North Korea, with wider implications for the long-term stability of the Kim Jong-un regime.

⁷⁹ SIPRI, Military Expenditure Database.

⁸⁰ Ibid.

Finally, it is necessary to take note of the types of challenges these states might face, whether with regard to natural resource constraints or energy, that can be addressed with the use of traditional military instruments. For all the increase in military spending, it is not clear whether these tools will remain the most relevant in the power competitions of the future.

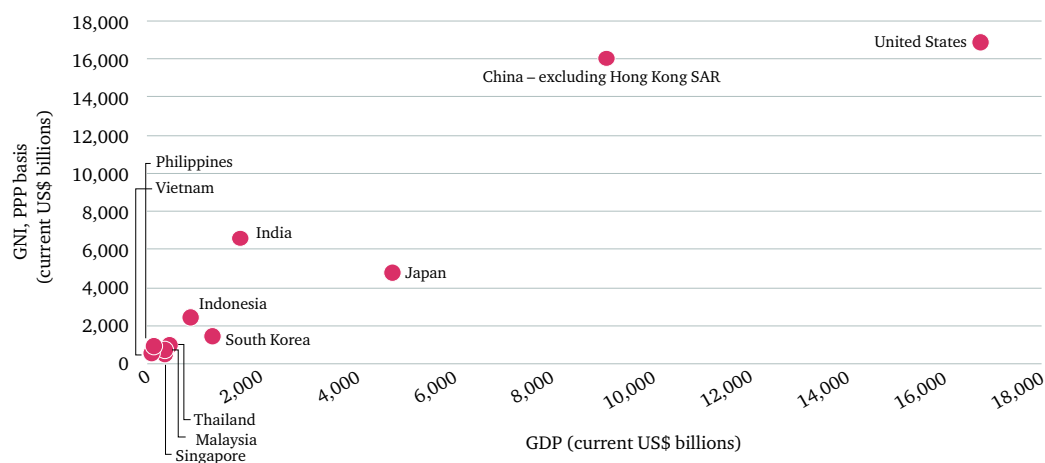
The economy

Measuring economic strength and its relationship to power

Economic factors are vital to considerations of power distribution. But there is no simple relationship between economic strength and power or influence. Nor is there consensus on how to measure economic strength, and whether providing a snapshot of the present (indicators of size) or anticipating future trends (dynamic indicators) is more important. This readily becomes apparent when looking at the range of economic indicators that are applied to countries.

The first indicator mentioned in assessing economic strength is usually aggregate economic size, expressed as GDP. Measuring this is not straightforward: does one look at US dollar amounts using market prices, or at PPP? Or does one consider other measures such as GDP per capita? At market exchange rates, the United States will remain the largest economy for a few years yet, but in PPP terms China has already overtaken it.⁸¹ The symbolism of these rankings is strong: China overtaking Japan in 2010 to become the largest Asian economy and the world’s second-largest has had a significant influence on perceptions of power and influence in Asia. China’s rise is no statistical sleight of hand, though there should be no assumptions of linear progress for it in the future either.

Figure 3: Comparison of market size and purchasing power parity across the Asia-Pacific region, 2013



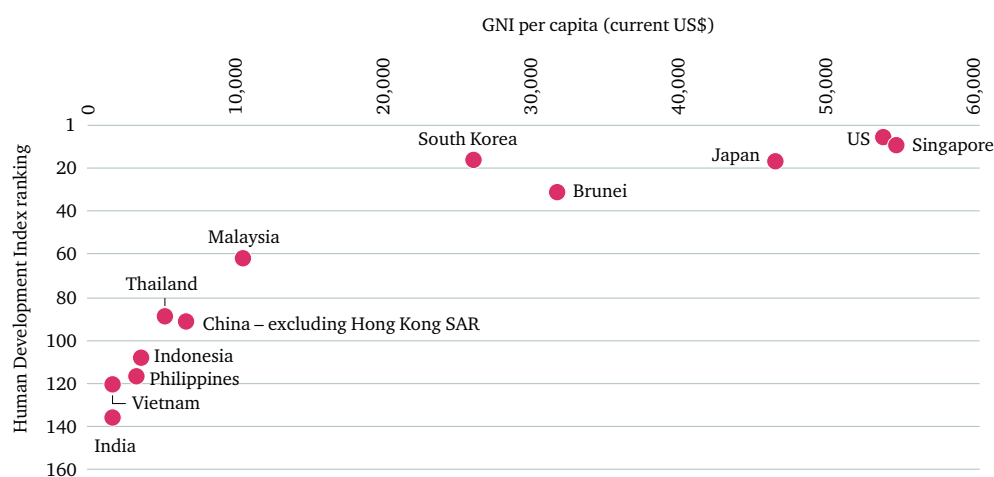
Source: United Nations Development Programme, <http://hdr.undp.org/en/data>, accessed 17 February 2015.

⁸¹ See footnote 2 for IMF data on China’s GDP in terms of purchasing power parity. A recent estimate suggests that at market prices China’s GDP will overtake that of the United States by approximately 2021. ‘Catching the Eagle’, *The Economist*, 22 August 2014, <http://www.economist.com/blogs/graphicdetail/2014/08/chinese-and-american-gdp-forecasts>. By one estimate, this shift will occur in 2024. IHS, ‘China to Become World’s Largest Economy in 2024 Reports IHS Economics’, 7 September 2014, <http://press.ihs.com/press-release/economics-country-risk/china-become-worlds-largest-economy-2024-reports-ihs-economics>.

In terms of immediate power or influence, though, it can be argued that looking at growth rates is more important. Countries and businesses often make crucial decisions based on an economy’s growth projection rather than on its current size. The fact that around one-quarter of aggregate global economic growth comes from China gives the country a particularly high degree of influence. This pace of growth and the country’s attractiveness to businesses go a long way towards explaining the interest in China’s development, especially since the 1990s.

An alternative indicator is to look at economic size on a per capita basis. The global league table this produces is sharply different, with China in 88th place (which is not very different when ranked on a PPP basis), well behind the United States (8th) and Japan (24th). The UN Development Programme’s Human Development Index combines this with educational and health indicators in an alternative approach to appraising levels of development. This index places China 91st in the world, while the United States and Japan come fifth and 17th respectively.

Figure 4: Comparison of Human Development Index and GNI across the Asia-Pacific, 2013



Source: UN Development Programme, <http://hdr.undp.org/en/data>, accessed 17 February 2015.

The Human Development Index approach is closer to qualitative approaches to evaluating economic strength. There are some correlations between per capita wealth levels and indicators of economic development, such as the size and purchasing power of a country’s middle class, educational attainment, science and technology capabilities, and corporate and financial strength.⁸² These latter attributes are particularly the focus of Chinese leaders’ efforts to move the economy up the value chain, suggesting that they do not view economic size alone as placing the country in the top bracket.

How to translate these various indicators into an analysis of power distribution is hugely contested. For realist theorists of international relations, aggregate economic size tends to be a key indicator, with John Mearsheimer, for example, seeing it as part of a good proxy for *latent power* because of its

⁸² For a discussion of the correlation between income per capita and development indicators including education, see World Bank, *2010 World Development Indicators*, chapter 4, ‘Economy’, <http://data.worldbank.org/sites/default/files/section4.pdf>. Andrés Solimano, an economist with the United Nations Economic Commission for Latin America and the Caribbean, among others, has noted a positive but non-linear correlation between per capita income and middle class size/purchasing power. Andrés Solimano, ‘The Middle Class and the Development Process: International Evidence’, 2008, http://andressolimano.com/articles/inequality/The%20Middle%20Class%20and%20the%20Development%20Process%20PAPER%20%20_July%2008,%202008_.pdf.

ability to generate spending on the military and other material capabilities, which are at the heart of his conception of power.⁸³ On the other hand, liberal theorists see economic interdependence as a constraint on conflict, with the assumption that increasing trade and investment relations between China and other powers will minimize the risk of war.⁸⁴

From the point of view of state power, economic strength is of a fundamentally different nature to military or diplomatic influence: economic and commercial influence rarely lies more than indirectly in the hands of governments. The nature of regionalization in Asia bears this out, as complex transnational networks are not easily susceptible to influence by any single government.

Regional economic interdependence

Looking at economic strength from a global or regional perspective is also useful here. One of the features of the development of many Asian economies since the middle of the 20th century has been their interconnectedness and integration into regional or global production networks. This began in the 1960s with the growing expansion of manufacturing into the region by Japanese corporations, responding to cost pressures and labour shortages at home, and facilitated by the establishment of export-processing zones in Kaohsiung, Taiwan in 1965 and Masan, South Korea in 1970. The governments of Indonesia and Malaysia were keen for greater foreign investment, though the success of these two countries, and of Thailand, was limited. The success of Hong Kong, Singapore, Taiwan and South Korea led to talk of the ‘four dragons’ or ‘tiger’ economies. A further phase of industrial restructuring in Japan in the 1970s – again in response to competitive pressures (including appreciation of the yen) – led to the consolidation of production networks in parts of the Asia-Pacific. By the end of the 1970s, Japan was the largest foreign investor across most of East Asia, though Japanese firms retained the key value-added parts of manufacturing processes and held on to technology and management know-how.

The Plaza and Louvre accords of 1985 and 1987 on the evolution of exchange rates, especially between the dollar and the yen, brought challenges to Japan by raising the relative prices of its exports, but it was probably the opening up of China in the 1980s that had the more significant impact on East Asian production networks. This was initially limited to locations along China’s coast, based on their low cost and productive labour as well as a supportive regulatory environment. The accompanying foreign investment helped China’s economic and social transformation, which translated into economic size, though the government was only able to extract technology from foreign investors slowly. While there remains significant variation across sectors, with technology and agriculture being two in which China has attained a reasonable standard of innovative capacity, in general terms China remains at a low to medium level in the international division of labour. At least until recently, the dominant model was assembly in China of components produced in other Asian countries using capital from the United States, Europe and Japan. This makes China vulnerable to price competition from other emerging markets, and limits its industrial policy options in the event of a shift in production to other countries.

This may be beginning to change. In terms of consumption, China’s economic influence is becoming more significant: the size of its market and projected growth in its middle class are among the factors

⁸³ John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York, NY: Norton, 2001).

⁸⁴ The argument here is fundamentally based on rationality and economic self-interest. The material stakes associated with deepening economic contact are so high that they will, ultimately, discourage rational leaders from risking these interests by engaging in conflict. One of the earliest expressions of this argument was Norman Angell’s *The Great Illusion* (1909), in which he argued that the complexity of financial interdependence made war between nations increasingly unlikely – a claim that, in light of the outbreak of the First World War five years after the publication of his work, was especially ironic.

here. And growing Chinese outward investment into other parts of Asia, particularly ASEAN, creates a certain amount of leverage as well as vulnerabilities to China among some of the smaller states.⁸⁵

Trade and investment in the Asia-Pacific: the China factor

It is in trade and investment flows with China that the single biggest shift in economic influence in the region has been seen. As Table 4 shows, in most markets in the region China is the largest or close to being the largest exporter and importer.

**Table 4: Trade between China and other Asia-Pacific markets, 2013
(China’s rank as trading partner, share of partner market’s total exports/imports)**

| Country | Exports to China | | Imports from China | |
|-------------|------------------|------|--------------------|------|
| | Rank | % | Rank | % |
| Brunei | 9th | 2.8* | 2nd | 22.1 |
| Cambodia | 11th | 2.2* | 2nd | 28.3 |
| India | 3rd | 4.7 | 1st | 11.0 |
| Indonesia | 2nd | 12.0 | 1st | 16.0 |
| Japan | 2nd | 18.1 | 1st | 21.7 |
| Laos | 2nd | 25.1 | 2nd | 26.1 |
| Malaysia | 1st | 14.2 | 1st | 17.0 |
| Myanmar | 2nd | 24.5 | 1st | 40.0 |
| North Korea | 1st | 76.0 | 1st | 78.0 |
| Philippines | 3rd | 12.1 | 2nd | 15.0 |
| Singapore | 2nd | 11.8 | 1st | 11.7 |
| South Korea | 1st | 26.1 | 1st | 16.1 |
| Taiwan | 1st | 27.1 | 2nd | 16.1 |
| Thailand | 1st | 11.9 | 2nd | 15.0 |
| Vietnam | 2nd | 11.8 | 1st | 32.0 |

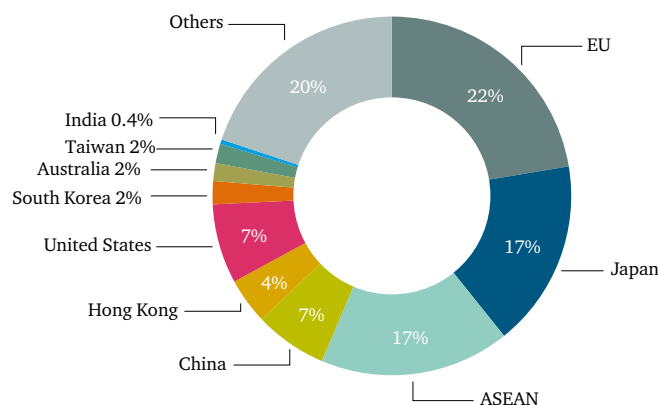
* Figures are from 2012 and found at The Observatory of Economic Complexity, <https://atlas.media.mit.edu/en/>, accessed 5 August 2015. Source: CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>, accessed 5 August 2015.

Chinese firms are significant traders across Southeast Asia, although, as Table 4 shows, in aggregate China dominates more as a source of imports than as a market for exports. In 2013 it was the largest export partner for five states but the largest import partner for nine. China’s growing focus on the region has been a major factor in the increase in inter-regional trade across Asia, with Hong Kong, Japan and South Korea as its second-, third- and fourth-largest export markets. Nevertheless, the United States remains a larger market for exports for Cambodia, the Philippines, Japan, Vietnam and India.

Inter-regional FDI has also developed rapidly in the 21st century, although China has been less dominant in this sphere, with Japan playing a much larger role (See Figure 5). FDI inflows into ASEAN between 2011 and 2013 were highest from the European Union, accounting for 22.4 per cent of the total. The second-largest source of FDI was Japan (just over 17 per cent), followed by ASEAN itself (17 per cent). China and the United States each provided around 7 per cent.

⁸⁵ In 2014 alone, China pledged \$20 billion to Southeast Asia in loans, on top of the \$3 billion China-ASEAN Investment Cooperation Fund. Shannon Tiezzi, ‘China Offers \$20 Billion in Loans to ASEAN’, *The Diplomat*, 14 November 2014, <http://thediplomat.com/2014/11/china-offers-20-billion-in-loans-to-asean/>.

Figure 5: FDI inflows into ASEAN, as % of total, 2011–13



Source: ASEAN, 'Foreign Direct Investment Statistics', <http://www.asean.org/news/item/foreign-direct-investment-statistics>, accessed 13 March 2015. Note: due to rounding the figures add up to 100.4 per cent.

Economic power and regional institutions

Regional institutions have become a part of the negotiation of economic relationships across the Asia-Pacific as they have grown in number since the end of the Cold War. Their role has been brought to the fore following the US rebalancing towards Asia, and the subsequent drive to finalize negotiations and complete the Trans-Pacific Partnership (TPP).⁸⁶ The latter took the form of the reinvigoration of an existing, but quiescent, institution and its expansion under US direction. There are a number of remaining challenges to the negotiations, including (but not limited to) differences on automobiles, agriculture, pharmaceuticals and the restructuring of state-owned enterprises in some states. President Obama's struggles to get Trade Promotion Authority from Congress slowed the process on TPP, but with its passing in June there is some hope a deal can be concluded by the end of the year and the start of the US electoral cycle.

The notable exclusion from the TPP is China, ostensibly on the grounds that it does not meet the relevant standards, such as those regarding state-owned enterprises (though Vietnam was included despite having similar deficiencies in many areas). This has prompted China to suspect that the TPP is part of an attempt to contain it strategically or to reduce its economic influence. The initial Chinese response was hostile, though there has since been a shift in position, suggesting China could join in due course.

China has also led the promotion of alternative institutions, including the Regional Comprehensive Economic Partnership (RCEP). The standards here are lower, compensated for by greater inclusiveness, extending to the 10 ASEAN countries and the six Asian states that made up the original East Asia Summit grouping. China has a reasonably strong role, though with 16 members including Japan and India it is unlikely that it would dominate the institution.

There are other regional multilateral or plurilateral institutions focused on trade. Talks about a China–South Korea–Japan free-trade area have effectively stalled owing to political tensions, though the

⁸⁶ The TPP currently includes 12 members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

China–South Korea free-trade area has gone ahead.⁸⁷ The creation of the China-led AIIB adds to this, with several European states signing up to join, likely to be followed by many Asian ones (with the possible exclusion of Japan).

The future

There are considerable uncertainties over the economic future of the region, including over such issues as continued US growth and changing trade and investment patterns. However, four principal issues could have significant implications for the distribution of economic power in the region.

