The New Zealand Paradox
Adjusting to the Change in Balance of Power in the Asia Pacific over the Next 20 Years

AUTHOR
Wayne Mapp

A Report of the CSIS Pacific Partners Initiative and the Sumitro Chair for Southeast Asia Studies

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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ADIZ</td>
<td>air defense identification zone</td>
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<tr>
<td>ADMM+</td>
<td>ASEAN Defense Ministers’ Meeting Plus</td>
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<tr>
<td>ANZAC</td>
<td>Australian and New Zealand Army Corps</td>
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<tr>
<td>ANZUS</td>
<td>Australia, New Zealand, United States Security Treaty</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>AWACS</td>
<td>airborne warning and control system</td>
</tr>
<tr>
<td>C4ISR</td>
<td>command, control, communications, computers, intelligence, surveillance, and reconnaissance</td>
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<tr>
<td>CTBT</td>
<td>Comprehensive Nuclear Test Ban Treaty</td>
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<tr>
<td>EAS</td>
<td>East Asia Summit</td>
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<td>EEZ</td>
<td>exclusive economic zone</td>
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<td>FPDA</td>
<td>Five Power Defense Arrangement</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>HADR</td>
<td>humanitarian assistance and disaster relief</td>
</tr>
<tr>
<td>LDP</td>
<td>Liberal Democratic Party</td>
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<tr>
<td>MFAT</td>
<td>Ministry of Foreign Affairs and Trade</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<tr>
<td>NZSAS</td>
<td>New Zealand Special Air Service</td>
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<td>NZ</td>
<td>New Zealand</td>
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<td>NZTE</td>
<td>New Zealand Trade and Enterprise</td>
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<tr>
<td>OSD</td>
<td>Office of the Secretary of Defense</td>
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<tr>
<td>PAC-3</td>
<td>Patriot Advanced Capability-3 missile</td>
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<tr>
<td>PIF</td>
<td>Pacific Islands Forum</td>
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<tr>
<td>PLA</td>
<td>People’s Liberation Army</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<tr>
<td>RIMPAC</td>
<td>Rim of the Pacific Exercise</td>
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<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>V/STOL</td>
<td>vertical and/or short takeoff and landing</td>
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Introduction: The Essence of the Dilemma

Over the next two decades New Zealand faces a paradox. The country’s security and economic relationships are being pulled in opposite directions. Over the last 20 years, these relationships have become increasingly divergent. The People’s Republic of China (PRC) is rapidly becoming New Zealand’s most important economic partner behind Australia. At the same time New Zealand is forging a new security relationship with the United States. This divergent tendency is likely to intensify over the next two decades.

At first blush this paradox would seem to be unsustainable, especially when viewed from the perspective of 2030. By that time, China is almost certain to be the world’s largest economy, and will be New Zealand’s most important economic partner in trade, investment, and services.

China will also expect to have influence in global affairs that will reflect its economic status. Understandably New Zealand’s strategic partner, the United States, will not view this change in world affairs with equanimity. It will seek to counter this development by reinforcing U.S. engagement with the Asia-Pacific nations with reference to its more attractive liberal democratic values.

The United States will be able to back up these qualities with the scale of its economy, which will still be comparable to that of China and which will have deep international connections, including with New Zealand. The United States will also have military forces with global reach, which for the next 20 years at least will be unrivaled. But it will be challenged by the increased tempo of the arms buildup in East Asia.

The most important question that New Zealand will face over the next 20 years is whether the continuation of this paradox is a viable proposition for the country. Is it possible to accept that there simply will not be an alignment between New Zealand’s security and economic relationships, and that this can be accommodated without causing significant difficulty? Or does it mean that New Zealand is going to have to make a fundamental shift in those relationships?

New Zealand’s key economic relationships are becoming more focused on Asia, with China being increasingly predominant. This trend will continue, and is almost certain to
intensify over the next 20 years. Already China has become New Zealand’s largest trading partner for both imports and exports.¹

Trade is not merely a financial transaction. It involves substantial human interaction. Business people work together. Travel increases. Offices are established. Nations become interlinked, and increasingly take into account each other’s needs and expectations. This has been the story of the relationship between China and New Zealand over the last 20 years. Over the coming years this process will deepen and strengthen.

In contrast, New Zealand’s security focus remains on its traditional allies and partners, most notably Australia and the United States. These relationships are built on history, sacrifice, and shared values. Such things do not readily change. In particular, nations do not base their most important security relationships on the changing fortunes of international trade patterns, unless there are other compelling factors. Deep security relationships are unlikely to be substituted for partnerships that do not rest on long-standing values that are common to both parties.

Right now this paradox is readily accommodated, largely because China and the United States are not yet in sharp competition. Whether this can continue will depend on how the power relationships evolve within the Asia-Pacific region, and on New Zealand’s skill in managing the impact of these changes.

New Zealand is not the only nation that will have to deal with this paradox; so will many others, most notably Australia. In fact, for Australia the situation is even starker. China is already Australia’s main trading partner. Unlike New Zealand, Australia has a formal security alliance with the United States through the Australia, New Zealand, United States Security Treaty (ANZUS). Australia also has a separate defense alliance with New Zealand through the Canberra Pact of 1944.

In any event, to characterize the divergence of interests that New Zealand has to deal with as simply one of security and trade is to misstate the situation. China’s international interests are much broader than economic relationships. As China’s economy has grown, so have its ambitions. China expects that it will have a role in the Asia Pacific that is commensurate with its economic power. New Zealand is unlikely to be able to take long-term advantage of the economic opportunity that China presents without also having to consider other Chinese interests. These interests will inevitably impinge on New Zealand’s traditional security relationships. The situation will become acute if China and the United States move into a phase of antagonistic confrontation.

This report critically examines the options open to New Zealand, and also to other nations in a similar situation as the balance of power in the Asia Pacific changes. The

choices available to New Zealand will be crucially dependent on whether the relationship between the two great powers in the Asia Pacific develops a sharply competitive and antagonistic tone, or a more collaborative approach is pursued. This will not be a matter solely for the great powers. The other nations of the region, including New Zealand, have a vital stake in the balance of power in the Asia Pacific. The continuing prosperity of the region is dependent on sufficient stability to enable trade and investment to flow unaffected by strategic competition.

Not all major power relationships are examined in this report. Notably India and Russia are not part of the central discussion. India, though playing an increasingly important role in Asia, is not a Pacific power. Russia may have an extensive Pacific coast, but is not yet playing a significant role in the Asia-Pacific region. A more comprehensive study would nevertheless have to consider the impact of these two countries on the strategic outlook for the Asia-Pacific region.

This paper has a particular focus on the military balance in the region. The projected military balance will be a key indicator of whether the nations of the region have confidence in the future stability of the Asia Pacific. The current trajectory of arms expenditure would indicate that many nations do not see a settled security environment. Increasingly, many nations in the Asia Pacific are making substantial investments in capabilities with real power projection potential. This could easily destabilize the region. The prospects of miscalculation, particularly with the numerous territorial conflicts in the East and South China seas, are considerable.

All the regional states that are increasing military capabilities also have an abiding interest in peace and stability. The basis of their economic growth, peace and stability are essential for continued trade and investment. Many of these nations face the same conundrum as New Zealand. In virtually all cases the economic relationship they have with China has become central to their prosperity. At the same time, many of these nations are building new security relationships with the United States as Washington's “pivot” or “rebalance” to the Asia Pacific becomes a reality. Resolving this dilemma will become an increasingly urgent task for all the Asia-Pacific nations. And each state will be actively engaged in dealing with this issue. They will not leave this solely to the great powers.

International relations are not just about the wishes of great powers; other states have interests, which influence the balance of power between great states. China and the United States will not be able to act, either in concert or in conflict, heedless of the interests of the other states in the region. Smaller states, particularly when acting in concert, will be able to make their own contributions to the security and stability of the Asia-Pacific region. Choices made by each country, whether large or small, can influence how the region as a whole will evolve over the next two decades.

This report will consider the opportunities that are open to New Zealand to develop initiatives in security, and in other fields that could have resonance at the multilateral level with nations of the Asia-Pacific region. The intent is to assist in achieving a balance that
will maintain the stability and security of the Asia Pacific. It is these conditions that have been so important in securing the prosperity of the region over the last 30 years.

Smaller nations will usually have more influence if they have partners in their efforts. Many of the initiatives suggested in this report, especially those related to the South Pacific, are more likely to be to have impact with other nations in the region if New Zealand can cooperate with Australia to promote them.
New Zealand and the Asia Pacific

Securing the Nation

New Zealand’s security relationships stem from its origins as a nation. As an offspring of the United Kingdom it was inevitable that New Zealand would see its interests as aligned with those of Britain. Prime Minister Michael Savage’s statement to the nation at the beginning of World War II, following New Zealand’s declaration of war on Germany, spoke of the depth of the ties between New Zealand and the United Kingdom: “With gratitude for the past and confidence in the future we range ourselves without fear beside Britain. Where she goes, we go; where she stands, we stand.”¹ It was an expression of familial connection, as much as it was of the justness of the cause.

It was this war that also showed the limitations of British power in the Asia-Pacific region. In 1942 New Zealand had to turn to the United States to be its protector. The fall of Singapore meant that only the United States had the power to thwart Japan’s imperial designs. This fact has had an enduring impact on New Zealand. It remains a central feature of the country’s security policy.

The security relationship that New Zealand has with the United States had its origins in events that took place more than 30 years before 1942. President Theodore Roosevelt, in showing the world the prowess of U.S. naval strength, sent much of the U.S. Navy on a world tour in 1908. It was popularly styled the Great White Fleet. The arrival of the fleet in New Zealand clearly demonstrated that the United States was becoming the primary security actor in the Pacific. Within a generation, during World War II, the nascent power of the United States within the Pacific had become a reality.

The democratic and cultural heritage of the United States, as well as its military power, meant that only it was capable of securing a stable peace in the Asia Pacific that would accord with the interests of Australia and New Zealand. For both countries, their very survival as independent nations was dependent on the military power of the United States within the Pacific. In New Zealand alone, there were 40,000 U.S. forces deployed from 1942 to the end of the war. It was self-evident to Australia and New Zealand that victory in the Pacific had rested not only on the military power of the United States, but also on its

immense economic superiority. The role of the United Kingdom as the guarantor of New Zealand’s sovereignty had permanently ended.

Australia and New Zealand understood that for the future, it would be the United States that would fulfill the role of security guarantor. It was therefore inevitable that in 1951, with the emergence of the Cold War, the security guarantee implicit in U.S. military power was formally confirmed by the ANZUS pact. For Australia, ANZUS remains its most important alliance relationship. The value of the U.S. alliance to Canberra has never been seriously questioned, and Australia will not do anything that would jeopardize the guarantees implicit in the pact.

The ANZUS Rift

The situation for New Zealand is more nuanced. New Zealand is the most geographically isolated nation in the world. Australia lies between it and any conceivable threat. New Zealand therefore considers that it has options that Australia does not. That made New Zealand willing to make decisions that would seriously affect the security relationship with the United States, without perceiving those decisions as significantly increasing the actual risk to the country’s national security.

The passage of the New Zealand Nuclear Free Zone Act of 1987 led the United States to suspend the formal security relationship of the Australia, New Zealand, United States Security Treaty (ANZUS) as it applied to New Zealand. As a result, New Zealand is no longer a formal ally of the United States. Yet it is implicit in the New Zealand psyche that in extremis, New Zealand would still have U.S. support. Any event that reached deep into the South Pacific to threaten the security of New Zealand would inevitably affect the security of the United States.

The ANZUS rift culminated with the Nuclear Free Zone Act, but the issue had been developing for over a decade. The legislation had been the result of a vigorous campaign in New Zealand against nuclear weapons that reached back to the French atmospheric testing in the South Pacific. New Zealand’s position as the most remote nation on earth meant that particular offence was taken about great power rivalry being extended into the South Pacific, especially as it related to weapons of mass destruction. The nuclear free campaign has had particular resonance for successive Labour Party governments.

In 1973 the Labour government led by Prime Minister Norman Kirk sent a frigate to protest against French atmospheric tests at Muroroa in French Polynesia. After the tests were moved underground, the campaign continued against all French testing. The focus of the nuclear issue shifted to ship visits by U.S. nuclear powered vessels.

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During the nine years of Prime Minister Robert Muldoon’s National Party administration there were a number of visits by U.S. nuclear powered vessels. These high profile visits had the effect of highlighting concerns about the nuclear arms race and the risks of nuclear power. This fact was also noted by the United States, and concerns were raised as to whether the frequency of the visits was actually helpful to the maintenance of the alliance.3

The ship visits divided New Zealand society on traditional left/right lines. The extent of the division was such that in 1983 the Labour opposition pledged to ban visits by nuclear armed and nuclear propelled ships and submarines. Unlike parties in Australia, Labour did not consider the formal alliance relationship with the United States to be so central to New Zealand’s actual security needs that it could not be put at political risk by banning nuclear powered vessels. A number of leading members of the Labour Party actually knew that the ban would likely end the formal alliance relationship. They saw this as a desirable outcome because it would enable New Zealand to adopt a more independent foreign policy.

The issue was precipitated by a parliamentary bill promoted by Labour Party’s Richard Prebble, a member of the opposition’s shadow cabinet, to ban ship visits by nuclear armed vessels. At the time the National government had only a one seat parliamentary majority. Marilyn Waring, a National Party legislator, said she would support the bill, meaning it would have sufficient votes to become law. The result was that Prime Minister Robert Muldoon was forced to call an early election, which was held in July 1984, five months earlier than expected. Labour won a substantial majority.

The Labour government of 1984 to 1990 brought in a new generation of politicians who had been prominent in the protest movement against the war in Vietnam, and who did not think that New Zealand’s interests were served by being part of a United States–led security alliance that had its origins in the Cold War. The focal point of the protest campaign was the continuing visits by nuclear armed and powered ships and submarines.

The newly elected Labour government had a clear electoral mandate to implement its commitment to ban visits by nuclear armed and propelled ships, though opinion polls indicated that the public also wanted New Zealand to remain in the ANZUS alliance.4 It became clear as the policy was being implemented that the United States considered it incompatible with New Zealand remaining an active member of ANZUS.

The first test of the policy came in late 1984, with the proposed visit by a conventionally powered frigate, the USS Buchanan. The United States assumed that the New Zealand

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4. The opinion polls conducted at the time showed 69 percent support for the ban on ship visits and 71 percent support for remaining in ANZUS. Frank Corner and the New Zealand Defence Committee of Enquiry, What New Zealanders Want (Wellington: The Committee, 1986).
government would understand that this ship was unlikely to carry nuclear weapons. However, the U.S. government was not prepared to give that assurance; to do so would have breached its “neither confirm nor deny” policy regarding nuclear weapons. Wellington refused the visit on the basis that the government could not satisfy itself that the ship did not actually have nuclear weapons. This event led directly to the suspension of the ANZUS pact as it applied to New Zealand. U.S. secretary of state George Schultz, speaking in 1986, said, “We part as friends, but we part company.”

This position was further entrenched by the passing of the New Zealand Nuclear Free Zone Act in 1987, which banned ships carrying nuclear weapons as well as nuclear powered vessels. By that time the military relationship between the two countries had virtually ceased. Over the next 12 years there was only a modest level of military engagement, which did not include any multilateral or bilateral training exercises, or goodwill visits of forces. Formal military diplomacy continued, along with a limited intelligence relationship.

The suspension of ANZUS as it applied to New Zealand was a cost that New Zealanders were willing to incur. They have remained of that view over the succeeding 25 years. In 2007, when in opposition, the National Party formally committed itself to accept the nuclear free policy, noting, “the nuclear-free legislation will remain in place because of its iconic status in our emerging sense of national identity.”

New Zealand’s geographic location, and the safety it affords, means that New Zealanders see no advantage in their government changing its position. Because the United States had specifically declared the fallout from the rupture would be confined to the military and strategic aspects of the relationship, the cost is not seen by most New Zealanders as very significant. Similarly for the United States, the formal loss of a small ally deep in the South Pacific is not particularly important. Instead, the principal concern of the United States was that changing its position on nuclear propelled ships to accommodate New Zealand would mean other states, most notably Japan, might be tempted to follow the New Zealand example.

Reengagement with the United States

In practice New Zealand and the United States have been able to rebuild their security relationship, notwithstanding the nuclear free policy. The relationship is no longer based on being formal allies, as was the case under ANZUS. Instead it rests on fundamental shared values, as well as security interests, that are in fact the basis of any enduring


alliance relationship. New Zealand was characterized by Secretary of State Colin Powell in March 2002, following his meeting with Prime Minister Helen Clark, as a “very, very, very good friend.” In more recent times the preferred descriptor has become “partner.” The Washington Declaration signed by New Zealand and the United States in June 2012 describes the relationship as one of “partnership.”

Any enduring security relationship is not primarily dependent on the formal words of a treaty. Alliances that are able to endure over time rest on the values that the parties share. These in turn build an interlocking web of relationships, obligations, and commitments. In the case of the ANZUS split 25 years ago, these deeper relationships were always seen as able to survive the formal suspension of the pact.

In the intervening 25 years New Zealand has continued its security engagement with the United States, particularly in actual conflicts requiring a multilateral response. While most of these deployments have had United Nations (UN) authorization, they have been characterized by a specific view of the coalition partners of how international peace and security should be achieved. In short they represent an orthodox view of the norms of international relations, as perceived by the United States, and its friends and allies.

New Zealand deployments in these coalition operations have ranged from the Sinai from 1978 to the present, the Gulf War of 1991, Somalia in 1994, Kosovo in 1999, and Afghanistan from 2001 to the present. In the Iraq war of 2003, New Zealand was not part of the initial coalition but sent an engineer squadron to Basra, and deployed various aircraft and ships to the Persian Gulf as part of Operation Enduring Freedom.

UN authorization is seen as desirable, and in most cases essential. But it is not an absolute requirement. In Kosovo there was no Security Council resolution due to a Russian veto. Western nations were not prepared to let the Russian veto prevent the North Atlantic Treaty Organization (NATO)–led intervention from being able to protect the people of Kosovo, and more importantly to determine Western defense policy.

The reality is that New Zealand remains part of the group of like-minded nations that typically work together for their common interests. As an example, the NATO/International Security Assistance Force operation in Afghanistan has nearly 50 participating nations. It includes the NATO democracies, plus other democratic nations that regularly contribute forces to NATO–led operations, such as Australia and New Zealand. These coalitions are becoming broader. A number of Asian nations, including South Korea, Malaysia, and Singapore, have sent forces to Afghanistan, usually in a training or support role. Malaysia and Singapore, with their long-standing links with New Zealand and Australia through the

Five Power Defence Arrangements (FPDA)\(^9\), co-located their contributions with fellow FPDA partners.

Nevertheless, the specific defense prohibitions that both New Zealand and the United States have established, which led to the suspension of New Zealand from ANZUS, have remained in place. New Zealand will not change its nuclear free policy and the United States will not change its ship visits policy, at least as far as it applies to naval vessels. The security relationship between the two nations has had to fit around that reality.

In practice nuclear issues do not affect the contemporary deployments of either New Zealand or the United States. Deployments have been motivated by massive abuse of human rights as in Bosnia and Kosovo, the invasion of a state as in the 1991 Gulf War, international terrorism as in Afghanistan, and assisting governance and stability as in Timor-Leste and the Solomon Islands. In none of these cases was nuclear technology, whether weapons or propulsion, a significant factor. In each case, common interests enabled them to work together.

The events of September 11, 2001, have led to a more realistic assessment of the national interests of the two nations. In the years since, New Zealand has become actively involved in the Middle East operations led by the United States, especially in the Gulf and in Afghanistan. The quality of these commitments has been a measure of the value of the relationship. The successive commitments of the New Zealand Special Air Service (NZSAS) to Afghanistan by both the Labour and the National governments is seen in Washington and Wellington as providing real credibility to the importance that New Zealand attaches to having an effective relationship, both security and more broadly, with the United States.

The improved security relationship between the two nations has required active diplomacy by the National administration of Prime Minister John Key. In particular, the New Zealand foreign affairs and defense ministers have focused on practical steps to improve the relationship, rather than reminding the United States of factors that divide the two countries.

As a result, the security relationship between New Zealand and the United States has been strengthening in recent years, with a greater level of joint training and more exercises than occurred from 1987 to 2008. U.S. Marines visited New Zealand for formal training in 2012, for the first time since 1984. New Zealand naval ships participated in the 2012 Rim of the Pacific Exercise (RIMPAC) for the first time since 1987. This is the premiere naval exercise in the Asia Pacific. Based out of Hawaii, it involves most of the navies from either side of the Pacific. The notable exception had been China’s navy. As the security

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relationship between China and the United States has developed, one of the outcomes has been the invitation to China to participate in RIMPAC 2014.

New Zealand and the United States have needed to develop a deeper understanding of the elements of a sustainable security policy in order to find ways to work together. An effective security policy needs to be able to transcend individual administrations. While each government will emphasize different aspects of security policy, a sharp disjuncture from one administration to the next in either country will mean that long-term relationships cannot be sustained.

New Zealand’s *Defence White Paper 2010*\(^{10}\) sought to recognize this dimension of security policy. Since 2008 the National government has had an active policy of improving the relationship with the United States, essentially by normalizing security engagement as much as possible. In practice this means joint training of forces and routine visits of personnel at different levels that are the norm for any defense relationship. However, visits by U.S. Navy ships to New Zealand remain off the agenda, and are not pursued by either party.

The main formal developments have been the Wellington Declaration of November 2010, and the Washington Declaration of June 2012. The Wellington Declaration is essentially a foreign policy document signed by Secretary of State Hillary Clinton and Foreign Minister Murray McCully. It expresses the relationship as “the United States–New Zealand strategic partnership.” The declaration commits each country to close cooperation in a wide variety of areas, including “regular Foreign Minister meetings and political-military discussions.”\(^{11}\) The real value of the Wellington Declaration is not its specific commitments, which simply confirm what was already occurring or planned, but rather that they have been expressed in a formal document.

The Wellington Declaration was followed 18 months later by the Washington Declaration. This is the counterpart defense document signed by Secretary of Defense Leon Panetta and Minister of Defense Jonathan Coleman in June 2012. The Washington Declaration is more focused on military relations. It envisages strategic dialogue and enhanced military cooperation within the region, with particular emphasis on maritime security, counterproliferation, counterterrorism, and anti-piracy. The declaration also promotes peacekeeping and peace support operations. Inevitably this will involve more bilateral and multilateral exercises.

The commitments of the two declarations clearly extend beyond the South Pacific. The Wellington Declaration specifically notes the “two nations joint co-operation in addressing broader regional and global challenges, such as climate change, nuclear proliferation, and

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extremism.” The United States will use the opportunity of the dialogue envisaged by both declarations to set out its view of the balance of power in the Pacific and how it considers that New Zealand should contribute. Inevitably the shared interests of the two nations will center on regional security issues. In this regard New Zealand will be especially careful to ensure that any public statements made as a result of the dialogue do not aggravate its growing relationship with China.

The two declarations are a public affirmation to other countries, as well as New Zealanders, that the relationship is to be sustained and enhanced at a more predictable and regular level. Successive governments can expect that the commitments for more regular dialogue will continue.

The Labour opposition in New Zealand has endorsed the move toward a more sustainable defense relationship. Foreign affairs spokesman and former minister of defense, Phil Goff, welcomed the Washington Declaration, noting that it reaffirmed “co-operation between New Zealand and a friendly country on issues where it is sensible to talk and work together.”

There are critics of the broad direction that was forecast in the Defence White Paper 2010. Former New Zealand ambassador to the United Nations Terence O’Brien was critical of the reaffirmation of what he saw as traditional relationships, writing, “The white paper pinpoints the countries of the so-called Anglo-sphere—the United States, United Kingdom, Canada and Australia—as the permanent security partners for this country.”

Three of these nations are in the Pacific and one of them, Australia, is New Zealand's closest partner in just about every endeavor. The government’s intent in the white paper was that the change of emphasis in security policy would signal a greater ongoing engagement with the leading nations of the region, rather than the formalistic restoration of traditional alliances.

More tellingly, O’Brien suggested that New Zealand should give consideration for joint deployment opportunities with Asian partners to reflect the region’s importance to New Zealand. Thus far such engagements have occurred primarily with Malaysia and Singapore as FPDA partners. New Zealand will need to look to do more with the other member of the Association of Southeast Asian Nations (ASEAN), and also with the nations in north-eastern Asia, including China.

12. Ibid.
15. Ibid.
16. ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.
Japanese prime minister Shinzo Abe, within days of the election of his party as the government majority, suggested that Japan should join the FPDA. This was put in the context of a speech warning of the influence of China in the region. Abe proposed that Australia, India, Japan, and the United States form a strategic diamond to safeguard the maritime commons, stretching from the Indian Ocean to the western Pacific. Notably China was excluded, although its interest in the maritime commons is just as large. The FPDA partners would need to think carefully about the value of expanding the arrangements in a way that might be interpreted as a policy of Chinese containment.

New Zealand has been careful to characterize the improvement of the security relationship with the United States as essentially the normalization of the defense partnership. Most nations within the region have training exercises with the United States. It was anomalous that New Zealand did not. New Zealand’s participation in RIMPAC 2012 for the first time in over 25 years has, at the very least, provided the country with the opportunity to take a more active role in Pacific security. RIMPAC 2012 included 21 other nations, including many Latin American countries, a number of ASEAN nations, Australia, Canada, France, India, Japan, South Korea, and Russia. In 2014 China and Vietnam will be included.

The improvement in the security relationship between the United States and New Zealand, especially in the South Pacific, is likely to go beyond normalization. It is the rebuilding of a critical security partnership. Both nations intend that the improved relationship will be seen as an essential part of the new security arrangements for the Asia Pacific, as the United States builds upon its pivot to the Asia Pacific.

The emergence of China has given new urgency to the United States’ engagement with its partners in the Asia Pacific. The United States has been able to build on existing understandings and alliance relationships to build a more active engagement with its partners. Under the Obama administration, this is characterized as the pivot or rebalance, but it is a bipartisan initiative that is shifting the locus of U.S. diplomatic and security efforts to the Asia-Pacific region.

New Zealand also recognizes that the pivot has risks. It will not want the United States to use the pivot to drive wedges between nations. Instead New Zealand would see more advantage in bringing China into the security architecture of the Asia-Pacific region.

The Australian Dimension

Australia’s position and influence in the Asia Pacific owes much to the depth and strength of its alliance with the United States. This is seen as the bedrock for the protection of Australian sovereignty. Without the U.S. Pacific Fleet during World War II, Australia would not have been able to prevent a Japanese invasion of the north of the country.

There is no ambiguity in Australia, either among political leaders or the public, about the importance of the protection that the United States provides. Unlike the ASEAN nations, there have been no difficulties with a colonial past, as was the case with the Philippines; there has been no major military intervention as with Vietnam; and there is no uncertainty about whose interests the alliance serves.

The alliance is deeply embedded in the Australian psyche. The Australian experience in World War II means it will not do anything that would significantly risk the effectiveness of the alliance. Successive Australian prime ministers have ensured that the alliance is continuously reinforced. In 2011 Prime Minister Julia Gillard, in an address to the U.S. Congress, said, “You have an ally in Australia. An ally for war and peace. An ally for hardship and prosperity. An ally for the sixty years past and Australia is an ally for all the years to come.”

Unlike New Zealand, a powerful immediate neighbor does not protect Australia. The choices open to New Zealand are not immediately apparent to Australia.

There are some dissenters to the prevailing and overwhelming consensus. Alison Broinowski, a former diplomat, considers it a “fantasy that the U.S. alliance will protect us.” This is derived from a realpolitik view that great powers will only ever act in their own interests. However, even in this view, it is hard to envisage a threat to Australian sovereignty that would not also threaten the United States. In such dire circumstances there is no doubt that Australia and the United States would pull together to deal with the threat. Broinowski puts her case too bluntly.

Australia considers that it gains much more than military security from the alliance. It gains a level of engagement with the most powerful nation in the world that it would not otherwise have. This in turn increases Australia’s influence in the broader Asia Pacific, though this increased influence is limited by the fact that it derives from the alliance. To what extent is the Australian voice seen as simply reflecting U.S. positions?

To the extent that there is a trade-off, Australia is prepared to accept it. Gains from the alliance greatly outweigh disadvantages.

Nevertheless, the paradox that New Zealand faces also has to be confronted by Australia. In fact it is starker. Australia is a formal ally of the United States. New Zealand is more in the category of de facto ally. For Australia, China is its most important trade partner, for exports as well as imports; New Zealand’s most important economic partner is Australia.

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21. Australia accounted for 22 percent of New Zealand’s goods exports and 15 percent of its imports in
The challenge that this poses for Australia is not lost on policymakers in Canberra. While they may not see the issue in the way Broinowski characterizes it, they know they will have to more forcefully assert the Australian interest, which may not directly coincide with that of the United States. This is not the same as having to choose between China and the United States. It is Australia seeking to influence and moderate the behavior of the two great powers.

Although there is a strong consensus on the value of the alliance, Australia also wants to ensure that the tensions between China and the United States will not damage the stability of the Asia Pacific. Alexander Downer, former foreign minister, has raised the question of how far Australia’s alliance obligations extend. For instance, would they include a Chinese attack on Taiwan?22

Hugh White, Australia’s former deputy secretary of defense, has been a strong advocate for Canberra taking a more active role in recognizing the change in the balance of power in the Asia Pacific. In his recent book, The China Choice: Why America Should Share Power, he suggests that the United States and China ought to formally agree to share power in much the same way as the European powers did with the Concert of Europe in 1815.23 The concert followed the defeat of Napoleon Bonaparte at Waterloo. A comparable 20th century moment would be the establishment of the United Nations with the permanent members of the Security Council being the principal victors of World War II. At present the incentives do not exist for such a formal approach. However, there is broad agreement across the political spectrum with White’s view that the United States must accommodate and share power with a rising China.

At the launch of White’s book, former Australian prime minister Paul Keating expressed his view that a cooperative structure between China and the United States should be a foreign policy goal of Canberra. Malcolm Turnbull, at the time a senior member of the Liberal opposition, in reviewing the book accepted the need for a realignment of power in the Asia Pacific. He also noted, with respect to the South China Sea, that it should not “be assumed that China’s claims are without any legal merit.”24

Senior politicians in Australia’s Labor and Liberal parties increasingly point out to Washington, in publicly and in private, that the United States needs to take steps to improve the dialogue that it has with China in order to sustain stability and predictability in the Asia Pacific. Australia considers that this can only be achieved if China’s interests are
recognized to a greater extent than is currently the case. Prime Minister Kevin Rudd, writing in *Foreign Affairs* in spring 2013, considered there ought to be an annual summit between China and the United States, recognizing the dominance of these two states in the region.\textsuperscript{25} Canberra’s assertiveness on this issue is a clear signal to the United States of Australia’s independent thinking on Asia-Pacific relations.

Australia will look for ways to balance its security needs with its economic imperatives. In practice this means using its influence to moderate any antagonistic behaviors between China and the United States, essentially by proposing a sharing of power. Success in this endeavor will avoid the need to publicly confront China on the key issues that can cause tension in the region.

Australia has already taken the initial steps in this regard with the *Defence White Paper 2013*, which set a new tone for Australia’s relationship with China: “The Government does not believe that Australia must choose between its longstanding alliance with the United States and its expanding relationship with China; nor do the United States and China believe that we must make such a choice. Their growing economic interdependence and developing security cooperation reinforce this point.”\textsuperscript{26} In this respect Australia has taken a more forward leaning rhetorical position than New Zealand, though in substance the position of Australia and New Zealand is similar. While New Zealand and Australia do have different perceptions about the importance of the U.S. security relationship, they are increasingly aware of the significance of the shift in the balance of power in the Asia Pacific.

It is improbable that Australia and New Zealand will diverge too widely in their search for security. For instance, neither of the two nations is likely to adapt to the change in the balance of power in the region to the extent that either would seek a security partner that would create a fundamental conflict for the other nation. To do so would disrupt the Australian and New Zealand Army Corps (ANZAC)\textsuperscript{27} relationship itself. That is not a risk that a New Zealand government would take. It is noteworthy that New Zealand did not see the ANZUS rift in this light.

The last decade has seen both nations strengthen their security relationship with the United States. As the United States gives more priority to the Asia Pacific there will be increased opportunities for Australia and New Zealand to modernize the security relationship with the United States. But both nations are acutely mindful of the need for a comprehensive and sophisticated relationship with China.


\textsuperscript{27} ANZAC was originally a joint force formed during World War I. Several other joint military units have used the name since, but the acronym has become synonymous with the wider Australia–New Zealand defense relationship.
The Chinese Opportunity

The paradox between security and economics is starkly demonstrated by the increasing reliance of both New Zealand and Australia on Chinese trade and investment. At the time when the security relationship with the United States is expanding, it is also certain that the economic relationship that the two countries have with China will continue to deepen.

China is New Zealand’s most important trade partner, having overtaken the United States in 2009 and Australia in 2013. In 2012 China accounted for 12.4 percent of exports, which is expected to grow to 18 percent by 2015. The growth in trade has increased fourfold since the China New Zealand Free Trade Agreement came into effect in 2008. The effect has been to insulate New Zealand from the worst effects of the global recession of 2009 to 2012. It is noteworthy that the agreement remains the only comprehensive free trade agreement that China has negotiated with a developed country.

The China New Zealand Free Trade Agreement illustrates one of the key differences between Australia and New Zealand. Australia is a formal ally of the United States and has a free trade agreement with it, but not with China. New Zealand is not a formal ally of the United States and does not have a free trade agreement with it, but does have one with China.

Does this distinction actually make a difference? New Zealand has spent considerable effort in rebuilding its security relationship with the United States. However, it is not seeking to become an active member of the ANZUS pact. Ostensibly this is due to its nuclear free legislation. It is also arguable that the status of an informal ally also suits New Zealand’s economic objective of building its trade and economic relationship with China. The fact that Australia does not have a free trade agreement with China could be a direct result of the fact that it is a close ally of the United States.

New Zealand’s economic position is more precarious than that of Australia. As a result New Zealand considers it has fewer choices than Australia. New Zealand’s principal exports are temperate agricultural products, which traditionally face high trade barriers. Free trade agreements covering such products are particularly difficult to negotiate, especially if one of the negotiating parties has a strong farm lobby intent on keeping trade barriers intact. This was not the case in China. The free trade agreement with China has been of great value to New Zealand because it has dramatically lowered these barriers, and has facilitated trade that would not otherwise occur.

In contrast, Australia did not need a free trade agreement in order for China to become its number one trading partner. This is because Australia’s mineral commodities are so important to China that a free trade agreement is not necessary to facilitate trade in these commodities. Typically, minerals do not face tariff barriers. Australia’s minerals are so

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accessible for mining operations that they can out-compete all other suppliers. However, trade is more than simply a transaction in commodities. China has become a leading source of investment, migrants, students, and tourists for Australia. The economic connections between Australia and China have inevitably led to a broader understanding of the interests of each nation. Australia knows that a deterioration of the security and stability of the Asia Pacific would imperil its own prosperity.

The same story can be told of New Zealand. The economic and social relationship with China goes well beyond trade in goods and commodities. There has been a huge increase in the number of Chinese citizens studying in the country, with 23,000 paying to attend New Zealand schools in 2011.29 Many of these students will stay in New Zealand after they graduate and seek to become permanent residents. China is now New Zealand's largest source of immigrants, with 2 percent of New Zealand's population being born in China.30 Chinese migrants are establishing themselves in leadership positions, with the example of two members of Parliament having been born in China. While their allegiance is to their new country, they have provided valuable links for their respective political parties with China.

Investment has been expanding in both directions. Total Chinese investment in New Zealand totaled $1.5 billion in 2012, excluding investment in government bonds and bank deposits.31 The majority of investment is in forestry, farming, property, and hotels. While Chinese investment in New Zealand has been rapidly growing, it is less than 2 percent of total foreign investment. In contrast, Australian investment in New Zealand totaled $43 billion and U.S. investment totaled $9 billion in 2012.32

Even at the modest level of $1.5 billion, Chinese investment, especially in farmland, has been controversial. The purchase by Shanghai Pengxin in 2012 of 16 dairy farms totaling almost 20,000 acres generated the largest campaign against foreign ownership that New Zealand has ever seen. The intensity of the campaign raised the specter of xenophobia. At that time, there had been significant recent purchases of farmland by U.S., German, and Australian investors that had gone relatively unremarked.

One of the issues of concern was the lack of transparency between the Chinese company making the purchase and China's Communist Party. This in turn raised in the public mind the question of the lack of democratic values in the Communist Party. The purchase underscored the dilemma that New Zealand, and other nations, face in dealings with China.

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32. Ibid.
In New Zealand land purchases have been especially emotive. There is a general view that New Zealanders have sufficient capital to develop their own land, even if vendors are not able to achieve premium prices.

In contrast, the takeover of Fisher and Paykel Appliances, one of New Zealand's largest manufacturers, by China's Haier Group for $600 million, progressed without any substantial public comment even though it is quite possible the intellectual property of Fisher and Paykel will permanently leave New Zealand. In part, the lack of reaction was because the public has become inured to Chinese investment. It is also a public recognition that New Zealand lacks large pools of domestic capital for industrial and technical expansion.

**Achieving the Balance**

The anxiety that Chinese investments in land have created in New Zealand illustrates the dichotomy of the security and economic relationship. New Zealanders want to expand the commercial relationship with China but are still finding it difficult to develop mature ties across all aspects of the relationship. The tensions are much less problematic in New Zealand's relationship with the United States, thanks to long-standing economic and security connections.

New Zealand, especially at the official and commercial level, is intent on deepening its relationships with both China and the United States. There is no sense that the future has to be a zero sum game—that the relationship that New Zealand has with either China or the United States can only be improved at the expense of the other. Yet it is clear that the deepening relationship New Zealand has with each country is occurring at a time when there is a major shift in the balance of power within the Asia-Pacific region. This is potentially a domestic as well as an international dilemma.

New Zealand is becoming more concerned about the risks that would be posed by a more competitive security environment in the Asia Pacific because it perceives that at some point this will result in having to make choices that it would prefer not to make. New Zealand’s decision to be part of both the U.S.-dominated Trans-Pacific Partnership (TPP) trade agreement and the Regional Comprehensive Economic Partnership (RCEP) championed by China reflects a desire to keep its relations with the two powers in balance. This could become more difficult in the future, as the change in the balance of power affects the security environment.

It may not be possible to keep economic and security issues completely apart. New Zealand, along with other nations in the Asia Pacific, will need to find a way to also build a constructive security relationship with China. This will test New Zealand, given that China does not share the democratic traditions that infuse its existing security relationships.

One of the principal virtues of the Asia-Pacific region over the last 30 years has been the stability of interstate relations. This has been essential in order to allow the growth and
prosperity of the region. Unlike Europe, the stability of the Asia Pacific has not been dependent on the expectation that every government in the region will adhere to the same or a similar form of government. Instead it has rested on the fact that each state respects the sovereignty of others. Stability in this sense does not require that there be a static power balance. Rather it is an expectation the changes in the balance of power will be accommodated in a way that recognizes the reasonable expectations of the rising power.

The specific challenge that New Zealand, and other nations, face is how to play a constructive role in ensuring that the stability that the Asia Pacific currently enjoys will evolve in a way that will enable the apparent dichotomy of divergent security and economic relationships to be resolved.
The Pacific Pivot

The United States’ location in the western hemisphere means that it has a unique position among the great powers. It is able to look at Europe and Asia simultaneously. For most of its history the United States was primarily concerned with European issues. This reflected the origins of the United States and the reality that Europe was the focus of global power. The end of the Cold War bought this era to a close. The United States no longer needed to be singly concerned with Soviet military power. The 20 years since the end of the Cold War have seen the locus of global economic power swing decisively toward the Asia Pacific.

The western hemispheric location of the United States has meant that, unlike Europe, the United States has been able to more easily understand that the growth of the Asia-Pacific region will be the most decisive influence in the distribution of global power.

The United States is a Pacific nation as much as it is an Atlantic one. In this respect the United States has a different perspective than Europe. Even though Europe shares the same continental landmass as Asia, it is not connected to Northeast Asia and Southeast Asia in the same way as the United States. For Europe the vast distances beyond the Ural Mountains means that these regions are characterized as the Far East. In contrast the Pacific Ocean is seen to connect the United States to, rather than divide it from, Asia.