The first is the trajectory of China's economy, and the associated environmental and social challenges brought by its development. China has gone from economic growth averaging 10 per cent since 1978 to an official figure of 7.4 per cent in 2014.⁸⁸ Growth for 2015 is forecast at around 7 per cent, although many expect the true figure to be lower.⁸⁹ The challenges for the Chinese economy range from fiscal sustainability to industrial overcapacity, risks of a slump in the property market and the need to address worsening environmental issues, in particular air and water quality.

The second notable uncertainty is the future of the TPP. If it is achieved in the coming years, as many believe it will be, it will provide a strong architecture and incentive to promote trade and investment among its members. This too could have an impact on regional dynamics and leverage, and remedy some current vulnerabilities that arise through the current high dependence of countries on China.

The third factor that could change the economic balance within the region is Japanese policy. Since becoming prime minister in 2012, Shinzo Abe has focused on reforming the economy. This has been based on the three policy 'arrows' of fiscal stimulus, monetary easing and structural reform. These have been combined with an effort to combat deflationary trends, which has had mixed results.

In the autumn of 2014 Japan slipped into its fourth recession since 2008, and with the jury still undecided on the prospects for the success of 'Abenomics', particularly the more contentious and potentially intractable structural reforms that represent the third 'arrow', it is unclear whether Abe will have the financial resources and political space at home to pursue his more ambitious economic and foreign policy agenda. In this context, the success of the TPP negotiations is likely to be a decisive factor. The electoral victory of Abe's Liberal Democratic Party in December 2014 has given him new domestic political strength, which may enable him to combat vested interests in his own party and deliver an agreement with the United States and other partner countries in the TPP talks in 2015. This may bode well for further liberalization and long-term economic reform, promoting growth at home that would play meaningfully into regional dynamics over the long term, but the outcome is by no means assured.

⁸⁷ These discussions have largely stemmed from the annual trilateral summit held between China, Japan and South Korea since 2008, which focuses on maintaining strong international relations, the global economy and disaster relief. The summit was institutionalized in September 2011 by the creation of the Trilateral Cooperation Secretariat, located in Seoul, with departments encompassing political, economic and socio-cultural affairs. Trilateral Cooperation Secretariat, http://www.tcs-asia.org/dnb/user/userpage.php?lpage=3_1_1_tc_intro.

⁸⁸ World Bank, 'GDP growth (annual %)', <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/CN?display=default>, accessed 10 March 2015.

⁸⁹ Mark Magnier, 'China Lowers Growth Target to About 7%', *Wall Street Journal*, 4 March 2015, <http://www.wsj.com/articles/china-lowers-growth-target-to-about-7-1425515032>.

Fourthly, a note must be made concerning India's economy, currently the ninth-largest in the world. Some forecast that in 2015 it will grow faster than China.⁹⁰ While it has stagnated over the past five or so years, returning to the 5–6 per cent 'Hindu' rate of growth, the economy has shown a notable and sustained bounce since the formation of Narendra Modi's government in 2014. Its first full budget offered small positive steps, for instance by easing international investment limits (e.g. in insurance) and boosting predictability in regulatory enforcement and taxation. While a major rebound is not anticipated, a steady strengthening of the economy is likely in the coming years, which could make India a more attractive destination for investment and a much more active regional investor, again changing the regional dynamics. The symbolism of India becoming the fastest-growing emerging economy should not be discounted.

Demographics

Demographics play a significant role in projecting power, both directly (e.g. raw number of troops, size of GDP) and indirectly (through such issues as the size of markets, social spending etc.). As with the economy, there are a number of important demographic indicators and trends, including the size and growth of the population, and its age distribution.

Table 5: Total population (millions)

| Country | 2010 | 2011 | 2012 | 2013 |
|---------------|---------|---------|---------|---------|
| China | 1,337.7 | 1,344.1 | 1,350.6 | 1,357.3 |
| India | 1,205.6 | 1,221.1 | 1,236.6 | 1,252.1 |
| Japan | 127.4 | 127.8 | 127.5 | 127.3 |
| United States | 309.3 | 311.5 | 313.8 | 316.1 |
| Indonesia | 240.6 | 243.8 | 246.8 | 249.8 |

Source: World Bank.

China and India have by far the largest populations in the region (approximately 1.36 billion and 1.25 billion respectively), with India's predicted to surpass China's by 2025.⁹¹ Japan and the United States trail far behind at 127 million and 316 million respectively. However, growth trends are divergent. As Table 5 indicates, Japan's population is shrinking while the populations of the United States and China continue to grow but at a slower rate than those of India and Indonesia.

The size of China's and India's populations has positive consequences for them, particularly with regard to market forces and potential for military size. However, high levels of poverty, particularly in India, counteract the first of these. In 2011, 23.6 per cent of the Indian population was living on \$1.25 a day or less, while in China that figure was 6.3 per cent.⁹² The size of the middle class, however, is likely a better proxy for market size and in this respect the four countries are more closely aligned. By 2030, two-thirds of the world's middle class is forecast to be in the Asia-Pacific;

⁹⁰ IMF, World Economic Outlook Update, July 2015, <http://www.imf.org/external/pubs/ft/weo/2015/update/02/pdf/0715.pdf>.

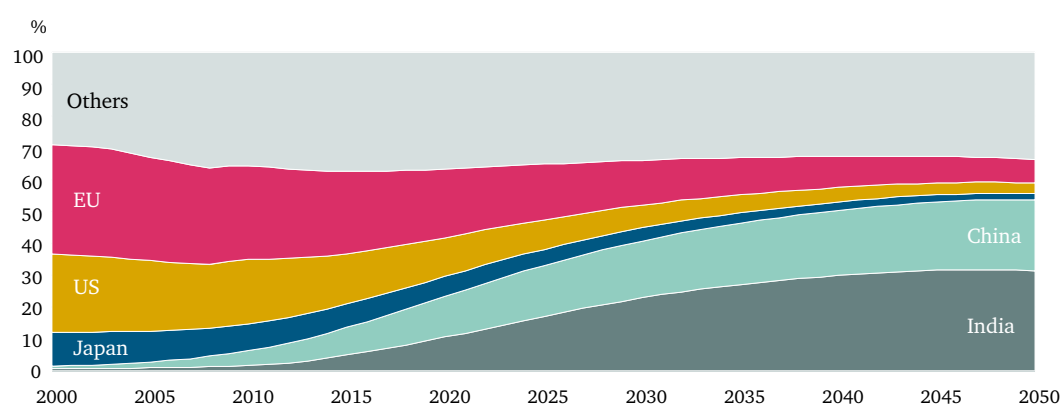
⁹¹ US Census Bureau, <http://www.census.gov/population/international/data/countryrank/rank.php>, accessed on 18 September 2015.

⁹² Both figures are from the World Bank Poverty & Equity Data. Data for China available at <http://povertydata.worldbank.org/poverty/country/CHN> and for India at <http://povertydata.worldbank.org/poverty/country/IND>.

China will add 200 million people to its middle class by 2026, on top of the 300 million added since the 1980s.⁹³

The impact of this growing middle class will not only be economic. Governments across the region will face greater political challenges in meeting the aspirations of their citizens as wealth grows. The extent to which they can be given more political space – especially in China, where this is particularly limited – will not only have implications for domestic politics, but also for the way these countries speak to and influence the rest of the world.

Figure 6: Shares of global middle-class consumption, 2000–50



Source: OECD Development Centre, <http://www.oecd.org/dev/44457738.pdf>, accessed 1 July 2015.

The future

China's population is ageing, and the one-child policy means that it will start declining in a little over a decade. The population is projected to peak at around 1.437 billion in 2026.⁹⁴ A smaller population may be positive economically, in particular for the sustainable use of resources and in dealing with water shortages. Age distribution presents the main challenge, however, with a rising burden on the state and on families to support the growing proportion of the population aged 65 and over.⁹⁵ China currently has 106 men for every 100 women, which some believe could lead to increased sexual violence, crime and social instability.⁹⁶

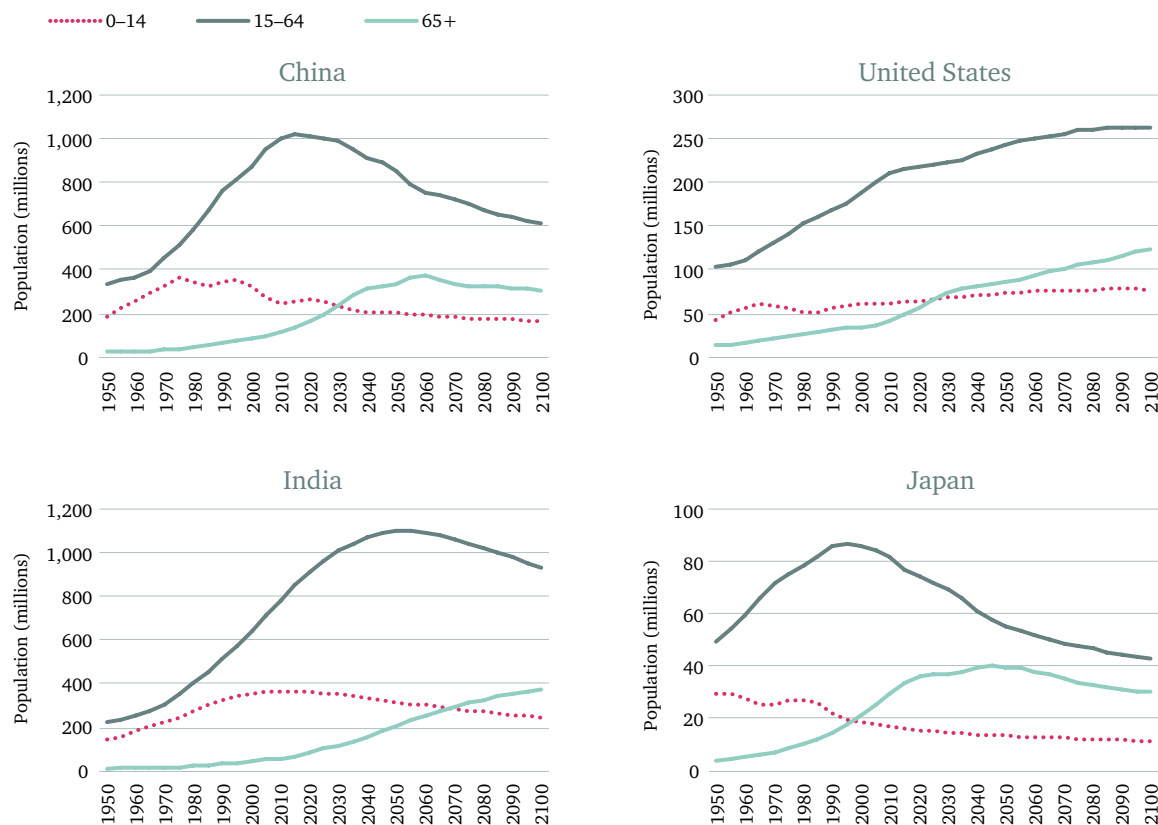
⁹³ Jeffrey Towson and Jonathan Woetzel, 'All you need to know about business in China', McKinsey, April 2014, http://www.mckinsey.com/Insights/Winning_in_Emerging_Markets/All_you_need_to_know_about_business_in_China?cid=other-eml-alt-mip-mck-oth-1404.

⁹⁴ This is the UN's 2012 update using data that assume constant fertility. Changes to family planning policy since then, and any further changes in the future, could alter these calculations. Data available at United Nations Department of Economic and Social Affairs (UNDESA), <http://esa.un.org/wpp/Excel-Data/population.htm>, accessed on 18 September 2015.

⁹⁵ Population Reference Bureau, 'China's Rapidly Aging Population', <http://www.prb.org/pdf10/todaysresearchaging20.pdf>, accessed 1 May 2015.

⁹⁶ UNDESA, *World Population Prospects: The 2015 Revision*, http://esa.un.org/unpd/wpp/Publications/Key_Findings_WPP_2015.pdf, accessed 17 September 2015. Tania Branigan, 'China's great gender crisis', *Guardian*, 2 November 2011, <http://www.theguardian.com/world/2011/nov/02/chinas-great-gender-crisis>.

Figure 7: Age distribution over time by country



Source: United Nations Department of Economic and Social Affairs, Population Division, Populations Estimates and Projections Section, <http://esa.un.org/wpp/Demographic-Profiles/index.shtml>, accessed 12 February 2015.

While India’s population also has a gender disparity (108 men for every 100 women), this is expected to decrease much more quickly than in China.⁹⁷ India also has an average age today of 27 years (against China’s 36.7, America’s 37.6 and Japan’s 46.1), and thus has many years of demographic dividend ahead of it.⁹⁸ However, this will eventually reverse when its current youth bulge reaches retirement.

With one of the oldest populations in the world, Japan faces significant demographic challenges. It is not yet dealing with this growing problem. Cultural aversion to immigration and low birth rates make it hard to reverse the current decline. And, in many parts of the government there is still a lack of acknowledgment of the dilemma (at least in public).

While the United States’ fertility rate of 1.86 births per woman (in 2010) is below the replacement rate of 2.1 births, the country has a young population. This is in large part due to high levels of immigration from many countries, including from those in Asia.⁹⁹ In particular, the brain drain from Asia to the United States remains strong. For example, despite official efforts to retain well-educated citizens in

⁹⁷ UNDESA, *World Population Prospects: The 2015 Revision*.

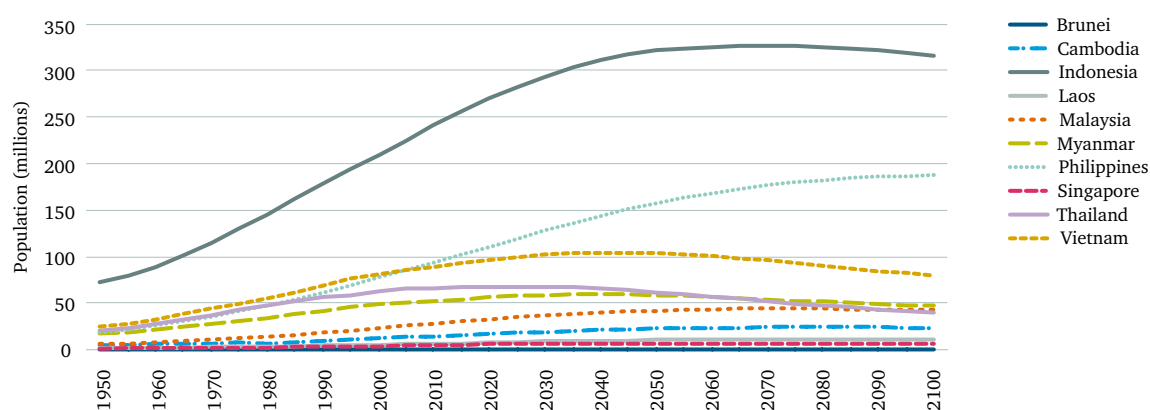
⁹⁸ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/rankorderguide.html>, accessed 17 February 2015.

⁹⁹ US Department of Health and Human Services, ‘Births: Final Data for 2013’, http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf, accessed 6 March 2015. The immigration rate is 2.45 per 1,000 population, CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2112rank.html>, accessed 5 March 2015. This gives the United States an overall population growth rate of 0.77 per cent, CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>, accessed 5 March 2015. By contrast, the total fertility rate is 1.7 for China, 2.5 for India and 1.4 for Japan. World Bank, ‘Fertility rate, total (births per woman)’, 2012 estimates, <http://data.worldbank.org/indicator/SP.DYN.TFRT.IN>, accessed 6 March 2015.

China, such as through the ‘Thousand Talent Programme’, 64 per cent of wealthy Chinese surveyed suggested they were emigrating or planning to do so within one year.¹⁰⁰ Given the United States’ strong tertiary education system and openness to business and entrepreneurship, there is no reason to believe that this brain drain will reverse any time soon.

Finally, looking to the future, one also has to consider the growing role that demographics will play for Indonesia. Its population is nearly double that of Japan and could come to surpass that of the United States in the coming decades. While many other factors will determine whether Indonesia becomes an important actor in its own right rather than as part of ASEAN, its size already gives it a seat at the table. As for ASEAN, from an economic perspective alone, its population of over 600 million represents a significant market.

Figure 8: Population size of ASEAN members, 1950–2100



Source: UN Population Division, <http://esa.un.org/unpd/wpp/Graphs/>, accessed 1 June 2015.

Partnerships, alliances and networks

Anne-Marie Slaughter has argued that a country’s integration in networks is a measure of its power and that, by this standard, the United States remains in an extremely strong position.¹⁰¹ The ability to build coalitions of support can significantly augment a country’s ability to promote its interests regionally and globally. This is tangible in areas such as the imposition of sanctions, the use of the military or the provision of development assistance. It is also relevant to building support for common norms and standards.