It is now apparent that the United States’ most important economic relationships are within the Asia-Pacific region. A deeper security engagement within the region is inevitable, especially given the growth of the People’s Republic of China and its increased influence in the region. This focus on the Asia Pacific will become more evident as the United States reduces its commitments in the Middle East, both in respect to the level of military deployments and its shrinking reliance on Middle East oil imports.

The Obama administration recognized this reality early in its tenure. It saw the war on terror as more of an intelligence and Special Forces operation, rather than as a major war requiring hundreds of thousands of troops to be deployed in theater. As a result, the administration was able to take a longer perspective toward the security interests of the United States.

President Barack Obama announced the broad framework of his administration’s foreign and security policy in May 2010 with the National Security Strategy. This took a
more global view than the foreign policy of the previous administration. The orientation toward the Pacific was more fully articulated by Secretary of State Hillary Clinton, particularly in her October 2011 *Foreign Affairs* article, “America’s Pacific Century.” The shift was characterized by the secretary as a “pivot,” though the more recent usage is “rebalance.” The latter is intended to convey that the United States remains globally connected, and is not putting all its diplomatic and security efforts into the Asia Pacific.

Nevertheless, the United States has put a large commitment into revitalizing its existing Asia-Pacific alliance relationships with Australia, Japan, South Korea, the Philippines, and Thailand. It has also identified emerging partners, including Brunei, Cambodia, India, Indonesia, Malaysia, Mongolia, New Zealand, Singapore, and Vietnam, with specific initiatives reflecting the situation of each country.

The United States has also put substantial effort into its engagement with China. In 2009 the two nations agreed to an annual security and economic dialogue, and in 2011 held their first annual strategic security dialogue. The June 2013 summit between presidents Obama and Xi Jinping was notable for its warmth.

There is a much more limited military dialogue. U.S. military officials foresee a “positive trajectory” in which China “emerges as a constructive partner.” However the language used conveys a sense that China is expected to engage on U.S. terms, rather than as an equal partner mutually determining how the two will each play a role in the region. In the military field this perspective is not surprising. It will be decades before China is able to match U.S. military capabilities.

Nonetheless political leaders are changing the dialogue. Secretary of State John Kerry, speaking about the relationship with China in Tokyo in April 2013, observed, “We are committed to building a comprehensive and a cooperative partnership that allows us to work together in mutual respect.”

The commitment that the United States has to the Asia Pacific is evident from the frequency of presidential visits to the region. In November 2012, within days of his reelection, President Obama made the first official visits of his second term to Thailand, Myanmar, and the East Asia Summit (EAS) forum in Cambodia. It was a powerful signal of where the president’s future priorities lie.

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The Pacific pivot is the contemporary expression of the renewed U.S. interest in the Asia-Pacific region. While the pivot has a security dimension, it fundamentally represents a recognition that the Asia Pacific will be the dominant force in global affairs in the decades ahead.

The Security Dimension

The first tangible expressions of the pivot have been in the security field. In the last two years the United States has made agreements to station forces in Australia and in the Philippines. In the latter case, officials have suggested there will be rotational deployments of ships and aircraft. This will be the first significant naval deployments to the Philippines since the U.S. bases in that country closed in 1991–1992.

In November 2011 the United States and the Philippines signed the Manila Declaration, intended as a first step in rebuilding their security relationship. The Philippines has particular anxieties about the features it claims in the South China Sea: the Spratly Islands, which are also claimed in whole or in part by Brunei, China, Malaysia, Taiwan, and Vietnam; and Scarborough Shoal, which is currently occupied by China. These features are much closer to the Philippines than to the Chinese mainland. The territorial conflict between Beijing and Manila over these islands and their adjacent seas means the renewed Philippine naval relationship with the United States will have increased value for both parties to the Manila Declaration.

The United States has been progressively increasing its diplomatic effort within the region, especially with the Association of Southeast Asian Nations (ASEAN) members. The continuing disputes between China and the ASEAN members over the South China Sea have meant that the United States and Southeast Asian countries see the advantage in building their mutual security relationships. For the ASEAN countries, they have a powerful partner that can provide diplomatic support, backed by tangible military capability, in their disputes with China.

However, the ASEAN members have been careful to maintain a semblance of balance between the two great powers. With the exception of the Philippines and Thailand, they have not gone so far as to become formal allies of the United States. They have too much at stake with China to antagonize Beijing to that extent. At the same time that the ASEAN countries are reengaging with the United States, they are also seeking to include China in new multilateral forums with China, including the biennial ASEAN Defence Ministers’ Meeting Plus (ADMM+).

For the United States the gains of the closer relationship with the ASEAN members are immediately apparent. It can remain intimately engaged in the area on two issues of

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6. The ADMM+ includes the 10 members of ASEAN plus Australia, China, India, Japan, New Zealand, Russia, South Korea, and the United States.
utmost importance to it. First, it enables the United States to bring its forces, especially naval forces, into Southeast Asia with basing arrangements as a buttress for ASEAN states. Second, it goes directly to the importance that is placed by the United States, as a global and maritime power, on freedom of the seas. The risk is the potential for confrontation with China over the competing claims in the South China Sea.

The pivot extends across the Asia-Pacific region. The inclusion of New Zealand within the broader Asia-Pacific security framework recognizes that for the Pacific pivot to succeed, the United States has to embrace as many of the Pacific nations as possible, whether they are larger nations, such as Australia and New Zealand, or the smaller island nations of the Pacific.

New Zealand's primary area of influence is the Southwest Pacific. New Zealand has sovereign territory extending from the Antarctic to the equator. The island states of the Cook Islands and Niue are self-governing in free association with New Zealand, which has responsibility for their foreign relations. The Tokelau Islands are directly governed by New Zealand. The exclusive economic zone of New Zealand and the three island territories covers 15 percent of the Pacific Ocean. New Zealand also has very close relationships with Samoa and Tonga. The United States also has sovereign territory in the South Pacific. It is often forgotten that Samoa's closest neighbor is American Samoa. This fact ensures that the United States has a tangible territorial stake in the South Pacific.

These geographical and political facts indicate the value for New Zealand and the United States in strengthening the security relationship between them. The improved relationship with New Zealand will also strengthen the United States' connection with the island states in the South Pacific.

New Zealand and Australia are the principal nations within the South Pacific. For both nations, a deep engagement with the United States serves to reinforce the role of Washington as a key security partner in the region. The greater presence of the United States will not be limited to security objectives; it is intended to deepen the country's overall engagement in the region. The increased U.S. commitment to the South Pacific will therefore provide a new impetus for a whole range of activities intended to directly benefit the small island nations of the region. These initiatives will be led by the three metropolitan nations. They will be specifically aimed at boosting economic and trade opportunities. Development aid projects are likely to be directed to this outcome.

An intended purpose of the increased presence of the United States in the South Pacific is to reduce the influence of China on the island states. While this objective will be particularly important for the United States in its ongoing competition with China, for Australia and New Zealand the situation is more nuanced. It is recognized that China now has an enduring presence in the region. However there is an understood hierarchy of influence. Australia and New Zealand expect that the United States will have a larger role in the South Pacific than China. The fact that the United States has significant territorial possessions in the Pacific provides a tangible reality to this expectation. The United States is expected to
do more than just balance the role of China in the South Pacific; it is expected to act as the third metropolitan nation in the area.

The Economic Dimension

The Pacific pivot also has an economic dimension. The United States has been promoting the TPP, which is intended to create a free trade agreement covering many of the states of the Asia Pacific. New Zealand has taken a particularly active role in the TPP negotiations. It was instrumental in the precursor negotiations known as the P5, between Australia, Chile, Singapore, the United States, and New Zealand. One of the consequences of New Zealand’s early role is that it is now fulfilling the role of official depository of the TPP.

The negotiations now cover 12 countries: Australia, Brunei, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, the Philippines, Singapore, the United States, and Vietnam. China’s absence from the negotiations is notable.

The United States is placing an increasingly large effort into successfully concluding an agreement. President Obama has made the TPP a priority during his second term. He personally led the discussions on the TPP at a special forum at the East Asia Summit (EAS) in November 2012. The declared aim was to finalize the negotiations by the end of 2013.

The TPP is not the only multilateral free trade agreement that is being negotiated in the Asia Pacific. At the same EAS at which Obama was promoting the TPP, negotiations were also launched for the Regional Comprehensive Economic Partnership (RCEP). This agreement covers the 10 ASEAN states, together with Australia, China, India, Japan, New Zealand, and South Korea. The inclusion of India in the RCEP is a clear indication of the evolving role of that country in East Asia affairs. Although India might have a limited presence in the Pacific, it plays an intimate role in Southeast Asia. In contrast to the TPP, the United States is the most notable absence from the RCEP negotiations.

It is likely that the TPP will be concluded before the RCEP. President Obama will want to see the TPP come into effect during his administration. The negotiations for the RCEP are not likely to be completed for another five years.

The quality and depth of the two agreements will be an indication of the influence that the two great powers have on the other states of the region. A low quality agreement that leaves many of the barriers to trade in goods and services in place will indicate that dialogue is more important than substantive reform. A high quality, deep agreement will be a demonstration, especially by the United States, of the depth of the commitment that each country has toward its Asia-Pacific partners.

The existence of the two agreements is a clear indication that most Asia-Pacific nations consider it imperative to find ways to balance their relations with the two great powers. This is particularly evident with the ASEAN countries that have been especially assiduous
in building arrangements that include all major nations in the region, and especially China and the United States. It is also increasingly evident that they wish to balance the power of China and the United States by also including India in their fora.

**Influencing the Pacific Pivot**

For the present the most flexible nations in the Asia-Pacific have been ASEAN members. They have undertaken various initiatives that are intended to include both China and the United States, if not together then separately. Australia and New Zealand have been willing participants in this process led by the ASEAN states. In recent years, Canberra and Wellington have not been able to find ways in which they can lead on multilateral issues that include both China and the United States. The engagements in which Australia and New Zealand have been able to lead have primarily occurred in the South Pacific. In this region there are no other significant nations able to set a multilateral agenda.

Australia and New Zealand have not always been unable to develop new initiatives that include the wider Asia-Pacific region, and especially the great powers. In 1989 Australian prime minister Bob Hawke was able to successfully promote the establishment of the Asia-Pacific Economic Cooperation (APEC) group, with the initial meeting taking place in Canberra. For the succeeding 20 years, APEC was clearly the premier Asia-Pacific forum. In contrast, Prime Minister Kevin Rudd was not able to replicate this success with his proposal in 2009 for an Asia-Pacific security forum. The security space has now been taken over by the ASEAN countries pursuing their initiatives.

If either Australia or New Zealand are to successfully assert themselves in developing new initiatives at the multilateral level, they will need to find common cause with ASEAN members. This will be a significant challenge.
Securing the Peace

The Security Architecture

The security architecture of the Asia-Pacific region reflects the New Zealand paradox. The basic framework dates back to the end of World War II, and in some cases many decades earlier. As such it reflects the immense power that the United States had at the end of World War II. The arrangements forged in the aftermath of that war, and at the beginning of the Cold War, are only slowly adapting to the changes of the last 20 years. In fact the Pacific pivot runs the risk of excessively reinforcing the status quo of preeminent U.S. power at the very time that it will become progressively unsustainable.

This chapter will therefore specifically examine the military balance in the region and how it is likely to change over the next 20 years. This will have profound consequences and will change the nature of the options open to the countries within the region. There is an opportunity, however, to reshape the security architecture so that it more effectively reflects the military balance within the Asia Pacific. Failure to do so is likely to lead to greater tensions. Ultimately this will not be in the interests of any nation.

Currently most nations within the region are meshed into a network of security agreements that have the United States as the cornerstone. The purpose has been to embrace the member nations in an elaborate framework of mutually reinforcing relationships. The intent is that nations will see the value of enduring long-term security agreements.

The exceptions to these arrangements are the People's Republic of China (PRC) and its immediate neighbors Cambodia, Laos, North Korea, and Vietnam. The reason is simple. The broad architecture of U.S.-centric security agreements has its origins in limiting the potential influence of China. This was originally seen as containing the spread of communism. The efforts by the United States and its allies to stem the advance of communism were crucial factors in the conduct of the Korean War and the Vietnam War. These events are now 60 and 38 years in the past. Since China embraced the Four Modernizations in 1978, there have been no military conflicts of that scale in the Asia-Pacific region.

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But the basic dynamic remains. China and the United States do not see each other as natural collaborative partners, with essentially the same strategic objectives, within the Asia Pacific. Although their economies are heavily interlinked, the two nations do not share common strategic goals. They are more inclined to see each other as competitors. Therefore, they have not sought to develop an interlocking framework of trade and security agreements that would make conflict as remote a prospect as it now is among the nations of the European Union and the North Atlantic Treaty Organization (NATO).

The military balance therefore has greater significance than it would among nations with more settled relationships. The relative prosperity of the region has enabled substantial modernization of the armed forces of many Asia-Pacific nations. In looking at how the region may evolve over the next 20 years it is essential to understand the structure and intent of the security arrangements. These arrangements and understandings govern the military potential of the various nations within the region. Forecasting the military potential of the key nations over the next 20 years will give an insight into the risks that might arise if the growth in military potential and the related posture of alliances occur without restraint.

The key security arrangements in the region date back to the 1950s. These arrangements have the United States as the central actor. They recognize the vital U.S. interests in the Asia Pacific.

The three key agreements are the Australia, New Zealand, United States Security Treaty (ANZUS) pact (now primarily between the United States and Australia), the U.S.-South Korea Mutual Security Agreement, and the Treaty of Mutual Cooperation and Security between Japan and the United States. These agreements are the bedrock of U.S. engagement in the region. They enable the United States to establish permanent military bases in the region beyond its own sovereign territory. It is noteworthy that among the U.S. partners, Japan permanently hosts a U.S. Navy aircraft carrier group.

Significant changes in any of these cornerstone relationships would be a profound setback to the U.S. presence in the region. Although the agreements with Korea and Japan create continuing tensions over the scale of deployments of U.S. forces within these nations, in neither case is there any real prospect of U.S. forces being withdrawn from the host country.

These arrangements not only project U.S. power into Asia, they also provide forward defense for U.S. territory throughout the Pacific; the lesson from the experience of World War II has not been forgotten. Seven of the ten U.S. carrier groups are deployed to the Pacific, with one of these forward deployed to Japan. As U.S. commitments in the Middle East shrink, there will be more interest in how U.S. naval and air forces are deployed in the Pacific.

More recently the United States has also developed a broader range of defense relationships, particularly with the Association of Southeast Asian Nations (ASEAN) members, and
with India. These nations, with the exceptions of the Philippines and Thailand, do not have formal alliance agreements with the United States. They do, however, establish a continuous U.S. defense engagement within the region, through basing agreements, as with Singapore, and training and exercise arrangements.

In the contemporary era the United States is not seen to have territorial designs on any Asian nations, and thus is seen as a safe partner. Nonetheless close relations with the United States do result in a level of anxiety. Most nations do not want their security relationship with the United States to be seen as antagonistic toward China, which could be seen to actually lead to greater insecurity. Nevertheless the security engagement of these nations with the United States is of a scale and continuity that cannot be matched by China for many years into the future.

The strategic dilemma faced by China is that while Asia-Pacific nations are willing to develop comprehensive economic relations with it, they are substantially more reluctant to do so within the security arena. The principal reason is that China is seen as a potential threat. The last major war in East Asia was between China and Vietnam in 1979.

The various disputes in the East China Sea and the South China Sea illustrate the level of distrust, often steeped in centuries of conflict. While the latest round of tensions have not involved much more than aggressive patrolling by ships and aircraft by the various states, this underscores that there are a number of unresolved territorial disputes in East Asia. These disputes mostly center on uninhabited islands, but they provide the basis of claims to large exclusive economic zones with significant natural resources. China’s claim to the Senkaku, or Diaoyu, Islands in the East China Sea have reportedly been labeled a “core interest,” to be protected by military means, by officials. Its claims in the South China Sea might qualify as core interests as well.

China has given added force to its claims with the declaration in November 2013 of an air defense identification zone (ADIZ) over much of the East China Sea, including the Senkaku/Diaoyu Islands. Beijing insists that other countries notify it in advance of all military and commercial flights through this zone. This is reminiscent of the practices of the protagonists of the Cold War era and shows the extent to which China is prepared to go to strengthen its position in the region.

The current level of tensions between China and Japan over the Senkaku Islands illustrates the risks these disputes entail. The recent jockeying for position recalls the enmity between the two great powers of East Asia. Their history in the first half of the 20th century has been so fraught that seemingly small miscalculations between the naval forces of China and Japan around these disputed islands could easily trigger a more serious deterioration of affairs between them.

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China's claims in the South China Sea, encompassed by its “nine dashed line,” extend into the maritime entitlements of Brunei, Malaysia, the Philippines, and Vietnam, and cover the contested islands of the Paracels, Spratlys, and Scarborough Shoal. Brunei and Malaysia are not as directly affected as the Philippines and Vietnam. There are frequent confrontations between military, law enforcement, and civilian ships, although they have rarely escalated to lethal force. The continuing forceful assertion of China’s claims has the effect of increasing anxiety among its neighbors. They have not seen a sufficient willingness by China to negotiate a settlement of the various South China Sea claims that would recognize the interests of the Philippines, Vietnam, and the other ASEAN states. The consequence is that China cannot be seen as a reliable security partner that will respect the interests of neighboring states.

The insistence of China in asserting a maximal claim over the South China Sea has the effect of ensuring that the ASEAN states will seek to balance China’s power with a strong security relationship with the United States. For the time being, the assertions of the Chinese claims would appear to be counterproductive to its express interest in limiting U.S. influence beyond the first island chain. It has indeed ensured that the ASEAN states are increasing their military expenditures and the level of their engagement with the United States.

An Emerging Asia-Pacific Dialogue

The pattern of security relationships and antagonisms in the Asia Pacific over the last 60 years has not simply replicated the divisions that were so apparent in Europe during the Cold War. The economic integration of the nations within the Asia Pacific has ensured that a deeper dialogue has been essential to enable economic progress to be made.

The ASEAN countries have quietly worked together to ensure that they can influence the security architecture of the region. Their approach has been to develop forums in which all nations in the Asia Pacific are members. These are essentially dialogue forums, but they are starting to build patterns of activity that will lead to deeper security engagement between all the nations. The intent is to bring nations that otherwise would be protagonists into cooperative military engagements. Initially the ambitions have been modest, but the purpose is to build dialogue and trust.

The ASEAN states have been particularly well placed to foster these engagements. They are increasingly influential, commanding an appreciable fraction of the total economic activity of the region. Their geographic location, on the crossroads of trade and commerce, means they are more acutely aware of the need to facilitate dialogue between the great powers. An antagonistic relationship between China and the United States will imperil their prosperity and security.

There are two initiatives that stand out: East Asia Summit (EAS) and ASEAN Defense Ministers’ Meeting Plus (ADMM+).

The EAS is primarily a meeting of national leaders from across the Asia Pacific. The choice of nations included in the EAS is controlled by the ASEAN members. They have limited participants to those regional nations that have significant direct engagement with Southeast Asia. Membership now includes the 10 ASEAN states plus Australia, China, India, Japan, New Zealand, Russia, South Korea, and the United States. This has ensured that the EAS has remained focused. The fact that EAS membership does not cover the entire region means that it is able to focus on the critical issues.

The EAS will not necessarily lead to a quick resolution of issues. The meetings have not been able to advance a resolution of the South China Sea disputes, for instance. However, the fact that the South China Sea has been discussed at every recent forum means it will remain a key issue for future resolution.

The ADMM+ is intended to bring the defense establishments of the region together, particularly centered on Southeast Asia. The ADMM+ includes all the same 18 nations as the EAS. It is the only formal defense forum that brings all these nations together.

At the first meeting in Hanoi in 2010, a number of bilateral partnerships were established to cochair the organization’s working groups. Each of these linked an ASEAN member with one of the other eight nations. These partnerships included Vietnam and China on humanitarian assistance and disaster relief (HADR), Singapore and Japan on military medicine, Indonesia and the United States on counterterrorism, Malaysia and Australia on maritime security, and the Philippines and New Zealand on peacekeeping.4 Other ADMM+ nations took part in exercises organized by these groups. The partnership nations reported back to the second ADMM+ in Brunei in 2013, at which point a sixth working group, on unexploded ordnance removal, was created and new chairs were selected.5

The particular value of the ADMM+ initiative is that it will directly engage all the nations in the region in a collaborative way. The development of joint programs between the ADMM+ partners, which establish a pattern of activity, initially on a bilateral basis and then on a multilateral basis, will progressively build trust among the nations of the region.

As with the EAS, the ADMM+ allows key issues such as the South China Sea to be discussed between ministers, both bilaterally and in the multilateral forum.

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The Nuclear Factor

Any sensible discussion on the military balance has to consider the influence of nuclear weapons on nation state behavior. Within the Asia-Pacific region there are only two credible nuclear powers competing for dominance: China and the United States.

North Korea’s capability would appear to be non-deployable. India and Pakistan are primarily focused on each other, although India is building a naval nuclear capability that could also deter China. It is noteworthy that once India and Pakistan became nuclear states, it resulted in each nation becoming much more aware of the risks of large-scale military conflict.

The United States’ nuclear capability is substantially greater than China’s, yet Beijing’s capability is deep enough to constitute a credible second-strike intercontinental capability.

The one clear attribute of nuclear capability is that for the last 70 years it has effectively deterred virtually all military conflict between nuclear armed states. During the Cold War the United States and the Soviet Union relied on the nuclear deterrent to prevent war between each other. While some would question whether it was ever likely that they would have gone to war, the possession of nuclear weapons ensured that the costs of war between the two were infinitely greater than it would be otherwise. Nuclear weapons were seen to have ensured that war would not occur.

Deterrence acts on two levels. First, the level of devastation caused by nuclear weapons is so great that their use is deterred. Nations know they can recover from the effects of global conventional war; that was one of the lessons of World War II. The second lesson of World War II, arising from the two nuclear bombs dropped on Japan, is that nuclear weapons have the potential to completely destroy a society.

However the presence of nuclear weapons also deters conventional war between states. War is not sufficiently predictable that, once started, the participants can guarantee that it will not escalate to the nuclear level.

One lesson from the Cold War is that the two nuclear adversaries went to enormous lengths to prevent incidents, even of a minor nature, from escalating to open conflict. There were many wars during the Cold War era, often involving one or the other of the two great powers, but the United States and Soviet Union were exceptionally careful not to come into direct large scale military conflict. The so-called proxy wars never involved actual war between the two nuclear adversaries. In addition, nations that had formal ally status with either superpower tried to avoid direct conflict with one another. There was too great a risk that it would bring the two nuclear states into direct conflict. The wars that did occur were essentially on the periphery of the two power blocs.

6. Exceptions included the involvement of China, then still an ally of the Soviet Union, in the Korean War.
The lesson for contemporary international relations is that nuclear deterrence will likely prevent war between China and the United States.

A nuclear balance is not an ideal way of preventing war. It implies a state of hostility and distrust between the states that are deterring each other. It can be argued that if states believe they are required to deter each other by the possession and potential threatened use of nuclear weapons, then relations between them will be more fraught than they otherwise would be. It will be extremely difficult for the two states to move beyond deterrence. The case of post-Soviet Russia and the United States shows how difficult it is to abandon deterrence, even when the underlying circumstances that led to the initial conflict have fundamentally changed.7

When two states are locked in a nuclear balance, military forces believe they have to know in detail the military capability of the adversary and how it will react in any given circumstance. The two states are therefore likely to be conducting intensive surveillance against each other, and testing each other’s responses. Incidents are likely, as have occurred between China and the United States. Both states will be reluctant to build a cooperative military framework; there are too many secrets to be kept. The result will be a trust deficit.

Deterrence is also dependent on robust national command and control systems that will prevent accidents. It is dependent on no one miscalculating. And no one can be tempted to forget the terrible logic of deterrence and believe that nuclear weapons could actually be used against a nuclear armed adversary.

The fact that deterrence has been effective for 70 years is not a guarantee that it will remain so indefinitely into the future. It is therefore important to consider the conditions in which it is feasible for nuclear nations to abandon the nuclear deterrent.

To date, nuclear disarmament has consisted of confidence building measures, such as ending testing and reducing nuclear stockpiles. These measures were possible even during the Cold War. It was evident to both the United States and the Soviet Union that they had accumulated stockpiles of nuclear weapons beyond any conceivable military purpose, including their prime purpose of deterrence. Over the last 40 years stockpiles have been reduced from a high of more than 50,000 weapons8 to about 17,000, of which only 4,300 are operational.9 China is generally considered to have a stockpile of around 250 strategic nuclear warheads,10 which is seen by both China and the United States as an adequate deterrent.

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10. Ibid.
The total number of weapons is not the only metric. They also have to be delivered. The level of intelligence and surveillance currently undertaken is likely able to determine the broad number of delivery systems, including by large aircraft, intercontinental ballistic missiles, and submarines. It is less likely to count individual warheads. There are estimates that China may have as many as as many as 3,000 warheads. Although it is not clear exactly how many nuclear weapons China actually has, Beijing clearly considers its stockpile sufficient to provide an effective second-strike capability. It is also clear that China has the economic capability to substantially increase its nuclear deterrent in the coming years.

The traditional form of nuclear disarmament occurs between nations that see each other as potential adversaries. In this circumstance the calculation of disarmament is about retaining the minimum credible deterrent. The other approach to disarmament is to change the conditions that cause nations to be adversaries. If this outcome can be achieved then there will be no need for the two states to have nuclear weapons to deter each other. However, this proposition can only succeed if there is no other nuclear or potential nuclear nation that could be also considered an adversary.

France and the United Kingdom illustrate how difficult it is for nations that have had a long-standing great power rivalry to disarm. These two nations do not retain their nuclear deterrent because they fear each other. France and the United Kingdom hold onto nuclear weapons for three possible reasons. First, they do not believe they can, in all circumstances, rely on the deterrent of their NATO ally, the United States, to protect them. Second, all permanent members of the United Nations (UN) Security Council are nuclear powers. Third, the two nations have for many decades had a similar level of military capability, which is intended to reflect their leading status in Europe.

Only the first reason has an actual defense purpose. It rests on the assumption that NATO no longer effectively ties the United States to Europe. In this sense the French and UK deterrents exist, in extremis, as an independent European deterrent.

The reluctance of the United Kingdom and France to disarm shows how unlikely it is that China and the United States will disarm. Given this case, what advantage can be gained from the fact that these two Asia-Pacific nations will retain at least a minimum nuclear deterrent?

Does the existence of the nuclear deterrent provide the conditions in which a reduction in conventional arms is possible? If the nuclear deterrent renders all war between nuclear powers impossible, what purpose is served by China and the United States also having vast naval and air armadas that are essentially aimed at each other? Does the nuclear deterrent also lead to those states needing large military forces to reflect their status as leading military powers and cover every security contingency?

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Military Power in the Asia Pacific

Over the last 70 years, the United States has been the preeminent military power in the Asia Pacific. It has had absolute naval dominance in the Pacific. It has been able to guarantee the security of many nations in the region and freedom of navigation throughout the Asia Pacific. All states in the region have benefited.

This prowess has come at a cost, which represents the price of global leadership. The United States spends proportionately more on defense than almost any other developed nation. Its total defense expenditure in 2011 was $731 billion, which amounted to 4.8 percent of its gross domestic product (GDP). In contrast, the average expenditure for European NATO countries was 1.6 percent of GDP. Of more relevance is the comparison with other states in the Asia Pacific. The average expenditure of states was 2.4 percent in South Asia, 1.9 percent in East Asia including Russia, and 1.2 percent in the South Pacific including Australia and New Zealand. Japan’s expenditure is historically lower, at 1 percent, due to the ongoing impact of its defeat in World War II and its subsequent constitutional commitment to peace.

The U.S. military budget is still seven times larger than that of any other nation. The procurement budget requested for 2011 was $112.9 billion. This is greater than the total declared defense budget of any other nation. Secretary of Defense Robert Gates graphically stated the superiority of the U.S. defense establishment over other nations in 2009:

For example, as much as the U.S. Navy has shrunk since the end of the Cold War, in terms of tonnage, its battle fleet, by one estimate, is still larger than the next 13 navies combined—and 11 of those 13 navies are U.S. allies or partners. In terms of capabilities, the over-match is even greater. No country in the rest of the world has anything close to the reach firepower to match a carrier strike group.

The U.S. level of expenditure is reflected in the numbers of those who serve, and the extent of capability investment. In January 2013 there were 1.43 million people serving in the U.S. military, representing about 0.45 percent of the total population. Only China has a larger defense force, although it is a smaller proportion of the country’s population. China’s defense force is also much less capable than that of the United States.

14. Ibid.
For the last 20 years the United States has maintained an overwhelming advantage in capability over any other nation. However, there has been the beginning of a shift in the military balance in the Asia Pacific. In particular, China has been rapidly increasing its military spending as its economy grows. Although the United States will remain the principal military power over the next two decades, China is expected to substantially close the gap during this time.

A change in the military balance is not just about the absolute levels of expenditure. It is also about the nature of new military investments and the effect that a nation wants them to achieve.

For much of its history, the United States has tended to invest in naval capability, rather than maintain a large standing army. World War II changed that. As a true global power with the responsibilities that followed victory, the United States found it necessary to also maintain a large standing army, along with a greatly expanded navy and air force.

The Pacific remains primarily the domain of the U.S. Navy. It is the Navy, especially with its aircraft carriers, that provides the most important elements of military power, and the ability to project that power throughout the region. The United States also has permanent bases across the Pacific, particularly on its own territory in Hawaii and Guam. Coupled with the bases in Japan and South Korea, the United States has an enduring and permanent presence throughout the entire region. With the Pacific pivot, these bases are being expanded, and additional naval and air assets are being transferred to the Pacific.

There has also been an expansion in military capability among nations that are allied with the United States, especially in naval and air assets. Japan’s Maritime Self Defense Force is notable for its advanced destroyers, which are second only to the Arleigh Burke class of ships of the U.S. Navy. Australia is also building up its capabilities with the acquisition of three air warfare destroyers and airborne warning and control system (AWACS) aircraft. It also plans to build 12 long-range submarines. The ASEAN countries, especially Vietnam, Malaysia, and Singapore, are also improving long-range strike air and naval capabilities.

China, as the other great power in the Asia Pacific, has historically been a land-based power. For most of its history, threats to China came from immediate neighbors or from within. But from the 19th century onward many of the states that threatened China’s sovereignty were found across the sea. The European states were able to successfully establish free trade ports and to extract various trade and territorial concessions. They were able to station troops and ships in China. In the 20th century Japan was able to invade and control a large proportion of China. These were the years of Chinese humiliation, which extended across two centuries.

China’s response, following the revolution of 1949, was to place national defense as the preeminent national priority, based on a large army. The land-based ethos of China’s defense is reflected by the fact that the entire defense force is known as the People’s Liberation Army (PLA). China did not need to develop a navy to defend its sovereignty. The cost would have been too high and the scale of naval capability that could be developed at that time would have been unlikely to achieve the goal of deterring invasion. China’s primary concern was to ensure the protection of its own sovereignty, not to be a principal actor on a global stage. A large army was seen as the best military guarantor of national sovereignty.

Naval power, in contrast, is primarily about freedom of the seas. Historically those nations with large and effective navies have been outward looking powers with global interests. This has not been a modern Chinese perspective until recently. Arguably it is still not the key defense priority for China, which is still focused on securing its immediate littoral region. Nevertheless, the transformation of China’s economy and the prosperity of the last 30 years have meant that China, to a much greater extent than in the past, is able to look outward. It is able to afford the high cost that a modern navy requires. The PLA Navy is undergoing rapid expansion, and within the next few decades it will be second only to the U.S. Navy.

As with all changes in the military balance, the effects are felt well before the balance actually changes. It is the intentions of nations, matched with the ability to achieve them, that is measured by other states. In contrast to the past, China now has a more international outlook. China also has the goal of building a military capability that reflects its economic and international position. Inevitably this is changing the military balance in the Asia Pacific.

Military power over the next 20 years can be assessed by the conceptual decisions that nations have made over the last decade. Modern weapon systems take many years to perfect and bring into production. For the more sophisticated ships and aircraft, production orders made now will not result in effective military capability for another 10 years. Therefore it is possible with a high degree of reliability to determine the military potential of the key nations of the Asia Pacific over the next 20 years.

U.S. CAPABILITY IN THE PACIFIC

U.S. military power within the Asia Pacific is based on Pacific Command, which has around 25 percent of the total U.S. military capability. Pacific Command is headquartered at Pearl Harbor, Hawaii, and is always commanded by a four star admiral. Pacific Command covers a larger area of the world than any other U.S. military command and extends from the west coast of the United States to India.

Pacific Command has naval and air forces dispersed from California and Alaska across the Pacific to Japan and Korea. The key base in the western Pacific, in Guam, is on U.S. sovereign territory. It is being expanded under the pivot.
The unique significance of Guam is that it is a piece of sovereign U.S. territory adjacent to Asia. Its proximity to continental Asia is illustrated by the fact that the B-52 air raids during the Vietnam War originated from Guam.\(^{19}\)

The disparity between the United States and any other nation is such that the naval and air forces under Pacific Command alone are greater than those of any other state. The core military power of Pacific Command is its carrier groups. The United States has 10 such groups, and will add three new carriers,\(^{20}\) including the recently christened *Gerald R. Ford*,\(^{21}\) over the next decade. The oldest carrier is the *Nimitz*, which is now 40 years old. The life of these ships is 50 years and the already committed cycle of replacement will enable the United States to retain 10 carrier groups through 2030.

The greatest advantage of the immensely powerful carrier strike groups is that they can be deployed anywhere within the Asia-Pacific region. They ensure that the Pacific is dominated by the United States.

An examination of a carrier group illustrates the primacy of U.S. military power. Each carrier group is centered on a nuclear powered *Nimitz*-class aircraft carrier. Each carrier has up to 90 aircraft, with a full range of weapons, including potentially nuclear weapons. The carrier is accompanied by several *Arleigh Burke* destroyers and guided missile cruisers, which may have antiballistic missile capability. There are two or more nuclear attack submarines in the group. The group is also likely to be accompanied by a marine landing helicopter dock with a 1,500-strong marine expeditionary force. These ships are among the largest naval ships in the world and carry up to 20 Harrier IIB vertical and/or short takeoff and landing (V/STOL) aircraft. In most other nations these ships would be regarded as aircraft carriers. There are numerous support and logistics ships attached to the carrier group. The whole group is tied into the global U.S. intelligence and surveillance system, and its missions can be supported by long-range Air Force aircraft. The overall combat power of a single carrier group is greater than that of most other navies.

There are currently five carrier groups attached to Pacific Command. With the Pacific pivot this is likely to increase to six of the ten carrier groups of the U.S. Navy.

The United States is the only nation with multiple autonomous aircraft carrier groups. The next most capable nations have one each, and they are mostly U.S. allies. Even this understates the comparative difference. Each U.S. carrier group is vastly more capable than those of other nations.

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A carrier group is potentially vulnerable to a decapitating strike. The destruction of the carrier would cripple the strike power of the group. China has claimed it has developed the anti-ship DF-21D ballistic missile with a range of over 800 nautical miles, which could achieve this result. This is a formidable technical challenge requiring a complete integration of real time satellite or aerial surveillance and the relaying of targeting information to the missile in flight. It is doubtful whether China has actually integrated these capabilities, though inevitably they will achieve this goal.

While naval power is at the heart of Pacific Command, there is also a large Air Force presence in the region, primarily in Hawaii, Guam, and Japan. In recent years B2 bombers have been based in Guam, though given that there are only 20 B2 aircraft in total, only a few can be kept there. There are approximately 300 fighter aircraft—F22s, F16s, and F15s—deployed in the region. The U.S. Air Force has over 2,000 advanced combat aircraft, which means that forces in the Pacific can be readily supplemented by additional aircraft from the continental United States and other overseas commands.

By 2030 most of the combat aircraft will have been replaced by the F22 and the F35, which for the next 20 years means that U.S. aircraft will have a technological edge greatly superior to any other aircraft in the region, whether or not they have fifth generation aspects.

The Pacific pivot also aligns with the air-sea battle concept. Airpower has been central to how Pacific Command has operated for decades. The air-sea battle concept takes it to a new level, integrating the whole spectrum of U.S. defense capabilities, from space to long-range air strikes to maritime surface and subsurface operations. The concept is greatly enhanced by much more capable command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR), and much more precise weapons systems that only the United States possesses. In these areas the U.S. military is decades ahead of other nations, including its allies.

The full extent of the air-sea battle concept as a means of containing China was articulated by the Center for Strategic and Budgetary Assessment’s Andrew Krepinevich. The air-sea battle concept is intended to provide the means to defeat China in the East China Sea area. In particular, the air-sea battle concept requires a full integration of long-range airpower and naval power. A tight alignment of Japan is required, along with an expanded network of bases in the West Pacific, especially in the Northern Mariana Islands, which are

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a U.S. territory. The overall effect would be to greatly increase land-based long-range airpower in the West Pacific, with sufficient flexibility to reduce the risk of China attacking any U.S. base.

For the air-sea battle strategy to be fully effective, the concept requires the planned, stealthy long-range strike bomber to replace the B52 and B1B. This aircraft is intended to strike heavily defended key PRC missile and radar systems. The development of this bomber is included in current defense budgets, with the aircraft to enter service from 2025. It is envisaged that 80 to 100 will be needed.27

If the air-sea battle concept is implemented in the manner envisaged by Krepinevich, it will involve substantial investment in defense base infrastructure, as well as shifting assets to the western Pacific. However, the concept does not require a greatly increased level of overall defense investment beyond current levels, with the exception that priority will need to be given to the long-range strike bomber.

It is probable that China would interpret the air-sea battle strategy as one of containment, particularly if it is implemented to its full extent. In that case China will respond with a counterstrategy, involving a faster buildup of its military capability, especially in long-range strike aircraft and missiles, than would otherwise occur.

Nevertheless, it can be seen that it is unlikely that the United States will be able to increase the numbers of ships and aircraft that it has in the region. It is more likely that over the next 20 years total numbers could decrease. What will occur is substantial modernization, with virtually all aircraft being replaced with advanced fifth generation models. Chinese aircraft are still likely to be 10 to 20 years behind their U.S. counterparts.

**CHINA’S CAPABILITY IN EAST ASIA**

China has historically been a land-based power and therefore has always seen its vast numbers of people as its greatest military asset. This was the basis of the PLA from its establishment through the Sino-Vietnamese war in 1979. At the time of the 1979 war, the PLA was 4.5 million strong. It was largely equipped with Soviet-style weapons that had their origins in World War II.28

The Sino-Vietnamese war showed the deficiency in relying on mass, and on antiquated weapons. As part of the Four Modernizations, priority was given to the PLA. This required modernizing doctrine, reequipping with newer weapons, and reducing the size of the PLA to create a more mobile and flexible force. By 1987 the size of the PLA was reduced from 4.5

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million to 3 million. This was largely done by transferring construction, railway, and administrative units to civilian control. More importantly, the quality of the officer corps was improved. The reduction in size continued over the next 20 years, so that between 2008 and 2011 the total size of the PLA was reportedly about 2.4 million.

It is worth noting that this number represented only 0.18 percent of the total population of China. This is less than half the percentage of the U.S. population that serves in the armed forces. In large measure this disparity in the percentage of the population that serves in the active duty military explains the relatively low level of total defense spending in China.

China officially reported that it spent $106 billion on defense in 2012. However, with the addition of likely undisclosed amounts on research and development, overseas procurement, and the nuclear forces, total spending is much higher. The U.S. Department of Defense estimates that China’s actual defense budget in 2012 was between $135 and $215 billion. This equates to 1.6 to 2.6 percent of GDP. This level of expenditure is a more accurate reflection of the size of the PLA than the official figures. It is also a reasonably accurate portrayal of the overall capability of the PLA, relative to the total size of China’s economy and its per capita income.

If China’s expenditure on defense as a percentage of GDP reached U.S. levels, it would result in a larger military force and much bigger and more sophisticated capital programs than currently evident. Nevertheless, total current spending is large enough to continue to substantially modernize the PLA.

The reduction in the size of the PLA has gone hand in hand with the progressive improvement of the quality of its equipment and training. Essentially the PLA has been professionalized along modern lines, which was essential as it acquired new weapons technology. Similarly the PLA has taken a more international approach to doctrine by having many officers undertake mid-level military studies in overseas academies.