Thus the number and depth of partnerships are vital measures of the power that a state can project. Given the high and rising number of partnerships, formal and informal, that have emerged in Asia, particularly in the past decade, this could play a significant role in the Asia-Pacific power distribution. However, there are significant variations in the strength of these different alliances, partnerships and strategic relationships.

¹⁰⁰ Zarina Banu, ‘Plugging China’s talent pool’, CNN, 20 March 2014, accessed 6 August 2015, <http://edition.cnn.com/2014/03/20/world/asia/china-brain-drain/>.

¹⁰¹ Anne-Marie Slaughter, ‘America’s Edge: Power in the Networked Century’, *Foreign Affairs*, January/February (2009).

Building alliances or partnerships can be a useful way for a state to address gaps in its capabilities, but dependence on other actors can also lead to greater uncertainty and vulnerability. Economic interdependence means that the weaknesses and shortcomings of one or more partners can easily affect the strength and resilience of a state (e.g. through financial contagion or the negative impact of fiscal contraction, as the 1997–98 Asian financial crisis and the 2008–09 financial crisis in the West made clear). Dependence on another country’s military capabilities can lead similarly to gaps in one’s own strategic resources, something of concern in particular to Japan and South Korea, given their heavy reliance on the US military. Furthermore, the existence of alliances can lead to increased perceptions by states outside them that they are their targets. This dynamic underpins the so-called ‘Thucydides trap’, an early variant of the classic security dilemma, in which a status quo power increasingly comes into conflict with a rising power. The perceived need to shore up alliances to deal with the emerging power fosters uncertainty on the latter’s part, which leads it in turn to build up its own military capabilities, prompting an ever more destabilizing arms race.

Some Japanese leaders are increasingly concerned about the reliability of the United States as an ally. This has prompted a more proactive foreign and security policy that has made some countries in the region nervous about Japan’s long-term intentions.

Japan has made a significant effort in recent years to build informal strategic partnerships with other regional powers, in particular India and Australia. However, relations between Japan and some of its neighbours, most notably China and South Korea, have become more tense over the past two years – a function of territorial disputes, revisionist debates over Japan’s actions during the 1930s and 1940s, and the perception that rising popular nationalism is increasingly fuelling elite-level politics in China, Japan and South Korea. At the same time, some Japanese leaders are increasingly concerned about the reliability of the United States as an ally. This has prompted a more proactive foreign and security policy that has made some countries in the region nervous about Japan’s long-term intentions.

While forswearing formal bilateral alliances, India since 2005 has built closer partnerships with other powers in the region and beyond, while maintaining its long-term position as a leader of the Non-Aligned Movement. Along with Japan, India has built a stronger relationship with Australia and, while eschewing a formal alliance, it has developed stronger defence engagement with the United States.¹⁰² More recently, Prime Minister Modi has shown a clear interest in building closer relationships (albeit with a focus on economic investment) with Japan, the United States and China in particular. He has also reached out to other regional actors, notably inviting all South Asian powers (along with representatives of the Dalai Lama) to his inauguration.

America’s long-standing ‘hub and spokes’ model of alliances in Asia is steadily being replaced by stronger links between its allies and a broader latticework of alliances, which it is promoting with mixed success.¹⁰³ However, the United States remains the most networked power in the region, in part due to the legacy of the Cold War and the strong cultural ties it has had with the region since the 19th century, as well as its extensive military installations network and treaty obligations. This is also supported by its distance from the region, which makes it a power with no territorial

¹⁰² In early 2015, Prime Minister Modi and President Obama renewed the 10-year Defence Framework Agreement put in place by their predecessors.

¹⁰³ In particular, the United States has focused on trying to strengthen the Indo-Japanese relationship with some success, and the Japanese–South Korean one with much less.

ambitions there. China's perceived assertiveness from 2010 onward has been informally described by American officials as the most effective 'diplomat' for the United States, prompting some smaller regional actors to engage more closely with the United States. However, while America's regional rebalancing (diplomatically, economically and militarily) is deepening and broadening relationships with its allies and partners, there are many doubts in the region over whether this policy is genuine and substantive. As a result, there is an increasing sense on the part of some partners (such as Japan and South Korea) that the United States is a less reliable ally than in the past.

There is a strong theme in Chinese thinking about international relations that current US alliances are not beneficial to regional security. China pursues a non-alliance policy and has had an 'independent foreign policy' at least since the Sino-Soviet split in 1960. However, over the years there have been discussions among Chinese foreign policy scholars as to whether this should be reviewed. For example, Yan Xuetong has observed that 'if China wants to be a world power and play the role of the leading power then China has to make alliances. Without alliances you can never have close relations with other countries, and certainly can never have more good friends than the US'.¹⁰⁴ This suggestion has not been turned into policy, and at the major Communist Party meeting on foreign policy in November 2014 President Xi may have closed off that debate for some time by saying that China 'should make more friends while abiding by the principle of non-alignment and build a good network of partnership [sic]'.¹⁰⁵

This concept of partnership has been increasingly utilized in diverse ways in Chinese diplomacy, with a growing number of 'comprehensive' and 'strategic' partnerships agreed with countries and multilateral institutions across the globe (the impacts of which are not yet clear).¹⁰⁶ China also has a small number of historically close relationships. It signed a Treaty of Friendship, Co-operation and Mutual Assistance with North Korea in 1961, and the country remains China's only formal alliance partner, though the relationship has come under increased strain since Kim Jong-un came to power in 2011. China's long-standing 'all-weather friendship' with Pakistan has also been somewhat diluted by more nuanced Chinese diplomacy in South Asia. Among the Southeast Asian countries, Cambodia is probably the one with which China has the strongest relationship, though its formal status is no different from that of other strategic partners. In practical terms, while these partnerships could provide some level of diplomatic support for China, the military or economic leverage emanating from them – rather than from any coincidence of interests in response to a particular challenge – would be minimal.

Regional institutions

Over the past decade, there has been a proliferation in formal and informal regional forums in the Asia-Pacific. Most notable was the establishment of the EAS in 2005 and the various spin-offs of ASEAN (ASEAN+1, ASEAN+3, Defence Ministerial, ARF). Some more established groups have also expanded their membership, and a significant number of new informal plurilateral groups have been established.

These institutions are principally venues for debate rather than action. Their impact is limited in large part by the desires of the member states not to make concessions over sovereignty. However, they have

¹⁰⁴ Yan Xuetong on Chinese Realism, the Tsinghua School of International Relations, and the Impossibility of Harmony', Theory Talks, No. 51, 28 November 2012, <http://www.theory-talks.org/2012/11/theory-talk-51.html>.

¹⁰⁵ 'Xi eyes more enabling int'l environment for China's peaceful development', Xinhua, 30 November 2014, http://news.xinhuanet.com/english/china/2014-11/30/c_133822694.htm.

¹⁰⁶ By mid-2014 China had entered just under 50 'strategic partnerships' (India had over 20 and the EU 10). Feng Zhongping and Huang Jing, 'China's Strategic Partnership Diplomacy: Engaging with a Changing World', ESPO Working Paper 8, June 2014, <http://www.egmontinstitute.be/wp-content/uploads/2014/06/WP-ESPO-8-JUNE-2014.pdf>.

proved useful, from the perspectives of the participants at least, as forums in which to broach sensitive issues (such as an agreement to negotiate a code of conduct for the South China Sea). Their influence can be measured by the efforts that states make to avoid consensus decisions in these groups. A clear example of this was China's strong diplomatic pressure on all member states, but particularly on Cambodia, to prevent a joint statement coming out of the 2012 ASEAN meeting related to the South China Sea.¹⁰⁷

As set out in the 2014 Chatham House report, *Asia-Pacific Security: A Changing Role for the United States*, these networks act like a 'sponge' for soaking up and potentially resolving tensions between regional actors.¹⁰⁸ They overlap and, to some degree, compete with one another. They also have the benefit of binding members to norms and standards, although with the consequence of at times alienating and raising tensions with non-members.

The EAS has proved a useful venue for discussing security issues (not least as its membership includes most of the major powers – the United States, China, India and Japan), as has APEC for economic issues. ASEAN with its attendant organizations has also proved a long-standing and valuable institution to its members, and the major powers – China, India, Japan and the United States – have all created mechanisms through which they can work with it.

The proliferation of new institutions has pros and cons that play out differently for the states concerned under various circumstances. While, as stated above, they are generally positive for the region in potentially restricting the actions of some states through the creation of norms or processes of arbitration, not all states benefit equally from them. Southeast Asian states have tended to gain more by coalescing into institutions and combining their power. Radical change is made more difficult by these institutions' emphasis on gradual, consensus-based decision-making. But they can also be mechanisms through which larger powers can exert influence, as China and Russia have done in the SCO, and China hopes to do in the AIIB.

Diplomacy

Diplomacy, as an ingredient of soft power, is important principally as a tool to build the relationships described above and to reinforce accepted or developing norms, or to develop new ones. The importance that each of the powers in the region attaches to traditional diplomacy, and the size (and thus reach) of each country's diplomatic force, vary significantly.

While some countries have actively and enthusiastically embraced new international initiatives and norms, others have historically been inclined to see these as unduly constraining, limiting their sovereignty and autonomy, and undercutting their ability to promote their national interests.¹⁰⁹ It is often the case that the smaller and ostensibly less powerful states fall into the former category and the larger into the latter. For example, many in the United States (particularly in the Republican Party) resist any efforts to limit American sovereignty and independence of action. They see international or regional agreements as restrictive. China and India often take similar approaches. However, historically agreements such as those that emerged from the Bretton Woods process have provided

¹⁰⁷ 'Asean nations fail to reach agreement on South China Sea', BBC News, 13 July 2012, <http://www.bbc.co.uk/news/world-asia-18825148>.

¹⁰⁸ Dormandy with Kinane, *Asia-Pacific Security*, pp. 26–27.

¹⁰⁹ China, for example, has in recent decades been torn between the prestige of involvement with UN peacekeeping, and concerns over the lack of importance given to state consent for certain operations. Rosemary Foot, "Doing some things" in the Xi Jinping era: the United Nations as China's venue of choice', *International Affairs*, 90:5 (2014), pp. 1085–1100.

a valuable architecture for global engagement on economic and other issues. So, too, have the norms and regulations put in place by many of the nuclear non-proliferation regimes such as the Non-Proliferation Treaty and Comprehensive Test Ban Treaty. Of particular concern to the region, and notably to some Southeast Asian countries given military confrontations in the South China Sea over the past five or so years, is the limited agreement on norms of maritime behaviour (a code of conduct is still being negotiated) and differing interpretations of the UN Convention on the Law of the Sea.

America's diplomatic force is among the largest in the world, with approximately 13,000 employees.¹¹⁰ Since the George W. Bush administration there has been a realignment of diplomatic resources away from the West towards Asia in particular – for example, during his administration the United States became the first non-ASEAN country to appoint an ambassador to ASEAN.¹¹¹ This trend has been maintained as part of President Obama's rebalancing towards the region. However, there is some concern over whether the focus on Asia will be sustained in the future, particularly as developments in the Middle East and Europe continue to require US attention.

Since the George W. Bush administration there has been a realignment of diplomatic resources away from the West towards Asia in particular ... This trend has been maintained as part of President Obama's rebalancing towards the region.

China's diplomatic service, with around 4,000 officers, is capable and professional (not least in language skills).¹¹² The main challenge it faces is that it does not rank highly in the state bureaucratic hierarchy. Unlike in many other countries, where the foreign minister is one of the most senior members of government, China's is one of the 204 full members of the Communist Party's Central Committee but does not rank particularly highly among them. State Councillor Yang Jiechi, responsible for foreign affairs, Taiwan and Hong Kong/Macau, who was previously foreign minister, is senior to Foreign Minister Wang Yi. Yang does not sit in the 25-member Politburo either, meaning that there are several party, government and military figures senior to him whose portfolios include some responsibilities relating to foreign policy. This is reflected throughout the bureaucracy in numerous functions dealing with foreign affairs (taken as being broader than foreign policy). When it comes to external security and defence policy, the influence of the military is probably the strongest. The post-2012 leadership has hinted that foreign policy coordination needs improving, and there is a consensus view that under President Xi foreign and security policy has become more centralized and better coordinated, including with respect to the military.¹¹³ The leadership has established a National Security Commission, and it is here and with the top leadership that China's diplomatic power resides.¹¹⁴

¹¹⁰ US Department of State, 'Mission', <http://careers.state.gov/learn/what-we-do/mission>.

¹¹¹ Mark E. Manyin et al., 'Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia', Congressional Research Service, 28 March 2012, <http://fpc.state.gov/documents/organization/187389.pdf>.

¹¹² 'The Arabic-speaking officials in Beijing are meanwhile part of a deliberate government strategy to build bridges with the Arab world. Language is the hidden glue to relations.' Ben Simpfendorfer, *The New Silk Road* (Basingstoke: Palgrave Macmillan, 2011), p. 140.

¹¹³ A number of events suggested the lack of coordination prior to 2012, including, for example, the timing of the testing of a stealth fighter in 2011 just before the visit of then-defence secretary Robert Gates. Elisabeth Bumiller and Michael Wines, 'Test of Stealth Fighter Clouds Gates Visit to China', *New York Times*, 11 January 2011, http://www.nytimes.com/2011/01/12/world/asia/12fighter.html?_r=0. There are, though, differing views among China watchers on this incident. More recently, there have been Sino-Indian disputes over whether Chinese troops had crossed the Line of Actual Control immediately prior to the government receiving India's Vice-President Hamid Ansari in Beijing: 'Chinese troops entered India before V-P's Beijing visit', *Hindustan Times*, 28 June 2014, <http://www.hindustantimes.com/india-news/india-china-in-speedboat-face-off-days-before-panchsheel-party/article1-1234440.aspx>.

¹¹⁴ The 'Leading Group on Foreign Affairs', chaired by Xi Jinping and on which Yang and Wang sit, has in the past been the main coordinating body on foreign policy.

India, with a population of 1.25 billion, has a diplomatic force of approximately 5,000 – similar in size to Singapore’s, which has a population of 5 million.¹¹⁵ It has been held back, in part, by its leadership of the Non-Aligned Movement that provided the strategic guidance for its foreign policy since 1961. This has begun to change over the past decade as India has developed a more strategic and independent foreign policy. However, the small size of its diplomatic force will continue to limit its reach and impact. Since Prime Minister Modi took office, the diplomatic service has been further restricted by his tight control over decisions, a tendency all the stronger in the foreign policy domain since Minister for External Affairs Sushma Swaraj is a political rival. However, there have been signals that the government finally intends to increase the size of the diplomatic force in line with its belief in the importance of India’s role in the region and beyond.

Japan’s foreign policy is formally the preserve of the Ministry of Foreign Affairs (*Gaimusho*), traditionally a relatively weak bureaucratic actor within the government in terms of budgetary allocations and number of personnel. In the past, it has had to compete for influence with the powerful Ministry of Economy, Trade and Industry and Ministry of Finance. In recent years, important institutional changes, including the upgrading of the Japan Defence Agency (*Boeisho*) to full ministerial rank in 2006 and the establishment in 2013 of a National Security Council, have further constrained the ministry’s influence in the foreign and security policy realm. Added to this has been the gradual enhancement of prime-ministerial power, a function of measures to boost the decision-making authority of the prime minister’s office (*Kantei*) and of the increasing personalization of political leadership.

Development and humanitarian assistance

Development assistance has historically played an important role in the Asia-Pacific, but its relevance is diminishing as many countries focus instead on increasing FDI. In absolute terms the United States has, by far, the largest development assistance budget (although Japan’s is larger as a percentage of its gross national income – at 0.23 per cent to the United States’ 0.19 per cent).¹¹⁶ In 2006 the US Agency for International Development (USAID) was placed under the State Department in order to better coordinate development assistance and diplomacy and to ensure that the former was being aligned with foreign policy goals. Assistance has decreased in recent years, although development assistance, and in particular disaster assistance, continues to be important with regard to the smaller states.

¹¹⁵ ‘Can India become a great power?’, *The Economist*, 30 March 2011, <http://www.economist.com/news/leaders/21574511-indias-lack-strategic-culture-hobbles-its-ambition-be-force-world-can-india>; ‘Crisis point: Not enough diplomats in India’, *Times of India*, 30 April 2007, <http://timesofindia.indiatimes.com/india/Crisis-point-Not-enough-diplomats-in-India/articleshow/1977065.cms?referral=PM>.

¹¹⁶ Japan International Cooperation Agency, ‘Japan’s ODA’, in *Annual Report 2014* (2014), p. 14, http://www.jica.go.jp/english/publications/reports/annual/2014/c8h0vm000090s8nn-att/2014_04.pdf; OECD, ‘United States’, in *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development* (2014), p. 378, <http://www.oecd-ilibrary.org/docserver/download/4314031ec056.pdf?expires=1431100566&id=id&accname=guest&checksum=069F7B5EB675F5945CB04BA5A944D9E8>.

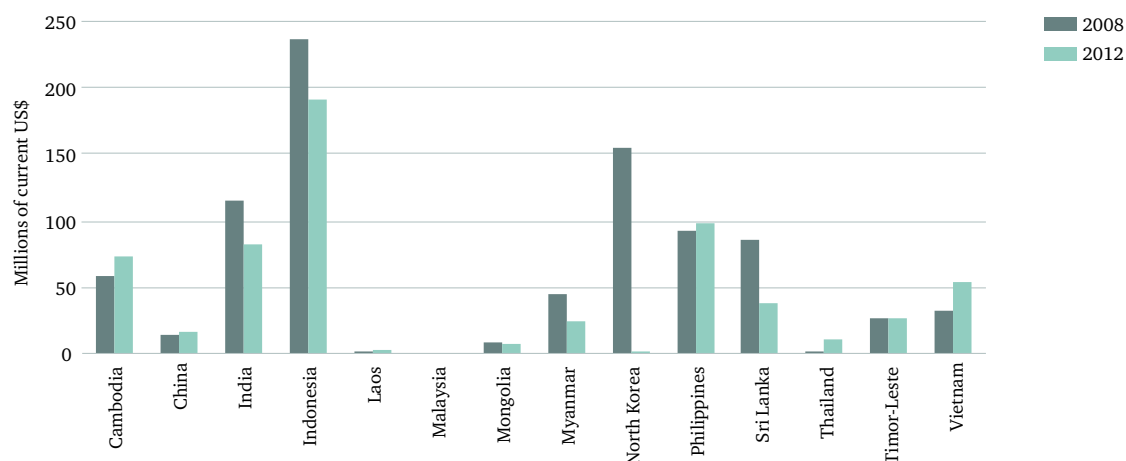
Table 6: Total overseas development assistance in 2013

| Country | Amount (\$ billions) |
|---------------|----------------------|
| United States | 30.7 |
| Japan | 10.6 |
| China | 6.6 |
| India | 1.3 |

Source: OECD, Indian government, Global Humanitarian Assistance.¹¹⁷

Although the provision of humanitarian assistance can be an effective soft-power tool, it is often provided through hard-power instruments such as the military. The US military, for example, has often engaged in humanitarian operations in the region, most notably following the 2004 Indian Ocean tsunami, and in Pakistan after the 2005 earthquake and flooding in subsequent years.¹¹⁸ The resulting improvement in perceptions of the United States, even if temporary, was significant.¹¹⁹

Figure 9: Asia-Pacific recipients of USAID funding, 2008 and 2012 comparison



Source: USAID, <https://explorer.usaid.gov/>, accessed 4 August 2015.

Japan has historically been the second-largest provider of development assistance behind the United States, spending more than \$200 billion over the past 30 years.¹²⁰ However, budgetary constraints and a decline in the value of the yen have caused it to fall to fourth-largest, overtaken by the United Kingdom and Germany. In 2013, Japan’s net development assistance spending was \$11.58 billion.¹²¹ Japan’s humanitarian assistance record is impressive, whether through its contribution to the United

¹¹⁷ See Global Humanitarian Assistance, ‘China’, <http://www.globalhumanitarianassistance.org/countryprofile/china>; and Lorenzo Piccio, ‘India’s foreign aid program catches up with its global ambitions’, Devex, 10 March 2013, <https://www.devex.com/news/india-s-foreign-aid-program-catches-up-with-its-global-ambitions-80919>. It is worth noting, however, that much of China’s official assistance is not disbursed in the form of ODA but as export credits or what is categorized as ‘other official flows’. Paul Callan, Jasmin Blak and Andria Thomas, ‘Breaking down China’s foreign aid and investment’, D. Blog, 12 April 2013, <http://dalberg.com/blog/?p=1778>.

¹¹⁸ In recent years, the US military has also been used as part of the international coalition against piracy both in the Malacca Straits as well as near the Gulf of Aden in particular; another example of providing broader public goods.

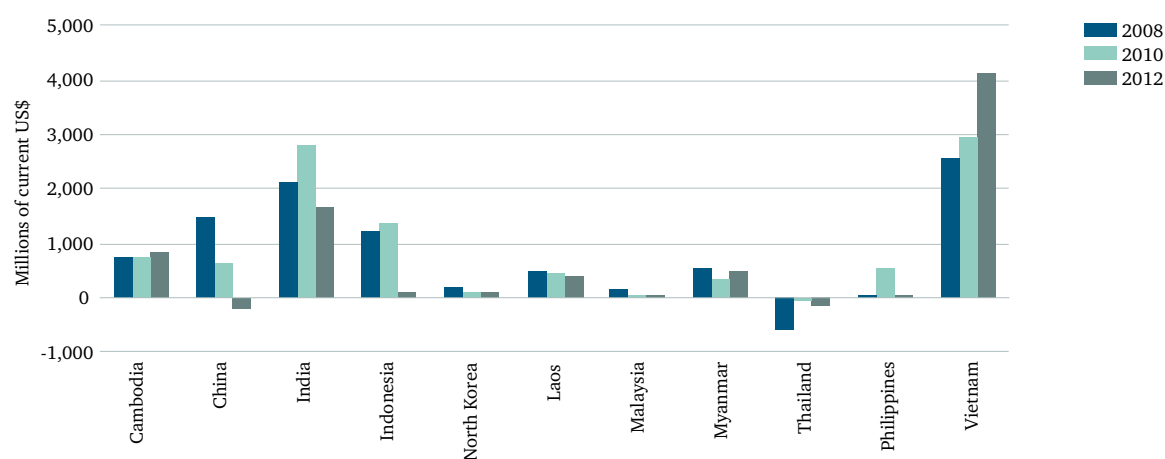
¹¹⁹ For more detailed analysis of the impact and limitations of humanitarian assistance, see Pew Global’s research on popular perceptions of the United States in Japan, Indonesia and Pakistan. Richard Wike, ‘Does Humanitarian Aid Improve America’s Image?’, Pew Research Center, 6 March 2012, <http://www.pewglobal.org/2012/03/06/does-humanitarian-aid-improve-americas-image/>.

¹²⁰ World Bank, ‘Development Assistance from Japan’, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/JAPANEXTN/0,,contentMDK:20647244~menuPK:1685924~pagePK:1497618~piPK:217854~theSitePK:273812,00.html>.

¹²¹ OECD – Development Assistance Committee, <http://www.oecd.org/dac/stats/>, accessed 13 March 2015.

Nations’ budget, where it remains the second-largest donor after the United States (though this has decreased over the past decade from 19.5 per cent to 10.8 per cent of the regular budget),¹²² or through a long history of active involvement in conflict mediation and peacekeeping in the Middle East, Africa and Southeast Asia.

Figure 10: Net official development assistance and official aid received (US\$)



Source: World Bank.

While it has historically been a long-term net recipient of development assistance, India has also been providing it since the 1940s, albeit at a far lower amount than traditional donors.¹²³ The amount of aid it provides has increased in the past decade and, under the Ministry of External Affairs, it amounted to approximately \$4.47 billion between 1993 and 2010 (albeit a significant component of this was in the form of loans rather than grants).¹²⁴ According to official figures, India has been giving more aid than it has been receiving since 2012–13.¹²⁵ Its motivations are pragmatic: aid is seen as a tool to further India’s interests, and therefore it prioritizes its neighbours in South Asia through loans, grants and technical assistance. Bhutan, for example, received 49 per cent of India’s overall development cooperation between 2000 and 2010.¹²⁶

¹²² Global Policy Forum, ‘Member States’ Assessed Share of the UN Budget’, <https://www.globalpolicy.org/un-finance/tables-and-charts-on-un-finance/member-states-assessed-share-of-the-un-budget.html>. The Global Policy Forum is an independent policy watchdog that has consultative status at the UN.

¹²³ Ranni D. Mullen, ‘India’s Development Assistance: Will it Change the Global Development Finance Paradigm?’, 2013, <http://www.iilj.org/newsandevents/documents/mullen.pdf>.

¹²⁴ Andreas Fuchsa and Krishna Chaitanya Vadlamannatib, ‘The Needy Donor: An Empirical Analysis of India’s Aid Motives’, 2012, <http://www.uni-heidelberg.de/md/awi/professuren/intwipol/need2.pdf>.

¹²⁵ Lorenzo Piccio, ‘In latest Indian budget, aid spending dwarfs aid receipts’, Devex, 24 February 2014, <https://www.devex.com/news/in-latest-indian-budget-aid-spending-dwarfs-aid-receipts-82915>. The World Bank, however, has continued to see India as a net recipient of ODA. World Bank, ‘Net ODA received per capita (current US\$)’, <http://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS>, accessed 10 March 2015.

¹²⁶ OECD, *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development* (2014), http://www.keepeek.com/Digital-Asset-Management/oecd/development/development-co-operation-report-2014_dcr-2014-en#page394; Hisahiro Kondoh, Takaaki Kobayashi, Hiroaki Shiga and Jin Sato, ‘Diversity and Transformation of Aid Patterns in Asia’s “Emerging Donors”’, JICA-RI Working Paper (2010), http://jica-ri.jica.go.jp/publication/assets/JICA-RI_WP_No.21_2010.pdf.

China's development assistance has been growing in scale and impact, and comes without political conditions attached. None the less, in the context of China's economic size and of global aid flows, it is relatively limited. The size of China's assistance has been difficult to assess. According to David Shambaugh, 'we know more about China's military budget than its aid budget', and it is 'not even among the top ten international donor nations'.¹²⁷ However, the publication of white papers on foreign aid in 2011 and 2014 increased transparency and demonstrated the growth in China's activity in this sphere. According to the 2011 paper, by the end of 2009, RMB 256 billion (roughly \$38 billion) had been disbursed, of which 41.4 per cent was in grants, 29.9 per cent in interest-free loans and 28.7 per cent in concessional loans.¹²⁸ The 2014 paper says that the total for 2010–12 was RMB 89.3 billion (\$14 billion), with 36.2 per cent in grants, 8.1 per cent in interest-free loans and 55.7 per cent in concessional loans.¹²⁹ This demonstrates a notable increase in foreign aid over this period, with the majority of this coming in the form of concessional loans, though the size relative to GDP or international aid flows still remains small. China provides aid globally: around half goes to Africa, one-third to Asia and the rest to Latin America, Oceania and elsewhere.¹³⁰ The focus on Africa, including the cancellation by the end of 2009 of RMB 189.6 billion in debts, may give China some additional leverage in relations with the continent. The fact that China's foreign aid is managed by the Ministry of Commerce also means that it is integrated with economic objectives, including the export of Chinese capital and labour. Chinese commercial projects overseas can also meet development requirements in host countries, with the recent announcement of \$46 billion in investment in projects in Pakistan a good example of this.¹³¹

Cyber

Unlike many of the other instruments of power described above, cyber capabilities are intrinsically both offensive *and* defensive (in the latter case this means resilience, the ability to find and close vulnerabilities, and to deter). A state's ability to resist a cyber attack, or to have resilient structures to mitigate its impact, can have a significant deterrence effect. But so too can the ability to conduct cyber attacks to weaken another state or to impede its activities.

The issue of cyber vulnerabilities is especially important given the ability of a state to launch a cyber attack remotely and covertly. The difficulty in identifying the source of such an attack or to even register its effect before considerable damage has been done gives the assailant enormous advantages and makes it sometimes impossible for an affected state to retaliate. Such 'code' or 'cool' war scenarios are making vulnerability an increasingly pressing problem for strategic planners and arguably changing the character of modern conflict.¹³²

¹²⁷ Shambaugh, *China Goes Global*, p. 204. Shambaugh quotes a figure of \$2.09 billion for 2009 and earlier cites \$2.5 billion (no year identified), p. 157. The 2009 figure is around 0.04 per cent of GDP for that year (Chatham House calculation). Assuming the additional sums disbursed between 2010 and 2012 were evenly spread across these three years, this ratio would rise to 0.056 per cent in 2012. Other estimates suggest higher figures historically, maybe reaching \$3.4 billion in 2005. See Simon Reich and Richard Ned Lebow, *Good-Bye Hegemony!: Power and Influence in the Global System* (Princeton, NJ: Princeton University Press, 2014), p. 119.

¹²⁸ Information Office of the State Council, People's Republic of China, 'China's Foreign Aid' (2011), http://www.unicef.org/eapro/China_White_Paper_on_Foreign_Aid.full_text.pdf.

¹²⁹ Information Office of the State Council, People's Republic of China, 'China's Foreign Aid' (2014), http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm.

¹³⁰ The 2011 White Paper has figures for 2009 of 45.7 per cent going to Africa and 32.8 per cent to Asia; the figures in the 2014 White Paper (covering 2010 to 2012) are 51.8 per cent and 30.5 per cent respectively.

¹³¹ See Arif Rafiq, 'Game Changer? China's Ambitious Economic Corridor Plan for Pakistan', *World Politics Review*, 4 May 2015, <http://www.worldpoliticsreview.com/articles/15674/game-changer-china-s-ambitious-economic-corridor-plan-for-pakistan>.

¹³² Coker, *The Improbable War*, pp. 155–58.

While there is little public information on cyber capabilities, China appears to have some of the most developed offensive cyber resources.¹³³ There have been numerous examples of cyber attacks emanating from China, although there is some ambiguity over whether they take place with government oversight or not. North Korea too has been accused of conducting cyber attacks – against the South Korean banking sector and commercial targets in the United States, although the evidence in the latter case has been contested.

The cyber capabilities of the United States are also believed to be extensive. While the government has not publicly acknowledged responsibility, there is strong evidence that it has been involved in cyber attacks against Iran. The increasingly robust US cyber capability is, at least institutionally, in flux. Separate agencies share responsibility for different elements of the cyber portfolio, but there is little clarity on where individual responsibilities begin and end – as in the contradictory overlap of responsibilities between US Cyber Command and the National Security Agency. To add further complexity, various new agencies, including the Cyber Threat Intelligence Information Center and the Cyber Mission Force, are being added to the mix. Despite the publication of a new Department of Defense Cyber Strategy in April, the exact mix of offensive and defensive capabilities, and the precise delineation of which agency will be responsible for what, remain opaque.

Over the past two years or so, Japan has given attention to developing its cyber security programme and policy. In 2013 the Ministry of Defence published a report laying out steps to deal with cyber attacks, such as dividing responsibilities between ministries and cooperating with foreign governments and the private sector. The government is expected to pass a law that would strengthen cyber security by requiring companies to report all cyber attacks.¹³⁴ India also has a burgeoning focus on cyber security, although this is still at an early stage of development. It published its first National Cyber Security Policy in 2013.¹³⁵ However, its relatively less networked infrastructure means that it is probably less vulnerable to attack in this area than some of the other states mentioned here.

Natural resources

Tensions in the Asia-Pacific over access to natural resources are likely to persist in the medium to long term, due to challenges in meeting global demand within acceptable environmental limits, and also to the uneven distribution of natural resources. The picture continues to evolve, with overall demand for resources increasing, consumption patterns shifting and new technologies altering the economic viability of resource production in particular regions. Pressures on resource production and trade systems remain despite short-term price falls in many commodities markets. Price swings have redrawn the map of winners and losers, with many producer countries under severe budgetary pressure. Meanwhile the needed long-term, large-scale investments in resource production are under threat.

Countries with abundant natural resources have potentially significant power by virtue of their ability to supply or withhold such resources. They are also able to avoid potential vulnerabilities, such as the restriction of access to resources by adversaries during a crisis. For resource consumers, problems in resource markets are typically experienced via a price shock, but physical supply shortages are a particular concern where trade depends on infrastructure bottlenecks or on specific exporting

¹³³ 'China probably has the most effective and certainly the most robust cyber-espionage system in the world.' Ibid., p. 159.

¹³⁴ Ministry of Defense, Japan, 'Defense Posture Review Interim Report' (undated), http://www.mod.go.jp/j/approach/agenda/guideline/2013_chukan/gaiyou_e.pdf.

¹³⁵ Ministry of Communications and Information Technology, India, 'National Cyber Security Policy – 2013' (2013), http://deity.gov.in/sites/upload_files/dit/files/National%20Cyber%20Security%20Policy%20%281%29.pdf.

countries. Access to the trade routes through which resources travel is therefore a vital factor in assessing power in this area.