In the last decade the PLA has brought into service a respectable number of weapons systems that are comparable to those in service with many Western defense forces.

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29. Ibid.
33. OSD, Annual Report 2013, 44–45.
The PLA Air Force has been the major beneficiary of the new procurement. It now has about 2,300 operational combat aircraft.\(^{35}\) These include 100 Su-30MKK aircraft ordered from Russia between 1999 and 2003.\(^{36}\) China also started to produce the J-11, a licensed copy of the Su-27SK.\(^{37}\) The first of these were delivered in 1998, with about 150 now in service.\(^{38}\) China has also manufactured the J-10 fighter, which entered service in 2003.\(^{39}\) This aircraft is comparable to the early F-16C/D, first introduced 25 years ago.\(^{40}\) China now has approximately 150 J-10 aircraft in service.\(^{41}\) Meanwhile, the U.S. Air Force has more than 2,400 attack and fighter aircraft in service, many of which are more advanced than any aircraft in the PLA Air Force.

China has continued a pattern of building its air force through a combination of imports and local manufacturing. Current production capacity is at least 60 combat aircraft per year.\(^{42}\) As the technical and production capability of the Chinese aircraft industry increases, this rate of production will grow and should reach at least 100 aircraft per year by 2020.

By 2030 China could have between 1,500 and 2,500 reasonably modern aircraft in service. This will occur without any increase in PRC defense spending as a percentage of GDP.\(^{43}\) However, few if any of these aircraft will be comparable to the fifth generation F-22 or the F-35 aircraft that will be the core of the U.S. Air Force by 2030.

In the meantime, in order to bolster the overall size of the force, China has also retained several hundred older combat aircraft. These will inevitably be retired over the next decade or so.

Numbers only tell part of the story. In 2011 China demonstrated that it was on the way to developing a stealth fighter. During Secretary of Defense Robert Gates’ visit to China that year, the PLA Air Force flew the J-20 stealth fighter,\(^{44}\) which could be deployable by 2018.\(^{45}\) A second stealth aircraft, the smaller Shenyang J-31, was demonstrated in 2012.\(^{46}\) The level of research and development necessary to support these programs, even with limited capabilities, demonstrates the depth and quality of Chinese engineering and manufacturing.

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41. Swaine et al., *China’s Military*, 52.
42. “Aiming High.”
43. Swaine et al., *China’s Military*, 67–74.
45. “Aiming High.”
46. Ibid.
China’s increasing air capability is not limited to aircraft. China has developed a comprehensive range of offensive missiles. Most are short- and medium-range missiles of a nature possessed by many advanced nations. However, China has also claimed that it has developed the long range DF-21D ballistic missile with terminal guidance against moving ships. This technology also requires real-time targeting at great distances using satellites, drone, and aircraft, and advanced communications and processing capability.

The PLA Navy has also been rapidly modernizing in the last 20 years. The majority of the acquisitions have been submarines, frigates, and destroyers. China now has 54 attack submarines, 5 of which are nuclear-powered. The balance of the force is progressively moving to a blue water navy aimed at dominating China’s littoral regions.

The major surface combat vessels of the PLA Navy consist of 23 destroyers and 52 frigates. The destroyers include some very capable vessels, including four Sovremenny-class vessels, the last of which was received from Russia 10 years ago, and six Type 052C air warfare destroyers built in China. The frigates are largely modern vessels, including 12 Jiangkai-class vessels coming into service from 2006 and 6 still in development. The annual production rate is around four frigates or destroyers, and this rate of production is likely to increase. There are also hundreds of smaller missile ships, which are clearly coastal vessels, though they could readily operate in the Taiwan Strait.

China is also building amphibious ships, the Yuzhao Type 071. These are similar in sophistication to the multirole vessels being acquired by many navies and do not pose any particular challenges for the Chinese shipbuilding industry. However, they do demonstrate that China intends to construct a sufficiently flexible navy that is capable of a wide range of operations.

At the moment the PLA Navy is primarily designed to operate relatively close to China. While it does send ships on international goodwill visits, this is something that many small navies, including the New Zealand Navy, can do. Ship visits are far removed from China being able to independently deploy combat ready self-sufficient naval taskforces far from its own coast. Nevertheless, the PLA is building the kind of experience essential for such operations, with deployments in 2008 and 2010 of frigates and replenishment vessels to the Somali coast to combat piracy.

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48. Ibid., 84.
49. Ibid.
52. Ibid.
China’s military ambitions will not be fulfilled by simply completing the current cycle of modernization. It intends to have a sufficiently comprehensive range of naval and aviation capabilities to effectively hold military superiority within its own region.

To do so will require China to acquire a broader range of capabilities than it currently possesses. The most obvious new capability is represented by the experimentation with carrier aviation. The refit of the former Soviet carrier Varyag, now named Liaoning after the province where it was renovated and repaired, is a major step along the path to building a genuine aircraft carrier capability. The first aircraft landing with a J-15 combat jet, derived from the Su-33, took place in November 2012, a few months after the ship was introduced into service. The next few years of testing and proving the concept should enable the achievement of deployable carrier aviation by 2025 or earlier. China is likely to have two or three aircraft carriers equivalent to its British or French counterparts by 2030.

This will still be a long way from matching U.S. capabilities. However, it is not clear that China sees carrier aviation as necessary in order to achieve military dominance within its immediate area of interest. A combination of precisely targeted missiles such as the DF-21D and long range strike aircraft, such as the Su-34, could provide an effective and sustainable alternative capability.

Over the next 20 years, there will still be large disparities between PRC and U.S. forces. It is not just a question of counting individual ships and aircraft; it is how they are networked and their level of intelligence and integration. The depth of investment by the United States over the last half century means the country has capabilities that are decades ahead of potential adversaries.

In 2003 Ivan Eland argued that U.S. military technology was at least two decades ahead of China. In the intervening eight years China has made substantial new investments to close the gap with new aircraft and ships. It has shown a capacity to introduce new systems and technologies at a faster pace than anticipated.

However, the United States has not stood still during the last decade. The level of strategic and tactical command and control that it can bring to military operations is without parallel in any other defense force. It has enormously sophisticated combat and surveillance drone aircraft, and has advanced fifth generation aircraft in service. More importantly, U.S. military forces have a great depth of knowledge from actual operational experience. In reality there have only been limited advances in China’s military capability that would alter Eland’s assessment at this point.

56. OSD, Annual Report 2013, 47.
Although China has demonstrated two stealth fighters in the last two years, and has modernized its navy, the United States has essentially maintained its qualitative edge over the same period. The technology gap has only closed a little; flying an aircraft with a stealth profile is very different from having an operational, networked stealth fighter like the F-22. It took the United States 15 years from first flight of the stealth fighter competition in 1991 before operational squadrons were deployed. The current challenges facing the F-35 with its advanced software show how difficult it is to move from first flight of new aircraft to actually having an operational capability.

There has been substantial debate about the projected level of China's military capability, though open source information enables a well-informed estimate to be made.

Over the next 20 years the overall gap between U.S. and PRC military capabilities will remain large. China is simply not making the level of investment that would enable it to become a military peer of the United States during this time frame. In particular, China is not developing the range of capabilities that would enable it to undertake global expeditionary missions.

China's ambitions are more limited. It is not seeking to match U.S. global capabilities. Instead, China will be seeking to achieve strategic dominance within its own region, particularly adjacent to its coastline and over its immediate neighboring states. The military investments that China has been making, and will make over the next few years, are likely to be sufficient to substantially achieve this goal. However, China's Asian neighbors will contest this objective. There is a real prospect of an arms race in Northeast Asia, unless there is an improvement in the security relationships between the principal nations of the region.

China's key area of strategic interest is the “first island chain.” This chain encompasses much of the East China Sea and the South China Sea, and contains all the islands and shoals over which China has territorial disputes with its neighbors. China is actively seeking to be perceived as the dominant power within this area. It is vigorously pursuing its claims over the disputed territories, backing these claims with regular displays of military force.

The latest measure to reinforce China's role in this area was the declaration of the ADIZ covering the Daioyu/Senkaku Islands and much of the East China Sea. China argues that its ADIZ is little different to that of Japan, which also covers much of the East China Sea. However, the declaration of the ADIZ by China has been made over territory where there is an active dispute and includes commercial, not just military, flights in its demands for pre-notification. It has inevitably been construed as an attempt by China to expand and strengthen its role in the region.

58. The first island chain is a somewhat arbitrary arc of islands and features that encompass most of the East and South China seas. It is usually depicted as extending south from Okinawa, along the Ryukyus, through the Taiwan Strait, and around the nine-dash line.
China’s move has yielded dividends. Although the ADIZ has been contested by Japan, South Korea, and the United States, China has gained a level of acceptance from its neighbors. Civil aircraft from these nations will now provide additional information to Chinese authorities.

Achieving strategic dominance within this region does not require defense forces with global reach. A more limited range of military capabilities will suffice because geography favors China. Military operations in most of the East and South China seas could be based from the Chinese mainland. But coastal forces are insufficient to ensure dominance in the farthest reaches of the first island chain. A true blue water navy is required, and it is this navy that China is progressively building. By 2030 the PLA Navy will have a substantially more capable fleet of surface ships and up to 150 submarines.59

The PLA Air Force could have at many as 2,500 modern combat aircraft, mostly fourth generation but likely some fifth generation as well. Over the next 20 years it is likely that China will have developed the comprehensive command and control systems that enable the effective use of these new weapons systems. The result of the next 20 years' investment is that China is likely to have an integrated naval and air capacity that is at least twice as large as that of any other nation in the immediate region.

An important point to note is that all of this will be achieved on China’s current defense spending level of 1.6 to 2.6 percent of GDP. An increase in spending as a percentage of GDP is likely to take place if the security situation in the region becomes substantially more unpredictable than at present. A step up in the percentage would mean an even greater disparity between the military capabilities of China and its neighbors.

The range of capabilities that China is currently developing is therefore likely to achieve local dominance out to the first island chain within the next 20 years. How China uses this power will be the real test of whether it is seen by others as a responsible leader in the region.

In any event Chinese dominance will not go uncontested. Other regional nations will have sufficient capability to ensure that China has to act within reasonable constraints. Japan and South Korea in particular are likely to have more advanced forces even if they are smaller than PLA forces. In addition, China’s neighbors are not acting alone. The United States can project forces into the region; many of these forces will be based in the Asia Pacific, mostly in Guam and Okinawa. The U.S. forces typically are, and will remain, substantially more sophisticated than their PRC counterparts.

As China is increasing its military capability, so are other nations within the region. Many of these countries, especially the more capable ones, are formal allies of the United States. As China increases its capability, nations will look for ways to offset and reduce its dominance. This will increase the incentive to make the alliance relationships with the

United States more effective, politically and militarily. Integrated defense systems using the most advanced capabilities will enhance the military aspects of the defense alliances.

An analysis of the most important nations in East Asia and the Pacific shows the extent to which China's military capability will be offset.

**THE JAPANESE HEDGEHOG**

Japan, which has the seventh largest exclusive economic zone (EEZ) in the world, has one of the most powerful military forces on the planet. Although the Japanese constitution places limits on the use of its defense forces, it does not prevent Japan from having a force with advanced capabilities. When coupled with its alliance with the United States, the Japanese defense force is a formidable factor in Northeast Asia.

Japan has ensured that its Maritime Self-Defense Force and Air Self-Defense Force are equipped with the most modern ships and aircraft available. The Japanese maritime forces include 47 guided missile destroyers and general purpose frigates, which are comparable to those of the U.S. Navy. This means they are the most advanced ships in any Asian nation's navy. Six of Japan's most advanced guided missile destroyers have an anti-ballistic missile capability.

Japan's air forces include about 260 modern combat aircraft, with the majority being the F-15. Japan has also agreed to purchase the F-35. These aircraft are networked into an advanced command and control system, which includes AWACS aircraft. Japan has also built up an extensive anti-aircraft missile system, which also includes a limited anti-ballistic missile capability based around Lockheed Martin's Patriot Advanced Capability-3 (PAC-3) missile.

The high level integration of defense forces between Japan and the United States is already evident with the agreements between the two nations on missile defense, with the land-based PAC-3 system and the sea-based Standard Missile-3 system. While these systems are ostensibly to protect Japan from North Korea, they also can deal with a range of PRC missile threats. China has been a continuous critic of the agreements, which it sees as aimed at China as much as against North Korea.

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62. Ibid.
Japanese capability is almost exclusively directed to home defense. However, home defense includes a significant proportion of the East China Sea. The current ratio of Japanese forces to those of China means that Japan is able to effectively protect its sovereignty in the event that it is threatened. This has not, however, meant that Japan is in a position to prevent the current level of dispute with China over the contested Senkaku/Diaoyu Islands. Although the United States has indicated that its alliance guarantees U.S. support in the event that Japan is attacked, it will take an extreme act of aggression from China to trigger a response. It is unlikely that minor naval combat around the disputed islands would be sufficient to bring U.S. forces directly into the fray.

Tensions between China and Japan have increased recently. Ostensibly, the dispute is about the disputed islands adjacent to Taiwan. However, it has brought old enmities and rivalries to the surface. Military conflict between the two nations, at least between naval forces, is no longer an unthinkable concept.

The 2012 election victory of Japan’s Liberal Democratic Party (LDP) brought defense issues into sharper focus, with Prime Minister Shinzo Abe vigorously asserting Japanese interests vis-à-vis China. Japan is increasing its defense spending. The program will boost defense expenditures well beyond the traditional 1 percent of GDP. In December 2013 Japan announced that it would boost defense spending by 2.6 percent over five years, with a focus on maritime surveillance and air capabilities.

The existing level of expenditure has already been sufficient to build an exceptionally capable military force. Any increased expenditure would go wholly to increasing the level of Japan’s naval and air capabilities. However, it is almost certain that such a move would seriously exacerbate the broader tensions already building in the Asia-Pacific region.

At least as significant as the increased defense expenditure are moves by Prime Minister Abe to extend the reach of Japan’s bilateral and multilateral defense engagement. He has proposed that Australia, India, Japan, and the United States form a “diamond” to provide maritime security in the waters from India to Japan.

It is unlikely that China, which has the largest contiguous sea coast in the East Asia region, would see this as an unalloyed benefit for its own maritime security. China would either expect to be part of such an arrangement or, if excluded, would ensure that it maintains a sufficient naval presence off its coast to ensure that it takes an active and overt role in its own maritime security. In the latter case, the effect would be a substantial naval buildup in the East China Sea.

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World War II continues to cast a pall over Sino-Japanese relations. Many Chinese think that Japan has not truly understood the devastation that it wrought upon China during the first half of the 20th century, especially from 1937 to 1945. Unlike Russia or the United States, China did not come out of World War II with a real sense that it had vanquished its enemy. That was essentially achieved by other nations. It does not take much to reignite the sense of injustice that remains in China, at official and unofficial levels.

There is a real risk that the combination of unresolved territorial claims and an increasingly confident military in both countries will see minor incidents escalate in an unpredictable way. Astute statesmanship and diplomacy will be required to avoid a significant deterioration of the Sino-Japanese relationship.

**SOUTH KOREA: DEFENDING THE REPUBLIC**

South Korea has one of the most modern and capable military forces in the region. The prime purpose is to defeat North Korean aggression. The behavior of the North Korean regime has ensured that U.S. forces have been stationed in South Korea since 1950. The formal alliance status between Seoul and Washington also effectively reinforces the role of South Korea in blocking China's ambitions in the wider Northeast Asia region.

China has the additional disadvantage of being burdened with a difficult and petulant ally in North Korea. Rather than strengthening Beijing’s position, Pyongyang’s posturing weakens it. The effect of North Korea's nuclear ambitions and its regular military provocations is that the Korean Peninsula remains heavily militarized. The continuing tensions caused by North Korea have ensured that U.S. forces, with their advanced combat and surveillance capabilities, are positioned virtually on China’s border. A peaceful Korean Peninsula would almost certainly see the departure of the bulk of U.S. forces from South Korea.

The result is that China is not in a position to test the resolve of the South Korean defense forces or seriously project its influence in South Korea's vicinity. Such provocations would all too quickly engage the United States. Conversely, one of the outcomes of a heavily militarized Korean Peninsula is that there are no significant security tensions between China and South Korea. There is no opportunity to seriously test issues around islands that might have a disputed history. To do so could easily destabilize the peninsula.

The stability of the peninsula is also dependent on South Korea having a powerful and effective military force. The level of the threat from the north and its own wealth have meant that South Korea has been able to build extremely effective air and naval forces. The air force has 180 F-16 and 60 F-15K combat aircraft. These latter aircraft are a variant of the F-15E. The navy has nine Type 209 submarines and four Type 214s, with

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five more on the way.\textsuperscript{70} It also has 12 guided-missile destroyers,\textsuperscript{71} including 3 equipped with the Aegis combat system.\textsuperscript{72} By 2020 South Korea intends to have a fully capable blue water navy.

South Korea has been able to make do with spending between 2.3 and 2.7 percent of GDP on defense over the last decade\textsuperscript{73}—a relatively modest level considering the level of threat from North Korea. This level of expenditure is a direct reflection of the importance of the U.S. alliance to South Korea’s security.

**ASEAN STATES: SECURING THE MARGINS**

The ASEAN countries collectively have a population of over 600 million people and have some of the fastest economic growth rates in the Asia Pacific. The nations range from the very wealthy, such as Brunei and Singapore, to some of the poorest in the Asia Pacific, such as Laos and Myanmar. This leads to a wide disparity in the military potential of the organization’s members. As economic potential grows, they will be able to afford more advanced military systems.

The aggregate size of the ASEAN states means that they have the potential to act as a powerful counterweight to China’s ambitions. However, this approach would not necessarily serve their collective interests. They have been more concerned with providing a balance between China and the United States, even though some of them have close military relations with the United States.

The different economic potentials of the ASEAN members, and their varying strategic perspectives, means the individual nations have an interesting mix of military ambitions and capabilities. Some are concerned with little more than their own internal security and do not have any significant capabilities to operate abroad beyond their own territory. Others have made substantial investments in modern military systems.

There are a variety of reasons for the differences. For some nations, such as Indonesia and the Philippines, internal stability is still a prominent, if not the predominant, concern. For these nations, advanced maritime and aviation capabilities have not traditionally been top priorities. For archipelagic nations, naval patrol rather than naval combat has been the focus of naval expenditure. Other nations, such as Vietnam, Malaysia, and Singapore, have long faced external military threats; they have invested in a range of more modern


capabilities. They have also been more active in providing a strategic level of military political leadership for the ASEAN countries in the security domain.

Vietnam, with its turbulent history with China, has been making substantial investments in modernizing its defense forces. More significantly it has been establishing a defense relationship with the United States. Vietnam’s overall capability means that it can maintain an effective presence in its littoral regions. Vietnam now has a range of military capabilities able to operate effectively in the South China Sea. The Vietnamese navy has ordered six *Kilo*-class submarines from Russia; the second one was delivered in February 2014.\(^{74}\) It has 2 *Gepard*-class frigates with 2 more on order,\(^ {75}\) and 6 modern corvettes with 12 on the way.\(^ {76}\)

For air defense Vietnam has 27 *Su-37* and *Su-30* aircraft, with 20 more on order.\(^ {77}\) Vietnam has the economic capacity to substantially expand these forces relatively quickly. It would not be surprising if Vietnam had twice this number of aircraft by 2020. If the situation in the South China Sea further deteriorates Vietnam is likely to make substantially greater investments in advanced air and naval capabilities.

Malaysia and Singapore provide an interesting contrast. Both have modernized their military capabilities, but in quite different ways.

Singapore, which has spent about 3.5 percent of GDP on defense in recent years,\(^ {78}\) has done so in a systematic manner. Some of the expenditure, especially related to universal military service, is directed toward nation building rather than developing actual military capability. However, in areas related to power projection, Singapore has built sophisticated naval and air capabilities. As of 2013, it had six modern frigates, six corvettes, five submarines, and four amphibious warfare ships.\(^ {79}\)

Singapore’s aviation capability is notably advanced, with significant fleets of *F-16* and *F-15* aircraft.\(^ {80}\) Singapore has also ensured it has invested in training as well as command and control systems, so that it can use the full potential of its advanced air and naval capabilities.