The recent energy revolution in the United States has placed it in a far stronger position than had been forecast a few years ago. By 2016, it is predicted to be a gas exporter, including, if market forces dictate, to Asia.¹³⁶ Already permission has been granted for export to Japan and India. The United States will remain an oil importer. With regard to food security, it is in a relatively strong position: in 2013, 85.7 per cent of US households were food-secure throughout the year.¹³⁷ However, the United States has one of the highest rates of water use in the world (with an average of 100 gallons per person per day), which has begun to put a strain on water access. In the past five years, almost every region in the country has experienced water shortages.¹³⁸ Furthermore, overuse of non-renewable groundwater supplies in states such as California, Colorado and Nevada poses a threat to future water access, endangering agriculture and human consumption.¹³⁹

China has significant and growing energy vulnerabilities. While China's production of renewable and nuclear energy continues to grow, its imports of oil and gas, from the Middle East in particular, are rising fast in order to meet growing demand. China's domestic production of coal may also have peaked.¹⁴⁰ China is working to mitigate this vulnerability through such actions as building a major oil reserve. This divergence between domestic demand and supply is unlikely to narrow, however. China will also face severe water shortages in the future due to pressures from industrialization and agriculture. Its total available water flows are the world's fifth-largest, but in order to compensate for its growing water scarcity, the country is relying on desalination and groundwater, which is not being replenished at the same rate that it is being used. This is aggravating an already problematic situation: China's available water per person is one-third of the world average and one-quarter the average for the United States.¹⁴¹

Food security has always been a major concern for China, as it possesses only 7 per cent of the world's arable land. Until recently it has been a net exporter of food, but pressures from industrialization, population growth, changing diets and urbanization, as well as an increase in food prices, have resulted in an increase in grain imports.¹⁴²

China accounts for about 97 per cent of world output of the 17 rare-earth metals.¹⁴³ This gives it strong leverage, which it used to great effect against Japan in 2010.¹⁴⁴ However, following this and a subsequent WTO ruling against it in 2012, other states have started to build up production facilities to compete with China in this area, which will in time weaken its hold on the market.

¹³⁶ Platts, 'LNG growth to make US net natural gas exporter by 2016: report', 9 January 2014, <http://www.platts.com/latest-news/natural-gas/washington/lng-growth-to-make-us-net-natural-gas-exporter-21054975>.

¹³⁷ Alisha Coleman-Jensen, Christian Gregory and Anita Singh, 'Household Food Security in the United States in 2013', United States Department of Agriculture, September 2014, http://www.ers.usda.gov/media/1565410/err173_summary.pdf.

¹³⁸ US Environmental Protection Agency, 'Water Supply and Use in the United States', June 2008, http://www.epa.gov/WaterSense/docs/ws_supply508.pdf.

¹³⁹ Dennis Dimick, 'If You Think the Water Crisis Can't Get Worse, Wait Until the Aquifers Are Drained', *National Geographic*, 21 August 2014, <http://news.nationalgeographic.com/news/2014/08/140819-groundwater-california-drought-aquifers-hidden-crisis/>.

¹⁴⁰ John Mitchell, *Asia's Oil Supply: Risks and Pragmatic Remedies*, Chatham House Research Paper, May 2014, http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20140506Asia%27sOilSupplyMitchell.pdf.

¹⁴¹ Zmarak Shalizi, 'Water and Urbanization', in Sahid Yusuf and Tony Saich (eds), *China Urbanizes: Consequences, Strategies, and Policies* (Washington, DC: World Bank, 2008), pp. 157–79.

¹⁴² United Nations Food and Agriculture Organization, 'Annex 3: Agricultural Policy and Food Security in China', <http://www.fao.org/docrep/004/ab981e/ab981e0c.htm#bm12.4.3>, accessed on 18 September 2015.

¹⁴³ 'U.S., EU, Japan take on China at WTO over rare earths', Reuters, 13 March 2012, <http://uk.reuters.com/article/2012/03/13/us-china-trade-eu-idUSBRE82C0JU20120313>.

¹⁴⁴ 'Amid Tension, China Blocks Vital Exports to Japan', *New York Times*, 22 September 2010, <http://www.nytimes.com/2010/09/23/business/global/23rare.html?adxnln=1&pagewanted=all&adxnlnx=1417698792-jXBmSEMEVqc8A+v31xDMRw>.

India also has vulnerabilities in energy. It has very small oil reserves compared with China, and energy demand is increasing quickly as the country's middle class grows. In many urban areas, in particular, India is fast using up its water resources and draining its floodplains, a trend intensified by the low cost of water to consumers and high subsidies for energy (although Prime Minister Modi has recognized that these need to be addressed). India also found itself in 2006–08 and 2011 extremely vulnerable to swings in global food prices, something that it has been trying to solve since.¹⁴⁵

Japan is in a vulnerable position with regard to energy. It meets less than 10 per cent of its primary energy use through domestic sources and is heavily dependent on the Middle East in meeting its oil-based energy needs.¹⁴⁶ It is also in a delicate situation following the shutdown of its nuclear plants after the 2011 disaster at the Fukushima Daiichi nuclear facility, as until then nuclear generation had accounted for 27 per cent of Japan's energy supply.¹⁴⁷ Public opinion is either opposed to or ambivalent about nuclear power. The Abe government will find it difficult to persuade the electorate to re-embrace nuclear energy, particularly while doubts remain about the effectiveness of regulatory oversight. Some of Japan's nuclear plants may resume operation this year, but in the meantime the need to import oil, gas and coal to replace nuclear energy costs the country considerably – approximately \$93 billion by the end of 2013, but less in 2014 and 2015.¹⁴⁸ It is no accident, therefore, that Prime Minister Abe has concentrated many of his foreign visits on boosting ties with Middle East countries, as well as seeking to develop new nuclear energy contracts with foreign partners in an effort to boost export opportunities for Japan's civilian nuclear industry.

Unless international action is taken, competition over resources between these powers, and others, is only likely to worsen in the coming decades as populations and demand grow at far faster rates than production is forecast to expand.

Japan struggles to produce enough food for its population, with only 39 per cent of its consumption sourced domestically.¹⁴⁹ It holds an advantage in terms of water resources, however, as it faces few issues with water scarcity in comparison to China, India and other countries in the region. Since Japan does not regulate property bought by foreigners, though, many buyers, particularly from China, are trying to obtain land that includes groundwater sources to use for industrial purposes.¹⁵⁰

Unless international action is taken (such as the expansion of a rules-based trading system), competition over resources between these powers, and others, is only likely to worsen in the coming decades as populations and demand grow at far faster rates than production is forecast to expand. This is true of energy and food. Water resources are becoming increasingly limited in the region. Some countries, such as India and Indonesia, are already aware of their potential natural resource vulnerabilities and are trying to take remedial actions. In part, China's investments in Africa and elsewhere are a sign of its efforts to reduce these vulnerabilities, but this also increases Chinese reliance on open sea lanes and therefore reinforces other existing vulnerabilities.

¹⁴⁵ Prime Minister Modi's perception that the original WTO agreement would have limited India's ability to stockpile food led to his rejection of it.

¹⁴⁶ US Energy Information Administration, 'International energy data and analysis', <http://www.eia.gov/countries/cab.cfm?fips=JA>, accessed on 18 September 2015.

¹⁴⁷ Ibid.

¹⁴⁸ 'Power struggle', *The Economist*, 19 September 2013, <http://www.economist.com/news/asia/21586570-shadow-fukushima-worlds-worst-nuclear-disaster-after-chernobyl-hangs-over-japans-energy>.

¹⁴⁹ 'Food self-sufficiency rate fell below 40% in 2010', *Japan Times*, 20 August 2011, <http://www.japantimes.co.jp/news/2011/08/12/national/food-self-sufficiency-rate-fell-below-40-in-2010/#.VIC8Mm3Frk>.

¹⁵⁰ Yuriy Humber, Katsuyo Kuwako and Tsuyoshi Inajima, 'China Buys Japan Water Rights on Two-Decade Land Price Slump', Bloomberg, 6 November 2012, <http://www.bloomberg.com/news/2012-11-05/china-buys-japan-water-rights-after-two-decade-land-prices-slump.html>.

In many of these areas, the United States occupies a position of relative strength, in terms of its access to food and energy into the future, its energy stores and its distance from the other actors in the region, making it less of a competitor for these resources (although many of its allies are far more vulnerable). Its energy resources, in particular, give it a strong instrument of influence in the region.

Other soft power instruments

There are many other sources of power in the region, from the role of civil society, to religious groups, education, the media and the corporate sector. However, in relative terms they are, for now, less influential than those mentioned above.

The media plays a notable role, not just regarding a country's leverage or influence over others, but also through its ability to influence domestic attitudes and therefore public support for action by a government. With regard to foreign influence, of the four countries focused on here, the United States unquestionably has the media with the greatest reach and (presumably) the greatest impact. CNN is found in hotels globally and watched by an international audience in a way that the Chinese, Indian and Japanese media are not. The *International New York Times*, *Wall Street Journal* and *USA Today* have global penetration. Their access across the region is significantly greater than that of their competitors. This is true also of the influence of less traditional media outlets, from blogs to social media. The exception is the reach of the US media into China, which in many cases has been restricted (notably in the case of Twitter and Facebook). Indigenous and innovative domestic competitors dominate the Chinese market. Japan's population is highly literate and its daily newspapers have circulation rates that dwarf those of their US counterparts, but the readership for these publications is restricted given the linguistic barriers that stand in the way of a genuinely global reach.

Education systems are also an effective instrument of soft power. Here too the United States is particularly strong, attracting a very high, and rising, number of international students, not least from Asia. In one survey, in 2014–15 the United States had 15 of the top 20 universities in the world while Asia had none (although Japan's University of Tokyo was ranked 23rd).¹⁵¹ International student places in China have also been rising, however. India's education system is effectively two-tiered, with a small number of elite colleges (the Indian Institutes of Technology and Management for the main part) and a lower tier that does not compete. However, even institutions in the upper tier do not have a strong international presence.

The United States has the greatest reach in terms of non-state actors such as civil society and industry. It has a much longer history of philanthropy than any of the other powers mentioned here, including at the international level. The proportion of the adult population that gives to charity in the United States, India, Japan and China, is 68 per cent, 28 per cent, 24 per cent and 13 per cent respectively.¹⁵² In 2010, Bill and Melinda Gates and Warren Buffett launched 'The Giving Pledge' to persuade the world's richest people to give at least half of their wealth to charity. That same year they travelled to China to urge 50 billionaires to sign up, but none did at that time. As of 2013, none of the 114 billionaires who had signed the pledge came from Asia (excluding Australia).¹⁵³

¹⁵¹ Times Higher Education, 'World University Rankings 2014–15', <http://www.timeshighereducation.co.uk/world-university-rankings/2014-15/world-ranking>.

¹⁵² Charities Aid Foundation, 'World Giving Index 2014', https://www.cafonline.org/pdf/CAF_WGI2014_Report_1555AWEBFinal.pdf.

¹⁵³ Tara Loader Wilkinson, 'Why Only 5% Of The World's Billionaires Have Signed The Giving Pledge', *Wealth-X*, 14 November 2013, <http://www.wealthx.com/articles/2013/why-only-5-of-the-world-s-billionaires-have-signed-the-giving-pledge/>.

American industry is also far more integrated into the global economy than are its counterparts in the other countries examined here. Of the global top 100 companies by market capitalization, 53 are American while ten are Chinese and two Japanese.¹⁵⁴ American businesses get a significant (and growing) proportion of their profits from international investment.¹⁵⁵ American private-sector investment into Southeast Asia, for instance, is higher than that from China, Japan and South Korea combined.¹⁵⁶ However, Japanese, Chinese and South Korean companies are increasingly competing in international markets, particularly in technology sectors. Japanese corporations, for example, have a particularly competitive edge in the robotics industry.

A few Chinese companies are establishing themselves as globally competitive in their sectors. The most prominent is the telecoms equipment and services firm Huawei, which is the only major Chinese company to draw the majority of its revenues (around 70 per cent) from outside China. However, although some Chinese companies – led by banks such as Industrial and Commercial Bank of China – are among the largest in the world by market capitalization, only a few can claim to have a global footprint.¹⁵⁷ Given that one objective of the government’s outward investment strategy is to build Chinese transnational corporations, the situation is likely to change as companies invest more overseas. Nevertheless, over the next decade the gap between them and American industry is likely to remain substantial.

¹⁵⁴ PricewaterhouseCoopers, ‘Global Top 100 Companies by market capitalisation 31 March 2015 update’, <http://www.pwc.com/gx/en/audit-services/capital-market/publications/assets/document/pwc-global-top-100-march-update.pdf>.

¹⁵⁵ Gabriel Zucman, ‘Taxing across Borders: Tracking Personal Wealth and Corporate Profits’, *Journal of Economic Perspectives*, 28: 4 (2014), p. 125, <http://gabriel-zucman.eu/files/Zucman2014JEP.pdf>.

¹⁵⁶ Nina Hachigian, ‘The ASEAN Economic Community and Beyond’, APCAC Business Summit Panel, 12 March 2015, <http://asean.usmission.gov/remarks03122015.html>.

¹⁵⁷ See Shambaugh, *China Goes Global*, pp. 184ff.

3. National Dynamics

At the same time as the levers of power and influence in the Asia-Pacific are in flux, so is the broader context in which they are being used. As stated in the previous section, states need to have the will to act as well as the capacity to do so. And, in some cases, their broader internal dynamics can have profound implications for both factors. This section outlines some of the dynamics of change at a national level for the countries concerned.

China

Rapid change continues in China. As its economy has become larger, more complex and more internally integrated, the domestic drivers of socio-economic change have increased in number, though they remain closely connected with changes in the region and globally. Given China's size, changes in its economy are likely to be the most significant external factor for economies across the region and therefore for regional dynamics. This will most likely be seen in the levels and nature of Chinese outward investment, which is likely to shift from being dominated by natural resource investment (e.g. in Australia's various resources or in Indonesia's coal) to government-directed investment in regional infrastructure or FDI by Chinese companies as they engage in new markets across the region. This is currently a major focus of the Chinese leadership through signature 'New Silk Road' policies (building the 'One Belt, One Road', the Silk Road Fund), the establishment of the AIIB and participation in the New Development Bank for BRICS countries. As well as further increases in outward investment, there is likely to be – if the government can deliver on its reform agenda – a gradual financial liberalization, including of the capital account. The renminbi has gained an international presence over the past six years and is increasingly used for trade settlement outside dollar economies. It is even beginning to find a place in central bank reserves across Asia and more widely.

However, there are uncertainties around China's future economic trajectory, recognized by the country's leadership as major policy challenges.¹⁵⁸ First are concerns about the sustainability of growth, including the risk of a damaging property market correction, the extent of corporate and local-government debt, and systemic risks from shadow banking. As China's rapid development has brought huge environmental degradation, reflected in poor air, soil and water quality, environmental concerns – as well as those over food and product safety – have become major sources of popular dissatisfaction with the Communist Party. The environmental policy response so far has been limited. At the same time, the leadership is trying to move the economy up the value chain, improve the quality of innovation and raise China's place in the international division of labour, since its current position constrains economic power. The domestic profile of the economy is also changing, with consumption contributing more to economic growth than investment, and services growing faster than manufacturing. Net exports have contributed little to GDP growth since 2007, even though

¹⁵⁸ See Xi Jinping's speech at the Chinese Communist Party (CCP) Third Plenum, 'Explanation concerning the "CCP Central Committee Resolution Concerning Some Major Issues in Comprehensively Deepening Reform"', 19 November 2013, <https://chinacopyrightandmedia.wordpress.com/2013/11/19/explanation-concerning-the-ccp-central-committee-resolution-concerning-some-major-issues-in-comprehensively-deepening-reform/>.

China is now the world's largest trader in goods. There are also changes in the regional economic balance *within* China, as some inland cities are not only growing faster than the coastal regions that have dominated China's economic opening to date, but are also beginning to develop their own cross-border economic linkages. The development of train routes from cities such as Chongqing and Chengdu through Central Asia to Europe is in its early days, but it has the potential to change the spatial structures of trade between China and its Eurasian neighbours.

When it comes to the interaction between domestic factors and foreign and security policy, the leadership under Xi Jinping has talked about 'innovations' in the latter, including pushing for a more equal relationship with the United States (the 'new type of major-power relations'), and 'bottom line' diplomacy sticking more firmly and clearly to Chinese core interests.¹⁵⁹ The leadership has also responded to discussion about the interlinked nature of domestic and international security concerns through the agenda of the National Security Commission established in 2014, which (in principle, at least) attempts to integrate domestic and international policy-making. Popular nationalism is generally assumed to be an important driver of foreign policy, though the extent of elite nationalism and the leadership's assessment of the national interest may be more important factors. There are strong perceptions that China's external environment remains difficult, with concerns that the US rebalancing is a soft form of containment and clear unease that Japan has moved to a more nationalist stance. There are also concerns over North Korea and Pakistan, the latter in relation to Uyghur separatism that poses a challenge to the authorities in the northwest region of Xinjiang.

The extent to which China pushed 'soft revisionism' in global governance in 2014 was greater than expected. The AIIB, the New Development Bank and the Silk Road Fund are examples of a new willingness to respond to long-standing gripes about the distribution of power in global governance. Underlying this is the growing relative strength of China in the international system, though official statements continue to deny that the country is revisionist, suggesting instead that its assertive behaviour is responsive and that the new institutions complement rather than compete with existing ones. The ideas that underpin these also represent an evolution of policy within a broader continuity, a point emphasized in Xi's November 2014 speech to the Communist Party hierarchy on foreign policy.¹⁶⁰

Domestic political stability remains the subject of intense debate among China watchers. Political freedoms (unlike economic and social ones) remain restricted. Yet popular protests and demonstrations are frequently reported and have become an increasingly pervasive part of Chinese society, mainly in response to livelihood concerns. Official statistics for these have not been available for a decade, though unofficial estimates in recent years suggest that there are in the region of 200,000 'mass incidents' each year.¹⁶¹ Some of these lead to violence by or against the police. Some are resolved with protesters' grievances being (partly) met by the authorities, including through financial compensation. Thus far, the vast majority of incidents remain localized, potentially limiting the systemic implications for political stability.

Xi Jinping is generally seen as having strengthened his grip on party institutions through his high-profile anti-corruption drive, and as having increased the coordination of policy. The intensity of

¹⁵⁹ For further discussion, see Jinghan Zeng, Yuefan Xiao and Shaun Breslin, 'Securing China's core interests: the state of the debate in China', *International Affairs*, 91:2 (2015), pp. 245–66.

¹⁶⁰ 'Xi eyes more enabling int'l environment for China's peaceful development', *Xinhua*, 30 November 2014, http://news.xinhuanet.com/english/china/2014-11/30/c_133822694.htm.

¹⁶¹ Chu Zhaogen estimated there were around 230,000 such incidents in 2009, while Niu Wenyuan claimed there were around 182,500 in 2011. Chu Zhaogen, '寻找中国政改的“金钥匙” [Searching for the 'golden key' to China's political reform]', *Chinareform.org*, 14 October 2010, http://www.chinareform.org.cn/gov/governance/Practice/201010/t20101014_46794.htm; Niu Wenyuan, '广州首提五年建成海珠生态城' [Guangzhou proposes five-year construction of Haizhu ecological city], *XKB.com*, 2 February 2012, <http://epaper.xkb.com.cn/view/760015>.

the anti-corruption drive has led some analysts to suggest that his grip on power is weak but, at the elite level, the leadership remains strong. The ongoing challenge is rather in implementing policy and changing the behaviour of cadres throughout the country to improve governance, especially given the sprawling nature of China's bureaucracy and the size of the Communist Party (which has over 80 million members). At the popular level, the growing exposure of individual citizens to the world beyond China's borders (117 million people travelled outside mainland China in 2014)¹⁶² and the rapid penetration of the internet and social media across the country mean that the extent of information flows is markedly different from what it was even 10 years ago. At the moment, it is hard to see any fundamental threats, or alternatives, to the current system. However, the Communist Party's continued political dominance depends on sustaining social and economic development, measured not so much in GDP growth but in improvements to housing, education and health services. The Communist Party's 'Achilles heel' is most likely to come from environmental degradation or food safety problems.¹⁶³

India

Following the landslide election victory of Narendra Modi's Bharatiya Janata Party (BJP) in 2014, many believe that India is on a far stronger trajectory than it was under his predecessor, Manmohan Singh. Like every previous government over approximately the past three decades, Modi's is a coalition. But, given the size of the BJP's win, the prime minister is far less dependent on his partners than his predecessors were. The BJP's significant wins in state elections in recent months (apart from in the capital, Delhi) have further reinforced his power.

Modi and the BJP are notably more nationalistic than Singh and the Congress party. While Modi reached out to other regional powers immediately after the 2014 election, he has also taken a much firmer stance towards them than Singh did, pushing back against China and Pakistan when they seemed to test his boundaries.

The prime minister has made it clear that he is not going to let territorial and historical tensions get in the way of achieving economic goals, although he is not going to yield on them either.

Modi also keeps far more power in his own hands than his predecessor did. He relies on a small cadre of trusted advisers, including Finance Minister Arun Jaitley and BJP President Amit Shah.¹⁶⁴ Decisions are made by a very small group, which creates far more uncertainty and unpredictability about the government's actions (and perhaps leads to less informed decision-making). In a country with a population of over 1.2 billion, this approach is unmanageable over the long term.

While many within the country believe that Modi can transform India quickly, he sees it as at least a 10-year (i.e. two-term) process. Thus far, he is working in a bottom-up fashion, focusing on small areas of improvement rather than trying to change the system from the top. This has played out in his economic policy as well as in other areas.

¹⁶² 'China teaches its 100mn tourists some travel etiquette', *Financial Times*, 27 April 2015. Premier Li Keqiang's annual government work report delivered in March 2015 gave a figure of 'over 100 million'.

¹⁶³ Gurtov, *Will This Be China's Century?*, p. 83.

¹⁶⁴ 'The enablers', *The Economist*, 23 October 2014, <http://www.economist.com/news/asia/21627719-narendra-modi-relies-most-two-men-who-could-hardly-be-less-alike-enablers>.

Modi's priority is economic growth, and this will drive his foreign policy. His agenda has already been evident in early visits to Japan, China and the United States, from which he is looking for major investments. The prime minister has made it clear that he is not going to let territorial and historical tensions get in the way of achieving economic goals, although he is not going to yield on them either. In his first full budget earlier this year, Modi announced small steps to open the economy to foreign investment. This did not go as far as many in the international community were hoping, but went further than his predecessor had, made possible by Modi's greater independence from his coalition partners.

Two changes that are likely in India's external capabilities in the coming years relate to its military and diplomacy. As stated earlier, India has an extremely small diplomatic corps relative to its population.¹⁶⁵ While there has been a discussion for many years about increasing the size of the corps, it is likely that this will soon happen under Modi. Also, the military had stagnated under the previous government, and Minister of Defence Manohar Parrikar will have his work cut out to reform and upgrade it.

With Modi in power, most likely for at least the coming decade, India appears to be on a strong footing. With significant political support behind the prime minister and with rising foreign investment, India's economy is returning to higher levels of growth. At the same time, if Modi can address some of the long-standing tensions with India's neighbours, its role in the region can start to expand.

Japan

Electoral success for the Liberal Democratic Party under the leadership of Shinzo Abe – first in the 2012 lower-house elections, followed by the 2013 upper-house elections, and again in the 2014 lower-house elections – has given it a commanding position in a political environment that had previously been characterized by unstable and short-lived governments and weak prime-ministerial leadership.

With no need to schedule an election to the lower house until 2018, Abe has time on his side. He also faces a weakened parliamentary opposition in the form of a Democratic Party of Japan divided between conservatives and progressives who appear unable to agree on either policy or a coherent political strategy for challenging the government. Abe is therefore well placed to push through an ambitious series of domestic and foreign policy reforms.

Since becoming prime minister in 2012, he has shown himself to be an unusually assertive and confident leader for Japan – something that has been both an asset and a liability. In security policy, confidence has helped bolster ties with the United States and opened the door to developing a variety of new foreign policy partnerships, most notably with Australia and India. By contrast, in diplomacy Abe's assertive posture, particularly when it comes to engaging with contentious revisionist historical issues relating to Japan's colonial past and to visits to the controversial Yasukuni Shrine in Tokyo, has exposed him to widespread criticism, not only in China and South Korea but also in many Western countries for poorly managing public diplomacy.

The debate remains unresolved as to whether Abe is a pragmatist, enhancing Japan's foreign policy flexibility in an increasingly uncertain regional and global environment to cope with new security challenges, or a proto-nationalist intent on pushing an ambitious programme of constitutional revision and overturning the country's postwar taboos against the use of force. This uncertainty has contributed

¹⁶⁵ Traditionally it was said this was to make sure that each member of the elite intake could finish his or her career with at least one ambassadorship.

to a sharp deterioration in trust between the country and South Korea and China, not only at elite level, but also increasingly among the publics in the three countries. This in turn has prompted legitimate questions about which countries in East Asia should be seen as the biggest threat to regional stability.

Japan's future policy priorities are further obscured when one considers the potential divergence between elite and mass opinion within the country itself. While the cabinet and senior conservative politicians (many of whom are in their 50s and 60s) have embraced Abe's more 'proactive' approach, public opinion shows less clarity in policy preferences. Voters in recent elections have tended to prioritize domestic economic issues over foreign policy concerns. And for a new generation that is no longer able to rely on the traditional socio-economic model of lifetime employment and has experienced two 'lost decades' of economic stagnation, a future of deliberately slow growth¹⁶⁶ and relatively low ambition in terms of regional and global engagement may be preferable to one of increased responsibilities and greater foreign policy activism.¹⁶⁷ Japan's ability to maintain its more active international role will require success at home in promoting economic growth and structural reform, not least in the context of TPP-related liberalization. Critically, the Abe government will need to convince opinion at home that these reforms are necessary and that remaining engaged globally makes sense for Japan.

Japan's new regionalism

Balanced against Chinese and South Korean anxiety about Japan's regional agenda, there has been a positive response from other states, particular in Southeast Asia, to its new proactivity. Such a policy, though, is not without risk. Japan's instinct to depict China as a country that seeks to challenge the post-1945 international order in the region, as well as the rule of law, may help to create a sense of solidarity with old and new partners and enable it to pursue a strategy of flexible minilateralism. But it may also limit the opportunities for reconciliation between Japan and China and lead to the very situation that Japan is keen to avoid. Post-2008 territorial tensions over the Senkaku or Diaoyu islands have now grown beyond a simple bilateral maritime dispute to include stand-offs between the air forces of the two countries, exacerbated by China's unilateral decision in 2013 to proclaim an Air Defence Identification Zone over the East China Sea. While the naval forces of the two countries are used to interacting, their air forces are less familiar with one another.¹⁶⁸ This, together with Japan's doubts regarding the reliability of US assurances to protect its administrative rights over the contested islands, and the heightened risk of an accidental escalation of conflict, given the difficulty of regulating close-proximity aerial engagements, makes the territorial stand-off particularly problematic.

Indeed, as Japan's government and military forces become more involved in a wider range of overseas engagements, the risk of conflict occurring by accident rather than design increases appreciably. The revision, for example, of the US–Japan Joint Defence Guidelines has established provisions for enhanced operations and planning between the two countries' forces in addressing new cyber security, ballistic missile defence and space-based security concerns.¹⁶⁹ The guidelines also take into account Japan's more flexible interpretation of its constitutional provisions governing collective self-defence, under which forces can be deployed to defend not merely its territory but also its national

¹⁶⁶ Some in Japan, especially among younger members of the electorate, argue for an alternative to the high-growth model of the postwar period. The costs of excessive competitiveness and the social constraints of the lifetime employment system have made them question the merits of growth for growth's sake and suggest that the country needs to slow down and focus on less materially defined objectives.

¹⁶⁷ Brad Glosserman, 'Japan: from Muddle to Model', *Washington Quarterly*, Summer 2014, p. 40.

¹⁶⁸ John Swenson-Wright, interview with senior retired Japanese Ground Self-Defense Force officer, Tokyo, September 2014.

¹⁶⁹ Emma Chanlett-Avery et al., 'Japan-U.S. Relations: Issues for Congress', Congressional Research Service, January 2015.

assets, broadly defined to include both its citizens and natural resources, such as oil, deemed vital to the nation's survival.¹⁷⁰ This more permissive interpretation, particularly since it explicitly allows Japanese forces to act in conjunction with those of other countries, beyond the narrow ambit of traditional allies such as the United States, fundamentally expands the range of scenarios in which Japan's military might find itself able and required to use force.

In short, Japan's more assertive political leadership, combined with greater institutional flexibility in a context of enhanced and expanding security partnerships, is likely to ensure that the country remains fully engaged in regional and, potentially, global affairs for the foreseeable future. This engagement will be fraught with risks in terms of the increased number and nature of the conflicts to which Japan might be required to respond, and also because of the persistent uncertainty over whether a more proactive government will be able to convince domestic opinion to support such engagement wholeheartedly, especially when it risks undermining the country's still internally and externally vulnerable economy.

United States

There has been strong debate over a supposed US decline for the past decade. Following the 2008 recession, this debate became notably louder, particularly when comparing the country to China, which continued to see robust GDP growth and, in the minds of many, kept the global economy afloat. However, over the past two years, as the US economy has returned to growth of around 2.5 per cent and with the energy revolution beginning to have an impact, there has been less discussion of the issue.

At the same time, there is a tangible sense by many outside the country that under President Obama the United States is retreating from the world. This belief was supported by Obama's pre-second-term election rhetoric of 'nation-building at home',¹⁷¹ as well as by such policy choices as the withdrawal from Afghanistan and Iraq, and the secondary role the United States played in the 2011 military operation in Libya. Public sentiment in America has also reinforced this perception, with polls showing strong resistance to any further overseas adventures. Without public support, it is far harder for a leader to find the political will to take action. Despite the rebalancing towards Asia, many in the region and beyond believe the United States, at least under this president, to be less engaged and less willing to take the lead in bearing global burdens.

The reality is more nuanced. President Obama has led the United States into a different international role, one that reflects his assessment of what the country can and cannot do in the world today. Where America's vital national interests are engaged, it will act. Where they are less at risk, America will typically be willing to take a back seat and expect others to step up. This explains the more proactive role the United States has taken against ISIS.

Several factors complicate US action, however. Following the Republicans' seizure of control of the Senate in the 2014 midterm elections, government continues to be split – with the White House in Democratic hands and Congress under Republican control. There is every reason to assume that for the remainder of Obama's presidency Congress will seek to stymie any initiative he might put forward. Only urgent issues of national security (and trade) are likely to be the exception.

¹⁷⁰ John Swenson-Wright, 'What Japan's Military Shift Means', BBC News, 2 July 2014, <http://www.bbc.com/news/world-asia-28122791>.

¹⁷¹ Stephen Sestanovich, 'Obama's Focus Is on Nation-Building at Home', *New York Times*, 11 March 2014, <http://www.nytimes.com/roomfordebate/2014/03/11/weakness-or-realism-in-foreign-policy/obamas-focus-is-on-nation-building-at-home>.

Notwithstanding President Obama's desire to focus on Asia, events in the rest of the world, and in particular the Middle East, will continue to distract the United States. While 60 per cent of the country's naval forces will be located in the Pacific by 2020 (compared with 50 per cent today), the military will continue to focus on the terrorism threat, in particular in Iraq and Syria. And for as long as implementation of the recent nuclear deal with Iran continues, much diplomatic attention will be directed at that country and issue. Nevertheless, Asia will continue to be a strategic priority for Obama and for any successor for the foreseeable future.

America's return to growth in the past few years has put it on a positive economic path. With Europe's economic outlook still uncertain, the United States remains attractive as a stable and low-risk Western destination for investment. The recent energy revolution – thanks to the development of unconventional oil and gas that has boosted domestic supplies – has strengthened the prospects for future growth. At the same time, despite the high levels of partisanship in Washington, the Republican leadership has made it clear that it will not again risk a government shutdown or a default on the national debt. In this environment, the United States is looking far stronger than it did a few years ago.

In conclusion, America's star is again rising – and is perceived to be doing so. While there remains uncertainty about an active foreign policy under President Obama, the United States is increasingly understood to have the resources to act when it chooses to. And, despite concerns about partisanship and a broken political system, these problems are unlikely to bring government to a halt.

The US rebalancing

There have been many questions over whether the US strategic rebalancing towards Asia is real or merely rhetorical. Following John Kerry's appointment as secretary of state in 2013, some questioned whether there had been a 'pivot on the pivot', namely a return of attention to the Middle East and Europe. However, while Kerry has very much focused on the Middle East and Russia, strategically the United States continues to direct its attention to Asia.

Despite some scepticism, the rebalancing has realized changes in America's stance in the region. In economic terms, the Obama administration has put its weight behind achieving the TPP. Over the past two years the United States has deepened its established military relationships in the region and developed new ones. It has, for example, reopened a security partnership with the Philippines and strengthened ties with Australia and India. The United States has also focused more diplomatic attention on the region with high-level visits from administration officials.¹⁷²

The TPP will continue to be a priority for the administration and, if necessary, the next one. The military focus will also remain, particularly in the form of troop rotations, joint training and operations, and provision of equipment. But even with the relative increase in the proportion of resources for Asia, cuts in defence spending mean that US troop numbers in the region are likely to remain steady or even drop. As further cuts are made, overseas bases are likely to come under pressure (except where they are fully funded by the host government), as will permanent troop assignments in the region.

¹⁷² It should be noted that President Obama's cancellation of two trips to the region in his first term and a further two in 2013 caused much consternation among allies there. He subsequently returned to the region twice in 2014.

It is unlikely that any of the candidates for the presidency in 2016 will want to change the rebalancing policy significantly. Hillary Clinton, the most likely presidential nominee of the Democratic Party, led the rebalancing as secretary of state. Her foreign policy team is likely to include such Asia experts as Kurt Campbell, who worked under her at the State Department as assistant secretary for East Asia and the Pacific, and Michele Flournoy. While there is much more uncertainty regarding who will be the Republican nominee, the attention that leading Republicans pay to the region, and particularly to China, suggests that a Republican administration would be unlikely to reverse the ‘rebalancing’ significantly. It might, however, become more hawkish on Asia, at least rhetorically so.