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\(^{80}\) Ibid., 123.
In contrast, Malaysia, with nearly six times the population of Singapore, has taken a more quixotic approach to the modernization of its defense forces. The air force has an unusual mixture of Russian and U.S. combat aircraft. Malaysia acquired MiG-29 combat aircraft in the 1990s and Su-30s more recently.\(^\text{81}\) Malaysia also has a squadron of F-18 aircraft.\(^\text{82}\)

The Royal Malaysian Navy likewise has an assortment of naval combat vessels and submarines, totaling eight frigates and corvettes, and two French Scorpene-class subs.\(^\text{83}\) These vessels do not look well integrated, though Malaysia undoubtedly has the capability to rectify that issue if it chooses to do so.

The Philippines is in the unusual position of vigorously asserting its territorial claims in the South China Sea but having a defense force that is primarily aimed at local security issues. Although the Philippines has a population of almost 100 million, it has virtually no advanced military systems. Defense spending has been a relatively low 1.2 percent of GDP in recent years.\(^\text{84}\) The navy, which might be thought to be at the forefront of protecting sovereignty claims in the South China Sea, does not possess any modern ships. It has acquired two U.S. Coast Guard cutters, which have similar capabilities to frigates, and will likely obtain a third.\(^\text{85}\) These ships were launched in the late 1960s and modernized in the late 1980s. A navy that is built around ships that are nearly 50 years old does not constitute a modern military force. The air force story is similar.

Of greater significance is the recent military cooperation agreement with the United States, the Manila Declaration. However, if the agreement causes the Philippines to act more boldly in the South China Sea than it otherwise would, then it will have reduced, rather than increased, regional stability.

The largest state among the ASEAN states is Indonesia, with about 250 million people. Indonesia has also had one of the highest growth rates in the Asia Pacific over the last decade, though that growth slowed in 2013.\(^\text{86}\) Historically Indonesia has had substantial concerns about preserving the unity of the state, and most of its defense expenditure has been directed to this purpose.

In more recent years, as these concerns have receded and Indonesia has become more prosperous, it has been able to acquire naval and air capabilities to defend the state from

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81. Ibid.
83. Tan, The Arms Race, 124.
external threats. Indonesia has a squadron of F-16s; the United States in 2011 agreed to provide it with 24 more. It also has 10 Su-27 and Su-30 aircraft with 6 more on the way. The navy has a new generation of four Dutch-designed Sigma frigates, and will acquire three Type 209 submarines from South Korea. It is likely to be some years before Indonesia is able to fully network these capabilities with a modern command and control system.

Indonesia’s military potential is substantial. Within the next two decades it could easily build the fourth largest defense force in the Asia Pacific, behind the United States, China, and Japan. It will do so if it perceives the security situation of the region warrants an expansion.

As the ASEAN countries develop capabilities to operate at an integrated level, they will present a formidable barrier to any unwelcome military presence in the region. This will occur whether the ASEAN members act individually or collectively. The increased military power of the ASEAN also means its members will be an effective bulwark for the more distant peripheries of Asia, in particular for Australia and New Zealand.

AUSTRALIA: LOOKING NORTH

The defense of Australia is built on two factors derived from its experience in World War II. The first is the need to have enough defense forces to hold off an attack, and the second is reliance on the alliance with the United States to ultimately defeat any such aggression. The importance of the alliance for the protection of Australian sovereignty means that no Australian prime minister will put the pact at risk.

Australia has worked hard to ensure it has a credible defense force. It currently spends almost 2 percent of GDP on defense, which has been enough to build one of the most comprehensive defense forces among countries with comparable populations—about 23 million people. As a result Australian defense forces have the capability to block an aggressor force some distance from the nation’s shores. In particular, the combined capability of Australia’s navy and air force gives it a reasonable prospect of deterring or even intercepting an invasion force. The level of expenditure is not so large as to convey an impression that Australia considers such an event likely. Rather it is seen as a contingency for which it is prudent to plan.

The strategic defense procurement decisions of the last decade will substantially boost overall capability. Australia will have three, and possibly four, new air warfare defense
destroyers with the potential for limited anti-ballistic missile defense. The decision to build 12 advanced conventional submarines will give Australia the capability to intercept a ship-borne invading force. The new Liberal-National coalition government elected in September 2013 is likely to consider whether it would be more sensible to have a smaller fleet of nuclear powered submarines, rather than these planned conventional subs. The likely choices for nuclear vessels would be the Virginia-class submarine from the United States or the Astute class from the United Kingdom. In either case, a substantial part of the construction would take place in Australia.

The combination of new aircraft and sophisticated command and control systems that have been built up over time will mean the Royal Australian Air Force will be among the most advanced air forces in the region. Its AWACS aircraft will enable a more effective coordination of air and naval defense. The acquisition of at least 50 to 70 F-35 aircraft will give Australia an edge that a potential adversary is unlikely to match.

Ultimately the guarantee for the defense of Australia comes from the alliance with the United States. The alliance has tangible expression through regular training and visits from U.S. naval and airpower forces in the region, including by carrier groups.

More recently there has been an agreement to station more than 2,000 U.S. Marines in Darwin, Australia, on a rotational basis. This is sufficiently far from China that it should not be seen as part of a containment plan. Instead, the deployment can be characterized as a natural part of the Pacific pivot and the greater engagement of the United States within the region. It will also provide the opportunity for multilateral training with the defense forces of ASEAN states and New Zealand.

Like most Asia-Pacific nations, Australia is tentatively building a defense relationship with China. This has included naval combat ships making goodwill visits to China. Unlike those of other nations, Australia's goodwill visits have involved more than the formalities of naval diplomacy. They have also involved live firing naval exercises. Although this came as a surprise to many, it does indicate that a more substantial level of military training can be readily achieved with China, even for those nations with particularly close ties with the United States.

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92. Ibid.
Australia has signaled through its *Defence White Paper 2013* that it intends to expand the defense relationship with China. This recognizes the importance that Australia places on China in ensuring stability in the Asia-Pacific region.

**NEW ZEALAND: HAVING A VOICE**

New Zealand’s defense capability is modest, though it has a similar number of people in uniform as a percentage of the total population as does Australia. Because defense spending is only 1.1 percent of GDP, New Zealand does not have the advanced capabilities of Australia. Instead of concentrating expenditures on sophisticated capabilities, which only have real utility in a major war, New Zealand has chosen to invest in capabilities that are likely to be regularly used, in the South Pacific and beyond. As much as possible, New Zealand also ensures that it is able to independently deploy its forces on operations.

The primary focus of the New Zealand Defence Force is ensuring the stability and security of the South Pacific, in partnership with Australia. There is an expectation that the Australian and New Zealand Army Corps (ANZAC) forces can handle any foreseeable contingency within the South Pacific without having to rely on external assistance.

New Zealand’s interests are not confined to the South Pacific. The more capable elements of its defense force are the New Zealand Special Air Service (NZSAS), two ANZAC frigates, and six P-3 Orion maritime surveillance aircraft. They are all expected to be deployable beyond the South Pacific and to make a worthwhile contribution to a coalition effort. In the last decade each of them, along with wider elements of the New Zealand Defence Force, has been deployed to the Middle East. The NZSAS in particular was seen to have made a significant contribution in the Afghanistan conflict.

One of the key measures for the New Zealand Defence Force is its ability to make a meaningful contribution to Asia-Pacific security, albeit on a modest scale. The investments in maritime patrol and surveillance, especially with the P-3 Orion aircraft, is on a scale that is unusual for a country the size of New Zealand. New Zealand can be actively engaged with it partners in the Asia Pacific, including the Five Power Defense Arrangement (FPDA) members and South Korea.

New Zealand has also been progressively building a modest defense relationship with China. ANZAC frigates have visited China on a number of occasions. As these visits move beyond goodwill visits to include actual military activities, they will be able to ensure that New Zealand can build a more constructive military partnership with China.

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Why the Military Balance Matters

The Asia-Pacific region is undergoing one of the greatest buildups of arms in history. Although it is not on the scale of the Cold War, the military buildup is one of the clearest indicators of the lack of confidence among Asia-Pacific nations in the future stability of the region. This arises from the fact that there is not a settled security environment in the Asia Pacific. Old enmities are easily aroused; these are likely to increase the prospect of conflict over current issues of contention.

The level and nature of recent military acquisitions goes beyond modernization, although this is how many nations have described increased capabilities. Countries have simply stated that improved military capabilities are no more than a function becoming wealthier. But wealth has a transforming effect. Nations that 30 years ago could only afford coastal patrol vessels and basic jet training aircraft have now acquired advanced combat aircraft, such as the F-16 and F-15 or the Su-27 and Su-30. They have replaced coastal patrol boats with guided missile frigates and submarines. These capabilities have allowed Asia-Pacific countries to operate well beyond their own borders.

New investment has distinctly emphasized long-range strike aircraft and blue water naval capability. The effect is to increase the military reach of the newly wealthy nations of Asia Pacific. This pattern of arms escalation is likely to lead to further increases in the level of investment in these capabilities. Much new investment will be a direct response to other nations’ increased capabilities. Thus, if one nation acquires a long-range missile capability, other nations within range will acquire an anti-missile deterrent. This is already happening. China and North Korea have substantial missile capability; Japan and South Korea have acquired anti-missile systems. Other nations are likely to do the same.

The result is that the military posture of the Asian nations is already undergoing drastic change. The improved military technology that these countries can now afford is likely to spur more arms buildup in the region. The next 20 years may well see Northeast Asia become the most heavily militarized place on the planet.

This also means more possibilities for military confrontation. Given the nature of the military technologies, participants may consider conflict on the ocean to be less destabilizing than a direct attack across land borders. Because naval combat takes place away from civilian populations and can be limited to the direct military participants, the threshold for such actions is lower than for land combat.

New naval and surveillance capabilities have given nations the ability to sustain a greater presence in neighboring seas, and to protect perceived vital interests. Issues that were once largely ignored, such as the various disputed islets in the East and South China seas, can now be vigorously prosecuted. The current level of brinkmanship could well lead to naval combat around these disputed features. The participants might believe that they can contain the level of escalation. But any military conflict could easily have unpredictable consequences.
The issues of the East China Sea and the South China Sea have existed for many decades. There have been numerous military confrontations over time. China and Vietnam fought battles over the Paracel Islands in 1974, and again over Johnson South Reef in the Spratlys in 1988, though the latter was part of their broader conflict during that period. Tensions of the last decade, however, have a different tone.

There is a real sense that the disputes are less about the specific territorial interests and more about which country can play the dominant military role within the region. The fact that each incident has become so inflammatory is a clear indication that each nation considers it can vigorously prosecute its claims. It also implies that no state yet has sufficient military power that it can readily thwart the interests of others.

These circumstances can lead to a rapid buildup of military capability across the region. The election of an LDP prime minister in Japan is likely to result in a substantial increase in the capability of the Japanese Self Defence Force. China will inevitably respond with increased defense spending on naval and air capabilities. The size of China’s economy is such that Beijing will be able to ultimately outspend Tokyo. However, China will not be able to outspend the collective economic capacity of the United States and its Asia-Pacific allies.

The fact that power is sufficiently distributed among the Asia-Pacific states means that the territorial issues can be keenly contested by the various nations in the region. This distribution of power is not just a question of the military balance; it is an issue of the equality of states.

In a world governed by the rule of law, states need not simply bow to a powerful military power. They can also call upon the comity of nations to ensure lawful interests are protected. Security relationships and dialogue flow from this ordered way of conducting inter-state relations. The deeper the security relationship, the less likely the participants are to become involved in military conflict with one another.

This outcome of ordered peace presupposes that all the nations within a region are included within these relationships and dialogues. This is the specific challenge for the Asia-Pacific nations.

For much of the post–World War II era, China was excluded from the security architecture, either through its own choices or the actions of the other states in the region. Although the initiatives of U.S. secretary of state Henry Kissinger in the 1970s broke the extreme isolation of China, the security architecture of the region is only slowly including Beijing as a central actor. Powerful outsiders have a way of breaking in, either to be included or to disrupt existing relationships.

The inclusion of China within the security architecture of the Asia Pacific is a key challenge facing the region. This will be a particular opportunity for President Barack Obama during the remainder of his second term of office, as he seeks to build upon the Pacific pivot.
Including China

Dangers and Opportunities

The most critical issue facing the Asia Pacific is how to accommodate the rise of the People’s Republic of China (PRC) in the security architecture of the region. How this is done will influence the military balance between the key nations within the region. There are choices that can be made now to determine what this balance will look like 20 years from now.

It is clear that there are alternative outcomes. China and the United States have choices to make regarding whether or not to accommodate each other’s interests. Which alternatives they choose will depend on how each country views the interests and values of the other. The result will determine the strategic path for China, the United States, and U.S. allies over the next two decades.

This is not just an issue for the two great powers. The other states in the region are critical stakeholders in the choices made by the two great powers. The evolution of the balance of power in the region is a matter that all affected states should expect to be able to influence.

The challenge of accommodating a rising power is difficult for an ascendant democracy when the challenger does not share the same foundational values. Even a limited transfer of power in these circumstances would be seen as setting back the cause of liberalism, to be supplanted by the repressive tendencies of an authoritarian state. There is a vigorous debate in Washington as to the best approach for dealing with the rise of China without losing the essence of the values upon which the United States was founded, and which are shared by many of its allies and friends.

The debate is fraught with anxiety because the United States is dealing with a situation in which there is a real prospect that the rising power could actually have a larger economy than the United States within a time frame that will cover the careers of current policymakers. Inevitably there are analogies drawn with the Soviet Union. The major difference is that the economies of the United States and China are deeply linked through trade, investment, and migration. There is now no “Bamboo Curtain” analogous to the Cold War’s Iron Curtain.
There is no doubt that the United States will have military superiority over the next 20 years. Washington is not going to lightly give up this situation. The United States will take pains to nurture and strengthen its deep network of alliances in order to maintain its military edge. Part of the thinking around the pivot to the Asia Pacific and the air-sea battle concept is ensuring that the United States retains its strategic dominance in the region.

China is not a passive actor in this debate. It has interests that it intends to preserve and expand. If all of its key interests are thwarted, China may conclude that a different approach will be necessary in order to ensure that its key interests are protected. Even when states have different values, accommodations need to be made that recognize shifting power relationships. But there are limits. The United States and its allies cannot make concessions that would lead to a loss of people's liberty or the global commons.

In practice that means there are realistic choices to be made. Some choices will see a progressive recognition of interests based on respect for international law. Others will be more hard edged, with the intent of protecting the current balance of power, notwithstanding changes in relative economic and military strength.

Much will depend on how the Pacific pivot is applied, and therefore how China responds to it.

The pivot could be instituted in such a way as to be seen as positive engagement by the United States in the area of the world where it has its deepest economic interests, and away from the difficult diversions of the Middle East. The entire region, including China, could benefit from a reengaged United States. The Pacific pivot could be primarily seen as constructive U.S. engagement across the full range of activities. For this to happen, security must be only one part of the pivot, and not necessarily the largest element. This means there is no need for any nation to significantly change its military posture.

For the United States, this will involve keeping expenditures at close to current levels, leading to roughly the same range of capabilities as it currently possesses. This will still involve modernization, with the majority of combat aircraft eventually comprising fifth generation F-22s and F-35s, and the B-52 and B-1B being replaced by the planned long-range strike bomber. Some of these will be deployed in the West Pacific, particularly Guam.

For China, a continuation of current levels of expenditure of around 2 percent of gross domestic product (GDP) will lead to a substantial improvement in capability, qualitatively and quantitatively. Its fleet of modern combat aircraft will increase to as many as 2,500 planes. It will have a naval fleet, both surface and subsurface, at least twice as large as present. This will occur because China’s economy will grow faster than that of the United States. In the almost certain event that the two economies are of a similar size in 20 years, it is inevitable that the military gap will close to some extent.

A significant challenge will be for U.S. policymakers to view the closing of the military gap as simply an outcome of economic growth. A continuous increase in the number of
modern combat aircraft in the People’s Liberation Army (PLA) Air Force will inevitably lead to demands within the United States to counter that growth. At the minimum, it is likely to lead the U.S. Air Force to station a greater percentage of its aircraft in the Pacific.

There are, however, scenarios that could see the United States build up its military capability, especially airpower, beyond what is currently projected. This could result in an arms race. It could occur if Beijing determines that the key objective of the United States, either implicitly or explicitly, is to contain China. Such a policy of containment by the United States would not be confined to the buildup of arms and forward stationing in the West Pacific. It would also involve only a very limited recognition of PRC interests.

If the United States enthusiastically adopted the air-sea battle concept, it would be predicated on a policy of containment. Such a scenario would involve much more than improved integration of air force and naval power. It would also involve policies and actions that China could only interpret as military containment. Indications of such a policy would include the establishment of bases throughout Northern Mariana Islands, and a much greater level of integration of Japanese forces into the air-sea battle concept. Andrew Krepinevich, of the Center for Strategic and Budgetary Assessments, states that the air-sea battle concept is not an attempt to contain China, but rather a hedge to deter it from aggression.1 Yet it would be difficult for Beijing to interpret the full-scale adoption of the concept as anything other than containment. Krepinevich's recent proposal for a U.S. forward anti-access area denial strategy in the West Pacific, which would engage key partners in the effort, would inevitably increase tensions with China.2

There are other actions that would be trigger points for an adverse turn in relations between the United States and China. A major increase of arms sales to Taiwan, such as the sale of the F-35, would heighten China’s sensitivity about the future direction of relations.

The inevitable result of a containment strategy, particularly of the full adoption of the air-sea battle concept, would be an arms race between China and United States. Other states in the region would inevitably respond with increased arms expenditures. The United States would have difficulty significantly increasing defense expenditures above current levels, especially as a percentage of GDP. Containment would therefore have to be largely achieved from within current financial boundaries.

China, however, has a greater range of choices. It could increase defense expenditures from the current level of 1.6 to 2.6 percent of GDP to something comparable to U.S. levels, which was 4.8 percent in 2011 (see Chapter 4). Some Chinese economists might even argue that such increased spending would be beneficial to China’s economy. Increased defense

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expenditures would strengthen China’s technical and manufacturing capabilities and increase domestic demand, making the economy less dependent on exports.

In addition, China’s defense objectives are simpler than those of the United States. It does not have to build a global defense capability; its objectives can be limited to securing the first and second island chains.  

Increased PRC defense expenditures would go almost entirely to aviation, naval and missile capabilities, and vastly improved command and control systems. The result would be several thousand fourth and fifth generation aircraft, including long-range J-20 and Su-34 aircraft. The PLA Navy would have several hundred ships and submarines. Medium-range missiles would number in the thousands.

An immediate effect of increased defense expenditures by China would be a dramatic increase in arms across Asia. Many Asian nations could readily increase defense spending without any serious adverse effect on their economies. Japan could double its defense expenditures and still spend only about 2 percent of GDP. Similarly, South Korea could readily increase its spending. Taiwan would demand more arms sales from the United States if China boosted its level of defense expenditures, and the United States would readily agree.

The overall effect of an arms race would be a dramatic reduction in the stability of the Asia-Pacific region. Many U.S. allies would view such an outcome as highly undesirable. Yet they would feel they had little choice other than to increase their own defense expenditures to offset the increased risks. Most states would also consider their own security reduced by such an arms race.

Japan and South Korea would be particularly affected by a dramatic change in the balance of power in their immediate neighborhood. The risk of clashes in the East China Sea would increase. Other allies and partners might limit their level of engagement with the United States so as not to be seen as directly participating in a perceived policy of containment.

This outcome would reduce the United States’ sense of security. In furtherance of a policy that Beijing would perceive as containment, the United States would only be able to reduce its qualitative and quantitative military advantages over China.

There are other choices that could lead to a more benign outcome, notwithstanding the inevitable change in the balance of power. It is the outcome that is important. A predictable pattern of stability is the critical condition that has allowed the Asia Pacific to grow more prosperous over the last 30 years. The challenge now is to understand how stability can be maintained, even as power is redistributed.

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3. The second island chain stretches across the western Pacific, from the main Japanese island of Honshu through the Northern Mariana Islands to New Guinea.
China’s Key Interests

The rise of China will require a better understanding of the central interests of each state in the region. However, a drastic shift in existing security arrangements is not necessary. A nation’s agreement to enter security pacts is too grounded in values to be overly susceptible to changes in the balance of power. Instead, it is how security relationships are applied in practice that is more readily changed. This fact will have an important impact in China’s immediate environment. It will also apply across the broader Asia-Pacific region. To what extent will China be included in the wide variety of exercises and normal military discourse that takes place in the region? Or will China be kept apart, as is largely the case today?