In conclusion, while there are some uncertainties in the United States over political partisanship, the 2016 elections and continued economic growth, it is highly likely that US strength and political direction are not going to change meaningfully in the coming decade.

ASEAN

Dynamics in ASEAN are affecting the shifting distribution of power in the Asia-Pacific around three broad trends.

The first is the rise of ASEAN as a central player in the Asian economy since the 1990s, itself an important contributor to the wider rise of Asia. To some extent, and with considerable variation between countries, this economic emergence has now spread to all 10 ASEAN member states following the symbolically important opening up of Myanmar from 2011. The extent of the variation across Southeast Asia needs to be emphasized: ASEAN member states range from wealthy Singapore with its developed financial and trade intermediation services, through middle-income economies such as Thailand (which has played a key role over recent decades in regional production networks in industries such as automotive) to low-income countries in mainland Southeast Asia, in particular Cambodia, Laos and Myanmar. Vietnam was for some time included in the latter group of the four countries that joined ASEAN in the 1990s, but its economic performance since then and the scale of its economy have given it greater influence.

Constraining this trend, however, are ongoing political challenges in several key ASEAN states. Thai politics remains unstable, and the 2014 coup has put the military in charge again. Myanmar’s political opening has been a positive feature but uncertainty continues over the extent of the democratic transition from military rule. This year will be critical, with the general election set for 8 November.¹⁷³ Meanwhile, political progress across ASEAN includes the ‘entrenchment of democratic institutions and persistence of pluralistic culture in Indonesia’.¹⁷⁴

¹⁷³ See Michael C. Williams, *Myanmar’s Troubled Path to Reform: Political Prospects in a Landmark Election Year*, Chatham House Research Paper (2015), <http://www.chathamhouse.org/publication/myanmar%E2%80%99s-troubled-path-reform-political-prospects-landmark-election-year>. http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150226Myanmar.pdf.

¹⁷⁴ Peter Drysdale, ‘Is Thailand Southeast Asia’s Weakest Link?’, East Asia Forum, 30 June 2014, <http://www.eastasiaforum.org/2014/06/30/is-thailand-southeast-asias-weak-link/>.

Figure 11: GDP of ASEAN states, 1967–2014

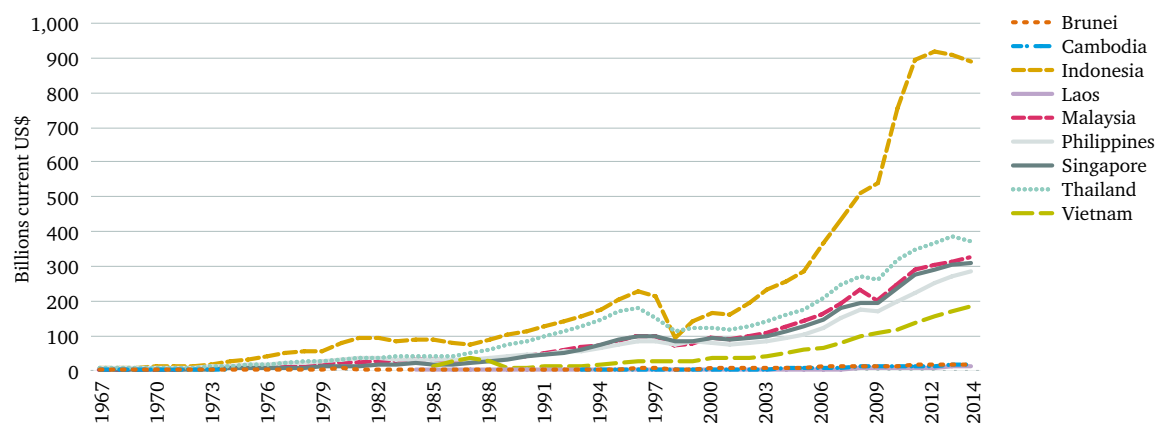
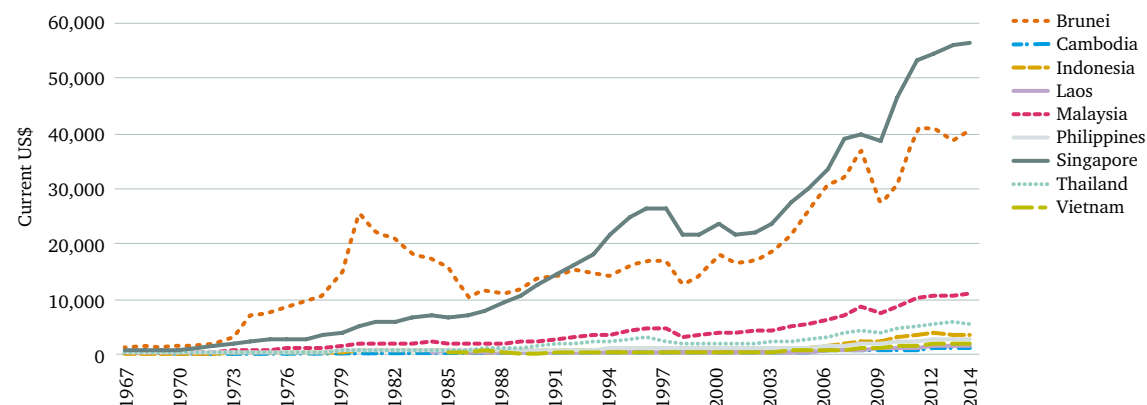


Figure 12: GDP per capita of ASEAN member states, 1967–2014



Source: World Bank. Myanmar has been excluded due to the lack of reliable figures over much of the period. Figures last updated on 28 July 2015. Data available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

The second trend is ASEAN’s central role in the development of regionalism in Asia and its growing institutionalization as a regional organization. ASEAN has been at the centre of the main Asian regional institutions that have developed since the 1990s – from the Europe–Asia grouping that first met in 1996 as ASEM to the ASEAN+3 with China, Japan and South Korea – and gained cohesiveness in response to the Asian financial crisis of 1997–98. This was followed by the emergence of the EAS in 2005, built at that stage around the ASEAN+3 with the addition of Australia, New Zealand and India. ASEAN’s centrality to regional institution-building has been challenged by the TPP, which currently only includes some of its member states. China’s non-inclusion has attracted most comment, but the implications of engaging only selected ASEAN economies in the TPP may turn out to be just as significant. However, the Regional Comprehensive Economic Partnership (RCEP) – seen by some as vying with the TPP to be completed first – maintains ASEAN’s centrality as it is built around the original EAS group of countries (before the United States and Russia joined in 2011).

The relative speed and depth of further development of these regional groupings will have implications for ASEAN’s own institutionalization. Following the signing of the ASEAN Charter in 2007, 40 years

after the organization's establishment, the leaders of its member states committed to strengthened integration across three pillars: political, socio-cultural and economic. The last of these involves a commitment to form an ASEAN Economic Community by the end of 2015, an undertaking that looks challenging. Progress towards this has been slow, with the greatest success in tariff reduction (though non-tariff barriers remain a major challenge).¹⁷⁵ There remains a need to improve competitiveness policy and protection of intellectual property rights and to promote equitable economic development. However, market forces and unilateral actions have driven significant integration into the global economy and enabled the emergence of 'factory ASEAN' (i.e. the growing integration of ASEAN into regional production networks). Successful conclusion of the RCEP may also bring progress on a number of these elements.

While building an 'economic community' may be challenging, former ASEAN secretary-general Rodolfo Severino has pointed out that ASEAN's signal achievements have been in the political and security areas, building confidence and giving it a central role in regional institution-building. This links to a third trend of uncertainty over whether this centrality is sustainable in the context of a shifting power distribution across Asia, in particular between the United States and China. Some fear that both countries are attempting to drag ASEAN – or at least certain member states – away from an equidistant position (e.g. Cambodia towards China and Vietnam towards the United States). Here some possible scenarios present themselves.

The US rebalancing has included reinvigorating relations with ASEAN after a period of perceived neglect, and the US decision to sign the ASEAN Treaty of Amity and Cooperation and join the EAS was symbolic of this shift. Chinese–ASEAN diplomacy has been dominated since 2010 by issues around the South China Sea, primarily disputes between China and the Philippines over the Spratly Islands and with Vietnam over the Paracel Islands. These countries' concerns about Chinese intentions have pushed them closer to the United States, and were behind the failure of the 2012 ASEAN summit to issue a joint statement as Cambodia (the chair), under Chinese influence, resisted Filipino and Vietnamese pressure to censure China.

At the same time, especially since 2013, China has sought to bolster its relations with ASEAN in other areas, proposing 'upgrading' the decade-old ASEAN–China free-trade area (effectively an offer of Chinese concessions on trade issues) and negotiating a treaty of good neighbourliness, friendship and cooperation. While China's position remains that disputes over territory should be resolved bilaterally, it has acknowledged a role for multilateralism (and hence for ASEAN) in maintaining peace and stability and jointly developing security structures in the region.¹⁷⁶ All of this presents challenges to ASEAN, but also highlights its ability to influence the agenda and therefore its centrality in regional affairs. In sum, ASEAN as a group and some of its larger members in their own right remain influential in the regional distribution of power.

¹⁷⁵ Jayant Menon, 'Moving too slowly towards an ASEAN Economic Community', East Asia Forum, 14 October 2014, <http://www.eastasiaforum.org/2014/10/14/moving-too-slowly-towards-an-asean-economic-community/>; Daniel Wu, 'Malaysia's chairmanship priorities all in order', East Asia Forum, 12 February 2015, <http://www.eastasiaforum.org/2015/02/12/malysias-asean-chairmanship-priorities-all-in-order/>.

¹⁷⁶ Zhai Kun, 'Chinese Diplomacy Towards Southeast Asia in 2014', China-US Focus, 16 January 2015, <http://www.chinausfocus.com/foreign-policy/chinese-diplomacy-towards-southeast-asia-in-2014/>.

4. New Narratives of Power Distribution

Forecasting is an uncertain business, not least given the dynamism apparent today in the Asia-Pacific region. However, looking ahead over the next 15 years, this paper offers conclusions about the likely shape of the region in the medium term. This section draws together what is known about the current narratives, how the tangible elements of power are likely to change in the coming years, and the overriding characteristics of the states themselves and their interactions with one another. From this, the region's likely distribution of power and its representation in regional dynamics are anticipated, and probable future narratives set out.

Characteristics of the Asia-Pacific region

Based on the analysis in sections 2 and 3 with respect to the trends in the instruments of power in the region – and on the likely national dynamics, constraints and opportunities within the major four powers – the Asia-Pacific around 2030 is likely to exhibit four principal trends. These are as follows:

Faster pace of change

The world is moving and changing faster than ever before, whether with regard to the rise of new actors or the fall of established ones. This is particularly the case in the economic and commercial spheres, in which the rise or decline of businesses increasingly features major new global actors (such as Huawei in China or Tata in India) alongside the traditional ones.

This is being supported by developments in new technologies, in particular in the field of communications. The ability to control information within states is increasingly breaking down, as China is discovering. (So is North Korea to a lesser extent and in a very different context.)¹⁷⁷ With over 100 million individual journeys overseas per year, the engagement of Chinese citizens with the rest of the world is going to continue to grow regardless of any authoritarian measures the authorities might seek to impose at home. Equally, as all of the states with interests in the region (including the United States) are finding out, control of intellectual property and ensuring the security of cyber systems are becoming tougher.

The rapid pace of change is also reflected in trends with regard to the challenges that these countries face. Not only are pressures on natural resources becoming more acute, in part due to rising demand, but the burden of providing social services is only going to increase as some populations age and shrink.¹⁷⁸

Volatility is a challenge, in addition to the speed of change. In some cases, trends are oscillating faster between wider extremes. This is true of issues such as food prices, which over the past decade have swung significantly, leading to insecurity, migration and protectionism.

¹⁷⁷ North Korean state control appears to be fragmenting. There is increasingly a gap between Kim Jong-un's rhetoric of control and the reality on the ground. Technology is a key factor in limiting state authority. Economic necessity is forcing the state to cede de facto authority to its citizens via the widening grey economy. This trend predates Kim Jong-un, as witnessed by the abortive economic reforms of 2002.

¹⁷⁸ Population Reference Bureau, 'China's Rapidly Aging Population', <http://www.prb.org/pdf10/todaysresearchaging20.pdf>, accessed on 18 September 2015; UNDESA, *World Population Prospects: The 2012 Revision*, http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm, accessed on 6 March 2015.

Diversification and diffusion of power

Power in the region will increasingly be diversified and diffused to new actors, in line with broader global trends. This has several characteristics:

- Diffusion of power to a larger number of states with the ability to influence regional dynamics. The primary feature here is the rise of more ‘middle powers’ in the region, but it could also include states currently outside the region, such as those in Europe.¹⁷⁹
- Diffusion of power within states from central governments to the local level. This is particularly true of larger countries such as China and India, where economic dynamics and opportunities are devolved and local in nature. For example, the trajectory of the state of Gujarat in India over the past decade has demonstrated this. In China, although the most rapid phase of growth of coastal provinces such as Guangdong and Jiangsu has probably passed, both have economies (with nominal GDP of around \$1 trillion) that exceed in aggregate the scale of Indonesia.
- The growing influence of regional organizations as they become more institutionalized. The interactions between different regional institutions – which are themselves sites for renegotiation of influence – add to the complexity of regional dynamics. The emergence of relatively new organizations (whether economic, strategic or political in focus) such as the AIIB, the SCO and the Northeast Asia Peace and Cooperation Initiative is an important trend. Those institutions with the greatest influence are likely to be ones that reflect and respond to the shifting power distribution in the region.
- Diffusion of power from state actors to non-state ones, ranging from civil society to corporate entities and investors.

The number and diversity of actors have grown considerably. There are far more states today in positions of potential leadership on issues of direct national interest to them. Where once events were shaped principally by the United States, with Japan as the most important resident regional economic actor, China now plays a stronger role in many changes in the region. Increasingly India, South Korea, Indonesia, Australia, even North Korea and still Russia also have the ability to effect change, either in a constructive, positive direction or in a potentially negative, disruptive one.

Equally, new state actors from beyond the region are increasingly likely to play a role there. If the TPP is completed, then investment from members outside the region will certainly increase, diversifying dependencies within the region. States such as Australia and Japan are already looking for a broader set of economic and investment partners to decrease their potential vulnerability to Chinese policy pressure. As energy demands change, Middle Eastern and European actors are likely to play a more active role in ensuring Asian sea lanes remain open.

There is also an emerging role for civil society and NGOs that is more overt than ever, though the extent of this varies substantially across the region and between sectors. In politics, the increasing salience of populism and declining confidence in existing governmental mechanisms for resolving social and economic problems suggest a more fluid and conditional pattern of engagement between citizens and their leaders.¹⁸⁰

¹⁷⁹ The MIKTA (Mexico, Indonesia, South Korea, Turkey and Australia) grouping that first met in 2013 suggests the recognition of the rise of new middle powers globally.

¹⁸⁰ See Micklethwait and Wooldridge, *The Fourth Revolution*.

And finally, established groupings such as APEC, ASEAN and the various ASEAN Plus institutions (e.g. the EAS or the 10+6 grouping behind the RCEP) continue to play an important role. They are being joined by more informal plurilateral groups in ways that sometimes reinforce them but also sometimes might supplant them as venues for interaction (e.g. the US–India–Japan, US–Japan–Australia and China–South Korea–Japan trilaterals).

Complexity – more actors, more challenges, more tools

An important consequence of this diffusion and diversification is that the nature and exercise of power and influence in the region have become more complex. This trend is likely to continue in the decades ahead, driven in part by the rise of these many regional powers to positions that allow them to spread political and economic influence more widely than before.

The nature of power is also changing. While states have historically projected their influence through a combination of economic, military and diplomatic instruments, they now have access to more diverse tools with which to maximize their power. And, rather than emphasizing the military, they now prioritize the use of these tools in far more nuanced and complex ways.

This is leading to vastly more policy options for states than before. Generally this can be seen as a positive development. However, it can also lead to more tension as states take actions they believe do not cross an adversary's red line (e.g. cyber attacks or intellectual property theft) but that in fact lead inexorably to escalation. It can also lead to policy paralysis as leaders confront multiple choices.¹⁸¹ Finally, it makes it harder to measure power, as one can no longer rely on comparing the size of militaries; instead, calculating relative state power will increasingly need to take into account other dimensions such as development assistance, diplomacy and soft power.

Equally, the challenges that states face have increased in number and diversity. Traditional security concerns remain prominent for many countries, as the renewed attention paid to maritime disputes in the South and East China seas over the past five years demonstrates. However, non-traditional issues from water to food security, cyber vulnerabilities and intellectual property are becoming more of a challenge to many states in the region.¹⁸² So are economic issues such as investment, taxation and subsidization; and humanitarian issues such as migration and the plight of refugees.¹⁸³

Interdependence of states and issue areas

With growing diversification, diffusion and complexity comes greater interdependence. As Section 1 on current narratives showed, in the 'rise of China' bipolar narrative, states often feel stuck between China and the United States, recognizing their growing dependence on the former for economic development and the latter for security. ASEAN and other regional organizations, and the proliferation of these formal and also informal groupings, only increase the interdependence of the region's states on one another.