The main geographic area where competing interests will rub against each other will be where China attains clear military superiority, if not dominance. A new set of relationships in this area will ensure a more certain and less competitive pattern of behavior throughout the Asia-Pacific region. A concerted attempt to deny any change could cause antagonisms that will hurt the prospects for the entire Asia Pacific.

China’s inclusion in the security arrangements of the region will depend on how the country acts as it progressively builds up its military forces. It will be China’s behavior that will establish the pattern of relationships, within the region and in the wider Asia Pacific, for decades. This will involve two intertwined tests.

First, to what extent will other states recognize PRC expectations, derived from China’s increased power, as legitimate? Second, will China, in exercising that increased power, act in a way that is acceptable to other nations? China is only likely to achieve its expectations if it is seen to be acting reasonably.

Evaluating these two tests requires considering which of China’s expectations are legitimate, and what behavior is acceptable for a state with more power than its neighbors individually, though not necessarily in aggregate.

In 2030 it is probable that China will have a GDP comparable to that of the United States, and at least twice as large as that of Japan. China’s military will be the dominant force in its immediate region, which for the period out to 2030 can be defined as being the maritime area inside the first island chain. Other nations in the region will seek to offset the extent of China’s military power, though they will be unable to fully match it. So which of its interests might China expect others to recognize as a result of its new status?

China primarily considers itself the principal regional power in the Asia Pacific, albeit with global interests. As the principal regional power, its status cannot be supplanted by any other country, including India, Japan, Russia, or the United States. This position gives

China confidence that it can assert its dominance within the Asia Pacific, and that it can largely resolve its key security concerns in its favor. That does not mean that the interests of other states in the region can simply be overridden, but it means that China’s interests will have prominence. This has been demonstrated by Chinese diplomacy at the 2012 Association of Southeast Asian (ASEAN) ministerial meeting in Phnom Penh when ASEAN members, led by Vietnam and the Philippines, were unable to get agreement that the joint communiqué should make reference to South China Sea issues.

The People’s Republic of China has four key security goals within its immediate region:

1. A greater consideration for mainland China’s position regarding Taiwan.
2. A greater degree of security in the East China Sea than is currently present.
3. A resolution of the territorial and maritime disputes in the South China Sea within the principles of international law but according to China’s interests.
4. Ensuring that China is not subject to a containment policy.

China also has broader interests in the wider region. Throughout the Asia Pacific, China will be a principal actor. It will expect to be treated as such by the nations of the region. For example, New Zealand will have to take account of China’s interests when considering policy options in its own key area, the South Pacific.

Stabilizing the Littorals

The major arrangements defining Taiwan’s current status vis-à-vis mainland China and the United States are now 35 years old. They are based on the three U.S.-China communiqués of 1972, 1979, and 1982⁵ and the Taiwan Relations Act of 1979⁶ that sets out how the United States sees its responsibilities toward Taiwan. The communiqués are not treaties, but they do establish the framework for the China-U.S. relationship and Taiwan’s place within it.

The arrangements served the interests of both China and the United States at the time, particularly in the context of the Cold War. Each nation gained something of value. Even though mainland China was relatively weak internationally, the United States knew that it could not sustain the fiction that the government of Taiwan was the government of all China. Similarly, China knew it could not use force to regain Taiwan. It had to accept that the United States was going to continue to provide a form of effective security guarantee to the island of Taiwan, including the sales of arms.

The intervening decades have seen change beyond what could have been imagined. The economies and societies of mainland China and Taiwan are intimately intertwined. Taiwan is now a democracy, and China is a much more open and prosperous state. Shipping and flight services have been established. These trends have led to a more pacific relationship. The counterv trend is that China has used its wealth to build up its military forces, especially those facing the Taiwan Strait, in such a way as to make the U.S. security guarantee harder to enforce, but which also incentivizes continued arms sales to Taiwan.

Is it time to move to a new stage in the evolution of the Taiwan agreements. In particular, how should security arrangements be applied?

At present the United States sells arms to Taiwan for the island’s defense. These sales are envisaged in the third communiqué, which provided that the United States “intends gradually to reduce its sale of arms to Taiwan, leading, over a period of time, to a final resolution.” The document also envisaged that the two governments would make every effort to adopt measures and create conditions conducive to the thorough settlement of the issue. The Reagan administration had issued a secret clarification stating how the reduction in arms sales would occur in practice, including the requirement that the military balance between China and Taiwan be maintained.

In 1992 the George H. W. Bush administration approved the sale of F-16s to Taipei. The F-16s are now being upgraded, which will keep them in use until about 2030. Arms sales have been a vexing issue for over two decades. It would become much more so if F-35s were sold to replace the F-16s.

The necessary precondition for the end of arms sales is that there must be no military threat to Taiwan. This could come about by formal agreement or by the actuality of a reduced threat. In the latter case this would require fewer PRC weapons obviously directed toward Taiwan. Both these elements might be necessary in order to advance the intent of the third communiqué.

A formal agreement to forgo use of force would mean Taiwan would be able to reconsider its defense needs. Over time it would be possible for Taiwan to reconfigure its defense force so that it was primarily directed toward constabulary and coast guard duties. An agreement by itself would not be sufficient; there would need to be some indication of a change in PRC force posture near the Taiwan Strait to make it obvious that Beijing’s forces there were directed toward general defense.

A new Taiwanese agreement, perhaps reflected in a fourth communiqué, could set the stage for the People’s Republic of China to be recognized as a responsible stakeholder in its

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role in the East China Sea. Other nations, particularly Japan and South Korea, also bound those waters. They will not abandon their interests in the East China Sea simply to mollify China. The likelihood is that the area will become more heavily militarized over the next 20 years. This will largely be the result of the increase in China’s military capability, though it is also probable that this will lead to an increase in Japanese capability. The potential for at least low-level conflict will expand.

There are already signs of this with the dispute over the Senkaku/Diaoyu Islands off the Taiwanese coast. The islands are claimed by both states, which has led to each nation sending patrol boats to the vicinity of the islands. The level of tension has not abated for over a year; it is fueling nationalist sentiment in China and Japan. In these circumstances even minor incidents involving patrol boats could readily escalate into more serious military confrontations. Even though this is a risk is well understood by both nations, neither is taking any obvious steps to reduce it. For the moment, the assertion of claims is seen by each nation as being worth the risk of escalation. In any event, the two countries seem to believe that any such escalation would be containable. History does not necessarily support such a view.

The issues in the East China Sea not only affect the littoral states. Many states’ shipping passes through these waters. The world’s economy is dependent on the free passage of ships through the East China Sea. Every state therefore has an interest in ensuring freedom of navigation.

Freedom of navigation is not just about protecting commerce; it is also about nations being able to support allies and other friendly states, and having full access to all parts of the high seas. However, legal freedoms can be exercised in a way that can exacerbate tensions rather than reduce them. Constantly patrolling a perimeter is not likely to build good relations between neighbors, especially if each of them takes frequent opportunities to have a good look across the fence to see what is happening on the other’s property.

This is one issue that is likely to feature more prominently over the next few years. At present the United States conducts regular intelligence and surveillance flights immediately adjacent to China’s borders. It is doing so in full accordance with international law. However, unlike submarine patrols or space-based surveillance, intelligence flights are highly visible. The frequency and nature of such flights can have a tangible impact on the tone of the overall relationship. It might be prudent to constrain the level and frequency of such flights. Kenneth Lieberthal and Wang Jisi have noted it is “worth considering whether there are steps that might address U.S. security concerns in a way that reduces Washington’s perceived need to conduct reconnaissance and intelligence activities just beyond China’s territorial waters and air space.”10 The fact that this is tentatively stated is an indication of the strong institutional pressures in the U.S. military and intelligence

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establishment for the continuation of intelligence-gathering flights. It will require national leadership to mandate that intelligence gathering should be confined to satellites, submarines, and other assets.

Meeting China’s goal of avoiding containment will be as much about perceptions as actions. Activities that are seen by the United States as a perfectly appropriate part of the Pacific pivot’s security dimension might be interpreted by China as a policy of containment. The U.S. shift in focus to the Asia Pacific will involve a reallocation of forces. These are going to be deployed with allies to give substance to the rhetoric of the realignment. Therefore, China will see more U.S. forces in the region. China will also see modernized forces being developed by the United States over the next decade, particularly the planned long-range strike bomber to replace the B-2 and B-1B. A proportion of this fleet will be deployed to Guam. But the United States has choices regarding the nature and location of forces being deployed. Those decisions will indicate Washington’s strategic intent.

However, the United States should be under no illusions about how its actions might be interpreted. It is clear that a significant move to expand long-range air strike capabilities to Guam, coupled with a major expansion of basing facilities in the Northern Marianas, especially if they are oriented toward airpower, would likely be interpreted by China as indicating containment. Because that would almost certainly result in a significantly faster buildup of defense spending by China than would otherwise be the case, Washington will have to carefully consider whether such a strategy actually increases the security of the United States and its allies.

In contrast, the deployment of U.S. Marines to Darwin can hardly be seen as encircling China. U.S. troops will be several thousand miles from China. Darwin’s remoteness has already been seen as an opportunity to strengthen multilateralism. It has been announced that forces from ASEAN countries, especially Indonesia, will train alongside Australian and U.S. forces. Indonesia’s president Susilo Bambang Yudhoyono also suggested that China should be included, especially on humanitarian assistance and disaster relief (HADR) training.11

This suggestion is indicative of the broad extent of China’s interests in the Asia-Pacific region. There will be no place in the Asia Pacific where China can be relegated to the position of a minor player.

An Inclusive Approach

China’s interests are not limited to its own immediate domain. It also seeks to be seen as an important and influential nation throughout the region—one whose interests must be respected.

All states in the Asia Pacific will have to respond to China’s rise by finding ways to incorporate China within the framework of agreements and relationships that apply throughout the region. Most states will seek to strengthen their relationships with China; to do otherwise would disadvantage their own growth prospects. They will be concerned if security issues affect economic relations. A great power competition between China and the United States will be perceived this way. It would inevitably be seen to be harmful to the economic interests of the region. Much of the current prosperity has arisen precisely because there has not been rivalry between the great powers of the region.

The Australian government’s 2012 white paper, *Australia in the Asian Century*, illustrates how a more inclusive engagement with Asia, including China, will occur. The tone of the paper is intended to reassure China that Australia wants a comprehensive, collaborative relationship. Although Australia has a deep security relationship with the United States, this is not seen as an impediment to much greater engagement with China. The message of the white paper has been reinforced by the country’s *Defence White Paper 2013*.

The imperative for the nations of the Asia Pacific is that the pivot not be construed as a great power competition. If U.S. partners perceive the Pacific pivot this way, they will find ways to limit engagement in the strategy.

There is an opportunity for the United States’ renewed engagement in the region to be fully inclusive and provide avenues for Beijing to deepen its role within the region as China gains in economic and strategic capability. This is no small challenge because the rise of China is creating profound changes within the Asia Pacific. The era of U.S. dominance is coming to an end. Power will have to be shared.

As President Barack Obama focuses on his foreign policy legacy, he has a unique opportunity to refashion the security architecture of the region to be more inclusive. U.S. leadership has been crucial in ensuring that the last 30 years has been a period of peace and stability within the Asia-Pacific region. The pivot could be the genesis of a more inclusive approach to secure the peace for the next 30 years. This will require a clear understanding of the nature of this objective, and active diplomacy to achieve it.

This is also an opportunity for all the nations in the Asia Pacific. It will be particularly important for those nations with good relationships with both China and the United States to develop initiatives that promote dialogue and cooperation. It will be not only good for these nations, it will also enhance the overall prospects of the region.

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The experience of the 20th century is that when a rising authoritarian state is seeking to change the balance of power, the results can be extremely dangerous. The two world wars and the long drawn-out Cold War placed nations and their people in great peril.

It is natural that the emergence of the People’s Republic of China (PRC), with its core governing values being so divergent from those of the United States and its partners, will create anxiety that the future of the Asia-Pacific region will be less benign than it was during the last 30 years.

The fear is that the last three decades were an aberration: that China has had a peaceful rise precisely because it did not immediately threaten the primacy of the United States. Now that it is clear that China will be able to rival the United States, the concern is that the dangerous patterns of the 20th century will reestablish themselves. If this assumption is correct, then the looming contest between China and the United States can only be harmful.

There are certainly scenarios that could lead to that result. However, there is also the possibility that having two strong powers on either side of the Pacific could serve to strengthen the region. Under this scenario, the growth and influence of both China and the United States would be intimately and beneficially linked, as they have been in recent years. All the nations in the region would benefit from having the two great powers focus on them more. It would remain in the interests of the regional countries to have strong relationships with both China and the United States.

Although this collaborative approach would appear to be a continuation of the existing pattern, in reality, as China’s economic and military power becomes equal to that of the United States, there will be a profound change in the nature of the relationship that smaller countries have with the two great states.

Countries like New Zealand will find it prudent to consider the range of scenarios that could emerge over the next 20 years. But it is also essential to work out which is the most desirable scenario, and work with other states to bring about this outcome. There is an element of real politick in this process. There is little point in working for a utopia if it is unlikely to be attained. The desirable outcome has to be achievable.
New Zealand has two opportunities for such an outcome. The first, and probably more attainable, is in the South Pacific. The second lies in the development of the broader architecture of the region.

The South Pacific Opportunity

The South Pacific essentially consists of three types of nations: the metropolitan nations, the island states, and the two colonial powers.

Australia and New Zealand are the metropolitan nations within the region. Together they constitute 80 percent of the population and over 90 percent of the economic activity of the South Pacific. They have close ties with several of the Pacific island nations, with Australia focused on the subregion of Melanesia and New Zealand on Polynesia.

The island nations in the tropical South Pacific were settled thousands of years ago. They range from Papua New Guinea, with almost 6.5 million people, to Tuvalu, with fewer than 11,000. Most of the island states have populations of less than 500,000 people. The majority of the island nations were colonized by Britain or France, with Australia and New Zealand assuming many of their responsibilities following World War I. All the island states are developing nations, with some being heavily reliant on aid and remittances.

The third group of nations consists of the two colonial powers of France and the United States, which have sovereign territory with sizeable populations in the South Pacific. In the case of France, this consists of New Caledonia, French Polynesia, and Wallis and Fortuna. The United States has sovereign control over American Samoa. In neither case is there any likelihood of them leaving the region. The sovereign presence of these two powerful states represents an opportunity for the Pacific.

The Pacific Islands Forum (PIF) is the premier regional organization for the South Pacific island states. The highlight event is the annual meeting of heads of state and heads of government. For many of the smaller states, it is the key opportunity to raise issues of regional importance with fellow leaders. The most recent annual forum meetings have become high profile events, with large delegations from China, the United States, the European Union, and the United Nations. The result has been various initiatives on economic and social developments that link the island countries with the much greater capabilities of the larger states and of the international organizations.

Over the last 20 years China has established substantive relations with all nations of the South Pacific. For the two metropolitan nations, China is already, or will soon become, their major trading partner, having displaced the United States in this respect.

China’s embassies and legations are typically the largest in the South Pacific island nations.

China’s foreign aid program in the South Pacific has been a major focus of Beijing’s diplomatic effort. There has been a particular focus on high profile projects for government administrative buildings, such as courts, police stations, and parliamentary offices. Typically these projects are built with Chinese materials and labor with minimal interaction with the local community. Because these projects provide such a major improvement to government facilities, they do generate substantial goodwill among the governing elite, possibly more so than health and education programs operating at the village and district levels.

Nevertheless, there has been concern among South Pacific governments and other aid donors that China’s aid effort does not dovetail very well with the broader aid objectives of sustainable economic development.

The PIF provides the opportunity to develop more integrated aid programs. For New Zealand, this would offer the advantage of being able to build a deeper relationship with China in an area other than trade. However, it will take sustained effort by New Zealand to build a long-term cooperative aid program with China. Chinese aid would need to take a significantly different direction than it currently does. China will need to see its own advantage in this process. Part of the incentive to do so will come from the competitive pressure being exerted by the United States.

The Pacific pivot has already featured a renewed interest by the United States in the South Pacific, and aid has been part of that focus. In some respects, the United States has had to play catch-up. In the last decade Beijing’s effort in the South Pacific, particularly in aid, has been substantially greater than that of Washington. Over the last three years the United States has made a major effort to lift its profile in the region, led by Secretary of State Hillary Clinton. Her presence at the PIF meeting in Rarotonga, the capital of the Cook Islands, in August 2012 was a clear indication of the level of commitment the United States is prepared to make to the region.2

The forum meeting resulted in a trilateral meeting between Clinton, New Zealand foreign minister Murray McCully, and Australian parliamentary secretary for foreign affairs Richard Marles. The three issued a joint statement envisaging a much greater level of coordinated aid projects in the future.3

In addition, a fisheries surveillance cooperation agreement was announced, which will use the maritime surveillance capabilities of Australia, New Zealand, and the United

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States. The agreement also includes France, which has substantial surveillance capabilities in New Caledonia and French Polynesia. This project is specifically intended to benefit the member states of the Pacific Islands Forum Fisheries Agency, for whom fisheries are a substantially underutilized resource that are highly vulnerable to undetected illegal fishing.

The enthusiasm of Australia and New Zealand for greater U.S. involvement in the region can be seen as part of a wider strategy by the two nations to ensure that their relationship with the United States is seen as broader than simply focusing on security. The level of engagement reinforces the message that the United States is also a South Pacific nation, with sovereign territory in American Samoa. This is an advantage that China does not have. However, this will not prevent Beijing’s deep engagement with the region.

While Australia and New Zealand have been keen to reengage the United States in the South Pacific, they will now need to make the same effort with China. The initial opportunities for this engagement will come through bilateral programs. The first such project to be announced was a joint program between New Zealand and China to improve water quality in the Cook Islands. The project cost more than $50 million, with New Zealand providing a grant of about $13 million to the Cook Islands government, and the PRC government making a development loan of roughly $27 million. The project was notable because it focused on basic development needs, rather than on the showcase buildings that have been typical of China’s aid development. These kinds of initiatives are now more easily achieved with New Zealand’s aid effort shifted away from educational and health support toward basic economic infrastructure.

In March 2013 New Zealand and the European Union cohosted the Pacific Energy Summit in Auckland. It was cosponsored by Australia, the World Bank, and the Asian Development Bank. Upon announcing that the conference would take place, Foreign Minister McCully noted that New Zealand was “talking to other partners—such as the United States, United Arab Emirates and Japan—and [welcomed] participation from a wide range of partners.”

This initiative was part of New Zealand’s broader goal of developing multilateral programs embracing all the main aid donor nations in the region. China was the notable omission from the initial announcement summit. China’s actual involvement in the Pacific Energy Summit was modest, although the program did offer Beijing the opportunity to contribute a high level speaker.

The summit secured $635 million for 40 sustainable energy projects in the Pacific Islands, including $255 million in grants and $380 million in concessional loans.7 China was not among the initial donors or investors.

If New Zealand and Australia were to adopt the same model as the Association of Southeast Asian Nations (ASEAN) member, they would ensure that China is a key partner in such events before they were announced. The Pacific Energy Summit provided an important opportunity for dialogue and for joint venture development projects. As such, it was a missed opportunity to build a broader relationship with China. But other opportunities will arise; the early inclusion of China will need to be a priority.

China’s attendance at the PIF as an observer nation provides a continuing pathway for a constructive approach. It is essential to use the opportunity with all observer nations to build dialogue and to develop actual multilateral aid programs. Such an approach should follow the pattern the ASEAN states have used with the East Asia Summit (EAS) to advance regional initiatives like the Regional Comprehensive Economic Partnership (RCEP) trade agreement.

Building an Asia-Pacific Security Dialogue

New Zealand’s interests are much broader than the South Pacific. Its primary trade and economic relationships are with Asia, where China is rapidly becoming New Zealand’s most important trade partner. The continuing stability of the Asia-Pacific region is therefore the most important national interest that New Zealand has for its own peace and prosperity.

New Zealand’s concerns are shared by other nations in the region. Although the countries within the Asia Pacific may have various disputes with each other, they all have a wider vested interest in the stability of the region.