¹⁸¹ As Henry Kissinger noted, the proliferation of social media is undercutting the ability of heads of state to act decisively as they constantly subject their decisions to focus groups and stress tests before acting. See Kissinger, *World Order* (London: Penguin, 2014), pp. 356–57.

¹⁸² See, Gareth Price et al., *Attitudes to Water in South Asia*, Chatham House Report (2014), http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20140627WaterSouthAsia.pdf.

¹⁸³ Not least with the wide acceptance of the responsibility to protect, which lowers the bar for humanitarian intervention and puts states under pressure to intervene.

As stated in Section 2, the instruments of power are, to varying degrees, also interdependent. For example, economic levers can have real implications for security, either directly by limiting military spending or indirectly by providing economic leverage to punish another country for a military act. Soft power can often have economic consequences (e.g. when nationals of Japan stop investing in China or vice versa).

The challenges, too, are interdependent. Territorial disputes have had economic implications, for example through the restriction on the export of rare-earth minerals or through the intentional mobilization of popular protest and the aggressive use of public diplomacy. The perception of China's muscle-flexing significantly affects the kinds of investments in capabilities that other states are choosing to make (e.g. military over diplomatic). Food or energy insecurity could reinforce territorial disputes, just as commercial competition could have implications for migration or investment. While these issues were never independent of one another, they are increasingly intertwined.

How states, instruments and challenges interact with one another is also a significant factor, and can often change perceptions. It can augment or reduce the power and influence of instruments, affecting the size of the threat or opportunity perceived. It adds to the challenges for states of building long-standing and sustainable relationships, as countries sit at different points of the spectrum on different issues, finding interests aligned in some areas but divergent in others.

Implications for states

In order to function successfully in this new dynamic, governments will have to deploy a wider portfolio of resources, and develop new tactics and strategies to promote their national interests. Their ability to do this will have significant implications for how effectively states are able to wield power within the region. The key capabilities needed are as follows:

- **Flexibility and adaptability:** The ability of states to manage these four transitions and thrive through them will be defined by their ability to adapt. Those that rely on a pre-existing order dependent on a particular distribution of power might find it hard to respond flexibly to the future regional landscape as power distribution shifts. For example, America's recent resistance to changing voting patterns in the World Bank has, in part, led to China driving the creation of the AIIB and many other states within and beyond the region signing up for it. The ability to build, sustain and potentially expand coalitions of power and interest to confront an increasing diversity of national policy challenges is likely to be a critical component of national power and successful leadership. Equally, domestic flexibility and the adaptability to respond to internal trends are extremely important. These characteristics will help to determine the resilience of states.
- **Diversification of instruments:** States that can call on a wide range of foreign policy instruments will be able to respond more rapidly and flexibly to events. Conversely, those that rely on one or two tools are going to find themselves constrained. For example, India's relatively small diplomatic corps will likely restrict its ability to build alliances – its diplomats will become overloaded very quickly and will only be able to focus on a limited number of critical concerns. Japan's efforts to normalize its military and turn it into an effective tool of foreign policy could provide it with greater geographical reach and versatility than it has had in recent decades. At the same time, for many new challenges (e.g. cyber and natural resource constraints) military tools are becoming less relevant (at least as a first option). And, when military tools

are engaged, this will likely need to be as part of a broader strategy using a more diverse array of tools including economic levers, diplomacy and soft power. States that invest in these other instruments of power will find themselves better placed to engage.

- **Using new actors:** A diverse range of new actors at the sub- and supra-state levels will be active and have influence. A state's ability to engage at both levels within new and established groupings will enhance its influence and provide alternative mechanisms of action that will often hold greater legitimacy within the region and beyond. Equally, being able to harness the power of domestic non-state actors, for example through public–private partnerships or engagement with the NGO community, will provide a state's leadership with additional channels through which it can try to effect change.

An emerging regional structure

Drawing together the characteristics that can be identified for the region and the likelihood of states being able to respond to these trends, it is possible to offer some conclusions regarding the likely emerging Asia-Pacific power structure. Overall, the 'power diffusion' narrative described earlier is most likely to prevail.

The Asia-Pacific region can be characterized as 'flexi-nodal'. A variety of new emerging or re-emerging powers, such as Japan, South Korea, India and possibly Indonesia, will come to hold more prominent roles in the region and have more influence. The region is unlikely to look as it did in the 1990s, with one dominant power (the United States), or as it might in one of the narratives set out at the beginning of this paper with a bipolar structure based on the United States and China. Instead, given the diverse instruments of power and changing trends in each state, there will be many powers, with the scope for them to set the agenda on different issues, and with the leadership roles traditionally associated with the United States being spread among them or held jointly. The disparity between these powers will likely be smaller than it is today. For example, a successful TPP might dilute the potential for China to be the dominant regional economic power, just as a successful AIIB could dilute America's power over broader institutional infrastructural investment and perhaps, in time, soft power perceptions. Equally, with Japan expanding the role of its SDF and India reinvesting in its military, important new security actors will rise to address a broader range of security challenges beyond traditional military threats. What remains unclear at this juncture is how particular states will choose to deploy their assets to advance different and sometimes competing policy priorities, and whether they will choose to act assertively in a leadership position or pursue a more low-key follower's role in support of more powerful states or actors.

It is not just a question of whether new states are likely to assume leadership but also how the others around them respond. As these dynamics play out, there will be a further proliferation of formal and informal groupings. Groups such as APEC and ASEAN will continue to provide venues for engagement between states on issues of concern or mutual interest, even though the diversity and diffusion of actors and power are leading to the creation of new groupings. There are a number of dynamics in the relationships between these institutions, including between groups that are broadly inclusive across the Pacific, such as APEC; and between those with a membership more exclusive to the region, such as ASEAN and related groupings. Such groupings and relationships are likely to be increasingly ad hoc and responsive to specific challenges, making it easier for states to participate knowing that they are not sacrificing other interests.

The proliferation of new challenges, such as humanitarian response, climate change, cyber warfare and intellectual property disputes, will facilitate the profusion of new ad hoc groups as different states prioritize differing interests and engage together to address them. This phenomenon is already playing out in the development of potentially competing initiatives such as the TPP and RCEP, and the potential expansion of the Chiang Mai Initiative or the ASEAN Economic Community. Greater collaboration is taking place in humanitarian assistance, disaster relief and efforts to tackle piracy. While there is sometimes competition between different groups (such as between the TPP and RCEP), the fact that all principal actors in the region are trying to engage with regional institutions of one form or another (though with varying degrees of intensity) clearly shows that all have embraced the reality that advancing national interests requires being present in established and new forums alike. A state that fails to do so risks losing its voice in an increasingly plurilateral decision-making process.

This ‘flexi-nodal’ structure captures the region’s growing attractiveness to a diversity of global actors, including European and non-European states, and the complex interaction of challenges and opportunities – whether defined in terms of politics, economics or security, or more broadly in material or ideational terms. The relative global influence of the region is likely to grow steadily over the next 15 years, but not necessarily in a way that will unambiguously represent a binary shift of power from the developed West to a developing Asia-Pacific (this is a key part of the ‘global flux’ narrative). Asia’s challenges – territorial, resource-based and demographic – as well as the debate over political values and competing systems of governance, have implications beyond the region, and the range of potential solutions to them is necessarily global.

It seems self-evident that the ability to build new and effective coalitions based on common interest is a critical requirement for any country that wishes to exert meaningful influence (or even leadership) and maximize its interests. This must take place in a context in which there is no immediately discernible global or regional agreement about political values or systems of government, or even models of economic development, whether highly state-led or neoliberal. Consequently, it is not convincing to see the future as shaped by a simple choice between a Washington Consensus and a Beijing one, or as a simple split between Western and Asian values, as the ‘Asia for the Asians’ narrative might imply.

Within the broad description of a ‘flexi-nodal’ distribution of power, a number of uncertainties will affect how the relationships within this structure play out. These unknown factors could have profound effects on the structure’s relevance to the region’s challenges. While many uncertain factors could be influential, the four listed below are the most important:

- **China’s future assertive or positive engagement:** Will China take a collaborative approach to regional (and global) engagement? Or, potentially, will its domestic politics or the perceived assertive actions of other states push it towards a more combative approach? If China pursues a more assertive stance (as has happened intermittently since 2010), it could drive other countries in the region to form defensive coalitions. A more assertive Chinese stance could arise in response to the perception that other states were already forming such coalitions, particularly through America’s different alliances. Confrontations could play out with regard to territorial and strategic competition between China and some of its neighbours (e.g. Japan, Taiwan, the Philippines, Vietnam). While escalation has been avoided thus far, this may not always be the case, particularly if China’s domestic and economic situations worsen, prompting the Communist Party to conjure up the image of a foreign enemy as a

means of bringing the population together. Whatever China's intent, the perceptions of many of its neighbours may lead them to continue to call for the United States to remain engaged in regional security.

- **Japan – growth or stagnation:** Will Japan's economic bounce-back return it to a path of growth and investment, or will Abe's 'three arrows' of reform fail? Japan has the potential to play a leading role by engaging all of its instruments of power, from the economic to military to soft power. However, in the past two decades the country's influence has weakened considerably. If it were to return to economic stagnation, reversion to an internal focus would significantly limit its foreign policy role in the region. It is not clear which direction Japan will take.
- **The American rebalancing towards or away from Asia:** There has been much debate about the reality of the 2011 'pivot' or rebalancing towards Asia, but also more recently about whether this shift has been reversed owing to events in the Middle East and the confrontation with Russia over Ukraine. While an outright rebalancing away from Asia is unlikely, if the United States refocuses on other regions strategically and with regard to its resources, this could have profound effects on its ability to influence the region. This could be compounded by efforts to focus on domestic issues ('nation-building at home'). However, this would be unlikely to have as great an impact in an increasingly flexi-nodal structure as it would in the current one. For as long as the United States is present in the region (and there is no reason to think it would not be), its role will inevitably become less dominant.
- **India's trajectory:** Whether India fulfils its economic and commercial potential, maybe to become the fastest-growing economy in the region, will have significant implications for the distribution of power. India's success could lead others throughout the region and beyond to see the 'inevitability' of China's rise with more ambiguity. This will be particularly relevant as China's global economic strategy focuses increasingly to its west, through Xi Jinping's signature 'Silk Road' initiatives. On the other hand, India's strong state-led model, corruption and bureaucracy could leave it standing on the sidelines.

None of these uncertainties is likely to change the fundamental diffused-power structure described here. However, they will influence how individual states operate within this structure, and how they choose to collaborate or partner with other states and actors in advancing their respective national interests while responding to common challenges.

At the same time as these choices or uncertainties have the potential to change how effective states are in responding to trends and challenges within this new structure, unexpected high-impact developments could fundamentally affect the vision laid out here. Two such events in particular must be noted:

- **North Korea:** How great is the risk of a military conflict on the Korean peninsula, including the use of nuclear weapons, with its attendant humanitarian implications and massive economic dislocation?¹⁸⁴ A flood of refugees would have profound effects on China and South Korea in particular; having to react to any coup or regime collapse in North Korea could divide China and South Korea or bring them closer together. The flexi-nodal structure of the region will leave actors better placed to react to any collapse and could support a multilateral response to it. The six-party talks and, maybe, South Korea's Northeast Asia Peace and Cooperation Initiative are

¹⁸⁴ US Department of Defense projections in 1993 suggested 1 million civilian casualties, 50,000 troop deaths, etc. Scott Stossel, 'North Korea: The War Game', *The Atlantic*, July/August 2005, <http://www.theatlantic.com/magazine/archive/2005/07/north-korea-the-war-game/304029/>.

clear examples of flexi-nodal action and the potential that it brings to regional relations – as well as the challenges of realizing that potential.¹⁸⁵

- **Humanitarian disaster:** A major humanitarian disaster (such as a pandemic, nuclear accident, earthquake or tsunami) could bring states in the region closer but also drive them apart. The path taken would depend significantly on the actions of the state where the disaster originated. Again, the flexi-nodal environment would make it easier to respond to any disaster, as long as states chose to work together rather than close their borders.

These possible events, as well as the choices that states make in responding to them, could lead to a strengthening of the flexi-nodal framework described above. However, they could also lead to more complexity, uncertainty and slower responses as a variety of actors jostled for position on particular issues and, in some cases, sought to free-ride on the actions of others. Some issues that did not rise to a sufficient level of concern or interest could be ignored altogether until the situation became sufficiently bad. On the other hand, where issues were of clear concern, action would be more likely to take place in a timely manner as the profusion of networks provided the structures for the relevant players to act together. In most cases, the flexibility of this new structure would better enable responses to any of these challenges (even though it might not be advantageous for a specific state in certain circumstances). The flexi-nodal structure would therefore be likely to strengthen and become entrenched over time.

New narratives

The best narrative (though not necessarily the one that dominates debate about the region) will be the one that accurately reflects the distribution of power (e.g. a flexi-nodal structure that represents the diffusion of power between a wide variety of actors). The reality of a flexi-nodal situation will not necessarily be represented directly in terms of the narratives that regional actors use to describe their environment. And these narratives will inevitably feed back into how the structure evolves and how effective it is in managing regional relations (as the discussion of perceptions in Section 3 suggests).

As is the case today, alternative narratives are likely to grow from this central idea. For example, depending on events in the coming years and, in particular, the continued growth trajectory of China, India and Japan, some observers will come to describe one or other of these powers as being ‘on top’. This reflects a common tendency for states (and individuals) either to seek status, or in some cases to need an outside threat (as the United States saw in Japan in the 1980s and many see in China today). The battle for supremacy for some will continue and will play out in how people perceive the region.

At the same time, the choices that some of the principal states might make, in particular China and the United States, will affect how subsequent ad hoc groupings develop and could lead to a profusion of ‘values-based’ groups. This could lead to a narrative more akin to the ‘values-based polarity’ described in Section 1.

¹⁸⁵ See, Chung-in Moon, ‘The Six Party Talks and Implications for a Northeast Asia Nuclear Weapons Free Zone’, NAPSNet Special Reports, 24 April 2012, <http://nautilus.org/napsnet/napsnet-special-reports/the-six-party-talks-and-implications-for-a-northeast-asia-nuclear-weapons-free-zone/>. See also Yoon Sojung, ‘President emphasizes mechanics of Northeast Asian cooperation’, Korea.net, 23 March 2015, <http://www.korea.net/NewsFocus/Policies/view?articleId=126382>.

How these narratives play out will be extremely important, and will feed back into how effectively Asia-Pacific states are able to respond to challenges in the new regional framework. The ability of narratives to influence perceptions is great, and perceptions can determine whether states are inclined to collaborate or to compete with each other. Developing a narrative that closely follows reality, thus enhancing transparency, would be a positive outcome for the region and beyond.

Conclusion

This paper argues that the predominant narrative of bipolarity between the United States and China is neither an accurate reflection of the Asia-Pacific region today nor a prediction of its future. The bipolarity narrative is based on a superficial assessment that focuses principally on economic and security issues, and that does not take sufficiently into consideration other factors such as diplomatic, cultural and natural resource capabilities and vulnerabilities. Furthermore it has the self-fulfilling potential to push actors into more bipolar ‘Cold War’-type behaviour, with negative consequences. Developing a more accurate narrative that describes this new Asia-Pacific construct will be extremely important and could mitigate the risks of this sort of behaviour. A narrative that causes misperceptions among the actors will at best result in inefficient relations, and could potentially contribute to conflict.

In response, the ability of states to build strong and positive relations, whether formal or informal, will be crucial to augmenting their capabilities, building their resilience and lessening their vulnerabilities. These networks will provide the platforms on which regional relations will play out. Whether the environment in the region will be benign or competitive is still uncertain. But it is clear that the importance of any one actor, including the United States and China, could be reduced as other power centres develop.

Looking ahead and considering the broader range of levers of influence, the most likely power distribution in the Asia-Pacific region will be one of diffusion, or a ‘flexi-nodal’ world. There would be a larger number of powerful or influential states in the region, and greater prominence for sub-national non-state actors as well as supranational groupings. This multi-actor and multi-lever environment would be far more complex and would demand greater flexibility and adaptability on the part of the principal states. The policy challenge is substantial.

Acronyms and Abbreviations

| | |
|---------|--|
| APEC | Asia-Pacific Economic Cooperation |
| ARF | ASEAN Regional Forum |
| ASEAN | Association of Southeast Asian Nations |
| ASEAN+1 | ASEAN + another nation (typically China but can be India, the United States or others) |
| ASEAN+3 | ASEAN + Japan, China, South Korea |
| BRICS | Brazil, Russia, India, China and South Africa |
| EAS | East Asia Summit |
| TPP | Trans-Pacific Partnership |

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