Initiatives to boost that stability can be made at bilateral and multilateral levels. New Zealand has the opportunity to more actively develop its bilateral defense relationship with China. The current level of defense diplomacy involves ships making goodwill visits and officers undertaking formal courses.

The opportunity exists for actual military training in areas of mutual interest, such as humanitarian assistance disaster relief (HADR) training and preparations for peacekeeping missions. A visit by the multirole logistics vessel HMNZS Canterbury, with a full contingent of forces from all three of New Zealand’s armed services, instead of the usual visit by a frigate, would enable such training to take place.

Training activity does not need to be confined to Asia. PRC naval vessels regularly visit Australia and New Zealand. As the level of defense cooperation deepens, it would be

expected that training exercises, especially with an HADR focus, could take place in the South Pacific. If New Zealand fails to take the initiative, it may well find that other nations in the South Pacific, Fiji in particular, will do so instead.

ASEAN member states have been especially active in taking the initiative to promote dialogue in multilateral forums, with the establishment of the EAS and the ASEAN Defense Ministers’ Meeting Plus (ADMM+). These forums provide opportunities to progress beyond dialogue. Initiative does not need to reside solely with the sponsoring ASEAN countries. Other attendees can promote possibilities that could advance cooperation on practical concerns affecting the region.

With the increasing pressure of climate change, there is likely to be more hurricanes and storms in the region that will overwhelm local resources. A greater level of international HADR will be required. The dialogue opportunity provided by the ADMM+ could lead to the establishment of a multinational HADR task force, made up of civil and military forces from across the region. Initially it might involve periodic exercises, but over time a coordinating headquarters would be required.

ASEAN’s standard practice is not to have permanent joint headquarters. Even the ASEAN Secretariat is quite modest, with a staff of only about 250 in 2010. However, the establishment of an administrative planning group, which would not be seen as a permanent headquarters, would enable an HADR task forces to work together more effectively when undertaking exercises or deploying during actual emergencies.

Opportunities for the Future

The ADMM+ is an indicator of the opportunities to build a greater sense of security in the region as a new balance of power emerges in the Asia Pacific. However, it will not be possible for New Zealand, or for that matter Australia, to replicate the initiatives of the ASEAN. While it will be important for New Zealand and Australia to play an enthusiastic part in ASEAN projects, such as reinforcing the opportunities presented by the ADMM+, the real opportunity for them to develop initiatives of significance to the whole region will lie in areas that the ASEAN is unlikely to undertake.

The failure of Australian prime minister Kevin Rudd’s initiative for a regional security agreement was an indication that the ASEAN members were not prepared to be hurried in the process they had initiated. It is therefore incumbent for Australia and New Zealand to develop their own initiatives that will be appealing enough to engage all the nations in the Asia Pacific.

New Zealand has demonstrated it can build on its own expertise through the establishment of the Global Research Alliance on Agricultural Greenhouse Gases. A New Zealand

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initiative, the alliance’s secretariat is hosted in New Zealand. The alliance has 33 member countries, including all major nations of the Asia Pacific. The three key research areas of croplands, paddy rice, and livestock were intended to engage the leading nations in these food production sectors.\footnote{“The Global Research Alliance,” New Zealand Ministry for Primary Industries, updated August 5, 2013, http://www.mpi.govt.nz/environment-natural-resources/climate-change/international-response-to-climate-change/global-research-alliance.aspx.} As a technical alliance focused on solving climate change issues arising from agriculture, it may not have much public sway. Yet it showcases New Zealand capitalizing on its existing strengths.

**ENVIRONMENT, RESOURCE, AND SCIENCE PROJECTS**

There are other potential environmental and resource projects of regional benefit to Asia-Pacific nations, including Antarctic research, radio astronomy, pelagic fisheries, and ocean minerals. In a number of these areas, China has impressive scientific credentials. However, China has not taken a leading role in major international science projects commensurate with its size and wealth.

The latest global science project in which New Zealand is involved is the Square Kilometre Array, which will involve building a networked array of radio telescopes in Australia and South Africa.\footnote{“New Zealand and the SKA,” Square Kilometre Array Australia, accessed March 11, 2014, http://www.ska.gov.au/Pages/default.aspx.} The largest radio astronomy project ever undertaken, it will require a dramatic increase in computer processing and storage capabilities. Although a member of the consortium, China has not taken a leading role. The project’s development over the next few years will provide further opportunities for China to become more heavily engaged with the other nations, which are looking for opportunities to deepen their relationship with China.

The resources of the Pacific Ocean provide many opportunities for collaborative international scientific programs that have economic outcomes. In particular, the deep oceans contain concentrations of manganese nodules lying on the ocean floor and massive sulfide deposits near the continental rifts. These resources are within the continental margins and adjacent to the boundaries of Pacific states.

The Kermadec trench north of New Zealand, where limited exploration has taken place, has concentrations of sulfide deposits and manganese nodules, which may contain high concentrations of valuable minerals such as copper, cobalt, gold, and nickel.\footnote{Peter Huck, “Mining the Deep Blue Frontier,” New Zealand Herald, May 17, 2013, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10884182.} However, the depths and pressures at which they are located mean that at present there is no economic way to extract them from the ocean floor. A number of nations have conducted research into the feasibility of deep sea mining. The first step is to understand the extent of the resources and the range of environmental issues involved.

A comprehensive survey of the resources would ensure that decisions made in the future could be based on a proper understanding of the extent of the resources involved.
The South Pacific nations, including New Zealand, do not have the technical capabilities to carry out such a survey. An effective way to pursue this research would be through an international program involving key nations with the necessary expertise and capabilities.

**NUCLEAR WEAPONS**

New Zealand has long been a proponent for disarmament, both of nuclear and conventional weapons. It has built up substantial credibility in these fields and needs to capitalize on this experience to promote realistic opportunities to limit the growth of arms in the Asia Pacific.

The most pressing nuclear issue in the Asia Pacific is North Korea, partly because it is an isolationist xenophobic state, and partly because it has been an unpredictable proliferator of nuclear weapons technology. But many also see North Korea as susceptible to economic pressure and negotiations that could persuade it to abandon its nuclear program. While Beijing has a strategic interest in protecting Pyongyang, this does not extend to protecting its nuclear program. China is not convinced that North Korea needs its own nuclear deterrent to protect its sovereignty. Therefore it should be possible to find the right combination of incentives that would encourage North Korea to abandon its nuclear ambitions. That this has not happened shows how difficult it is to persuade states to abandon the allure of power that nuclear weapons are seen to confer.

Nevertheless, a distinction should be made between those states that see nuclear weapons as an essential requirement for the protection of their sovereignty and those that use them to fulfill other goals. Pakistan illustrates this point. It would be impossible to persuade Pakistan to disarm, given the existence of India’s nuclear program. Pakistan believes that its nuclear program is essential for the preservation of its state. Therefore, no other states attempt to persuade Pakistan to do so, even though it has had an arguably more dangerous record of nuclear proliferation than North Korea. The fact that North Korea has entered into talks about it nuclear capability shows that it might not regard the possession of nuclear weapons as fundamental to its existence as a state.

There are broader opportunities to contribute meaningfully to further denuclearization in the Asia Pacific. These opportunities must necessarily include China and the United States. They are the two principal nuclear powers in the region. Neither of them has ratified the Comprehensive Nuclear Test Ban Treaty (CTBT), though they both can claim adherence to its terms. Until China and the United States ratify the treaty, it is unlikely that any of the other Annex 2 countries that have yet to ratify (Egypt, Israel, Iran, North Korea, Pakistan, and India) will do so.

Convincing the two leading countries of the region to ratify the CTBT should be a major goal of Asia-Pacific nations. Progress on other nuclear issues, including persuading North Korea to give up its nuclear weapons, will be more difficult to achieve without this step.

In order to fulfill this objective, countries like New Zealand will need to give voice to the issue at a wider range of international forums than at present. This ought to ultimately become a concern for the EAS.

**CONVENTIONAL WEAPONS**

The likely growth in advanced military capabilities among many of the nations of the Asia-Pacific region over the next two decades and beyond is arguably the most important long-term security issue in the region. The continued growth in advanced long-range air and naval systems will progressively reduce the collective security of all the nations in the region.

There are several challenges in achieving this goal. It will be exceptionally difficult to convince nations that it is not in their interests to continually increase their defense capabilities through more advanced systems. The best opportunity to do so will principally occur after countries’ current procurement plans have been implemented. At a more practical level, it will be difficult to find the forums and opportunities to promote this goal.

New Zealand should develop a plan to promote the goal of limiting the growth of advanced weapons systems. The formal opportunities presented by the EAS, ADMM+, and bilateral engagement will have to be approached with care. New Zealand has many interests it wishes to promote through these venues, and using them for the conventional arms limitation cause is likely to be counterproductive to other objectives.

There are, however, a number of track two forums that could be used for this purpose. The annual Shangri-La Dialogue in Singapore provides the opportunity for high level leadership on the issue. It is attended by many foreign affairs and defense ministers from across the region. The Council for Security Cooperation in the Asia Pacific program also offers an opportunity for scholars and diplomats to make progress on this agenda.

A key requirement for achieving the objective of disarmament would be extensive preparation by academic and policy organizations within New Zealand. An institutional approach will be required. The Centre for Strategic Studies at Victoria University provides a useful model. The center's funding, which comes from the university, the Ministry of Foreign Affairs and Trade, and the Ministry of Defence, is quite modest; it can only undertake a limited program. Its location within Victoria University means it has a large degree of academic freedom, which has to be balanced with its being able to accomplish national strategic goals.

A more focused program to promote limits on the growth of conventional military capabilities would require specific direction and appropriate funding. The careful selection of academic scholars and employees seconded from the Ministry of Foreign Affairs and Trade
and the Ministry of Defence would ensure a realistic approach is taken. Every effort would need to be made to attract international scholars and to build links with international independent research entities.

The objectives would be to bring people together to build a body of scholarly writing to promote the disarmament objective. This study would set out why conventional arms limitation is necessary and the possible pathways toward the goal.

Seminars and conferences would bring together public policy specialists from within government, members of parliaments from across the region, representatives of international disarmament agencies, and academic thinkers in the field. The purpose would be to build the dialogue to a point where national and international leaders in the Asia Pacific considered conventional arms limitation a sufficiently important topic for consideration by regional forums such as the EAS and ASEAN.

This work will take some time. It could not be expected to influence current acquisition plans for advanced weapons systems, which have delivery dates out to 2020 and beyond. However, once these program have been realized, most Asia-Pacific nations will have built up their defense capabilities to levels substantially greater than at present. All of them would need to ask whether further increases in capability would actually enhance their security. Conventional weapons limitation cannot be just about reducing absolute levels of defense capability; it must also cover the way nations interact with one another. Regular defense cooperation and explicit codes of conduct can defuse tensions within the region.

A New Zealand–based program intended to provide the critical thinking necessary for a commitment to the limitation of conventional arms in the Asia-Pacific region would only require a modest allocation of the resources that Wellington currently devotes to international relations. The potential gains are sufficiently large to make it a worthwhile project for the New Zealand government.

The larger question is whether the current security architecture of the Asia Pacific is sufficient to support dialogue and progress toward an arms agreement limiting conventional defense capabilities.

The region does not have any formal security agreements that cover all nations in the region. At best there are dialogue forums, such as the EAS and ADMM++, which are just now involving low level confidence building measures. A major undertaking, such as a conventional arms limitation agreement, would require the active commitment of the highest levels of government. There are only two suitable forums for national leaders: the Asia-Pacific Economic Cooperation (APEC) forum, which is essentially an economic arrangement, and the EAS. The EAS does not have as many participant nations as APEC, but it does include the crucial states.

The EAS has its origins in the desire of ASEAN members to bring the principal nations of the Asia Pacific together in dialogue. The EAS has a more flexible agenda than APEC. In
the event that the Asia-Pacific nations consider conventional arms limitation a worthwhile project, along with agreed codes of conduct in international maritime and air space, the EAS would be a suitable forum to initiate such discussions. The choice of the EAS also ensures that the ASEAN states remain central to the security issues affecting the Asia-Pacific region.

A serious agenda for arms limitation would also require administrative support. Given the centrality of the ASEAN nations to such a process, one of them, possibly Singapore or Malaysia, would be in the best position to provide a place for a secretariat.

The opportunities to place limits on defense spending, and therefore reduce the risks that will arise from the inevitable tensions in the region, are too large to forgo.

There is also an economic case to be made for limiting defense spending. A certain amount of defense capability is essential for the security and unity of the state. Once defense spending rises above a certain level, however, it can also constrain economic growth. The experience of the last 20 years in the United States demonstrates that higher defense spending, particularly when coupled with increased levels of debt, can limit economic growth. Conversely, over the last 20 years, most nations in Asia have been able to limit defense spending to less than 2 percent of gross domestic product (GDP). Their economic growth rates appear to indicate that higher economic growth rates correlate with moderate levels of defense spending.

An arms buildup that could imperil the economic growth potential of the Asia Pacific should be avoided.
The next 20 years will be a crucial time for the Asia Pacific. The reason is that it will be during this time that the People’s Republic of China achieves full economic parity with the United States. It will be the first time in over 100 years that any other nation has been able to economically rival the United States.

Power does not simply flow from an economic position. If this was the case Japan would have much greater influence in the world than it actually does. China has the additional benefits of the world’s largest population and the second largest land mass. These factors, along with its long history as a regional power, mean that China will expect to exert an influence on Asia-Pacific affairs that reflects its great power status.

The rise of China means that the era of U.S. strategic dominance, at least in the Asia Pacific, is coming to an end. Adjustments will have to be made by all nations in the region to reflect the new balance of power.

Democratic Legitimacy

Power and legitimacy are intertwined. In the modern era power is increasingly dependent on the legitimacy of government. The determinants of power are not solely the size of population, the extent of land mass, or the scale of economy. Similarly, a crude calculation of the size of military forces available does not indicate the extent of a nation’s power. Increasingly power and influence are also determined by the legitimacy and international appeal of a country’s political system. If a government lacks full democratic legitimacy, it will find that it is not able to influence other nations to the extent that it could otherwise. The level of respect that a nation has for the human and political rights of its citizens will also determine the depth of the relationship that it can forge with other countries.

For China this means that its influence is likely to be less than its full potential. So long as China remains a one-party state without full democratic legitimacy, it will find that other nations will not give it the full recognition, especially in the security arena, that China might think its great power status merits.

The open economic environment that essentially governs the Asia-Pacific region was largely established by the United States following World War II. This environment has set the conditions for prosperity for the region. In contrast, the autarkic model followed by the
ideological opponents of the United States during the Cold War has been seen to comprehensively fail. China, with its economic reforms launched in 1978, was one of the first communist state to recognize that fact.

China is an anomaly in the Asia-Pacific region. It has adopted the principles of an open market-based economy, but it has retained a single party communist form of government.\(^1\) This is increasingly divergent from the other nations in the Asia Pacific, with the exception of neighboring Vietnam. Over the last 30 years there has been a trend in the Asia Pacific toward liberal multiparty democracy. The latest nation to follow this path is Myanmar. In the case of Myanmar, democratization is being accompanied by a more liberal and open economic regime. The consequence is that as the country liberalizes, it will inevitably be able to share in the prosperity that has been the preeminent feature of the region. Myanmar’s experience with democratization and economic liberalization will provide an example for the government and people of China.

Although other nations in the region, notably Indonesia, South Korea, and Taiwan, made their initial economic gains under authoritarian governments, they have since made the transition to democracy. China has gone down the first part of this course by opening up its economy. In China’s case, the path from Maoist totalitarianism to an open market economy required a greater transformation than for other Asian nations, which typically had always retained a large private sector. The liberalization of China’s economy over the last 30 years has meant that the Chinese people have gained considerable freedom in their private lives. They can travel, own businesses and property, participate in civil society, and, so long as they do not question the legitimacy of the government, live their lives without excessive interference from the government.

The examples of democratization and its accompanying freedoms in other nations in Asia means it is inevitable over the next 20 years that China will come under increasing pressure from its own population to adopt a more accountable form of government. It will not be sufficient for the authorities in Beijing to rely on the historic achievements of the Communist Party and on continued economic growth to meet all the expectations of the Chinese people. The Chinese people are unlikely to remain willing to accept that the only path to political power and responsibility will be to transfer straight from university to the role of full-time party official. Other Asian societies have been able to provide more choice and opportunity than that.

China’s leadership will be looking for ways for the government to become more pluralistic without surrendering the dominant role of the Communist Party. There are governmental models in Asia, including in Singapore, which can provide the Communist Party with a pathway of evolutionary change. Countries beyond the region, such as Iran, have

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also shown that limited democracy can actively engage the people to participate, provided they believe that there are real choices to be made.

Asia-Pacific nations will expect China to face this need to change over the next 20 years. Uncertainty about how the authorities in Beijing will respond cast a shadow over the region as states speculate about how China will exercise its increasing influence and power. This uncertainty is already being stoked by the current debate in the Communist Party over the range of permissible opinions about how the government should evolve.\(^2\) Until this issue is resolved, full engagement with China on security issues will be limited. So long as Beijing retains the full monolithic power of the Communist Party as the sole basis of government, China will not be a full security partner of the nations within the region.

**The Economic Opportunity**

The strongest feature uniting the Asia-Pacific region has been the commitment to continued economic growth. The most important gathering of national leaders of the region has been the annual meeting of the Asia-Pacific Economic Cooperation (APEC) leaders that occurs under the rubric of expanding economic prosperity. The APEC model reflects the consensus among Asia-Pacific nations that the market-based economic model is the only way to prosperity. Inevitably there are variations among states regarding the features of the model. There is no dispute, however, about the basic principles that underpin it.

The open trade–based aspects of the economic system that has primarily been promoted by the United States and its partners over the last 70 years will remain the central requirement of Asia-Pacific prosperity. Irrespective of each nation’s political system, there is a common commitment to market-based economics.

The coming decade will provide two key opportunities to strengthen the Asia-Pacific market. These opportunities rest on the success of both the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) trade deals. The successful completion of these two regional agreements will be essential to fully realize the economic ambitions of the Asia-Pacific nations. The TPP is expected to be completed sometime in 2014, though ratification by the United States and others may take longer. The RCEP will take until at least 2015, but the completion of TPP will place pressure on the RCEP negotiating parties to conclude their agreement.

Inevitably these two agreements will have to merge. In doing so, they will help realize the long-standing APEC objective of a comprehensive free trade area covering all the major economies of the Asia-Pacific region, as was envisaged in the Bogor Declaration of 1994.\(^3\) As


a general proposition, the goals of the Bogor Declaration are strongly endorsed by all nations in the region, and most notably by the two major countries, China and the United States. The goal of a comprehensive economic and trade agreement has been an essential part of the regional consensus; it has now prevailed for 30 years.

The unification of TPP and RCEP will be the successful culmination of an open market embracing the whole Asia-Pacific region. This will require leadership within the region, but the successful conclusion of the agreements will provide the incentive to take the next step.

The Security Dilemma

The same level of consensus does not exist in the security arena. In large measure this is because there is not yet a full realization that open economies ultimately spur democratic values. The issue will remain vexed because China, as one of the two most powerful nations in the Asia Pacific, has not followed this pathway. The result is that there are two powerful states in the Asia-Pacific region with divergent political systems. Historically, this level of divergence has led to a greater level of tension between them than would be the case if they both had governments founded on similar principles.

Other democratic nations also limit their engagement with China on security issues, particularly involving territorial disputes. There will always be a suspicion that a powerful authoritarian government will not be willing to make permanent settlements on these issues on the same terms as a government that is based on more pluralistic values and rule of law.

Reconciling the different impulses of the two major states will be a critical challenge for the next 20 years, and the main reason that the next era will be different from the preceding 30 years. From 1980 to the present, there was no doubt in the Asia Pacific about which country was the dominant nation. So long as one country, the United States as the world’s sole superpower for much of this time, was able to set the international security agenda, there was no significant divergence between economic aspirations and the desire for security. The change in the balance of power is upsetting this equilibrium.

The central goal of continued prosperity for the Asia Pacific is an imperative for all nations. This can only be realized if there is enduring peace and stability in the region.

This condition will no longer be based on the overwhelming power of one state, able to protect the global commons and set the security agenda. Neither will it be based on the development of a natural alliance of the two major states because they lack similar values. Instead, a new approach will be required that is primarily based on a recognition of national interests.

The principal risk for the Asia-Pacific region is that a sharply competitive security environment will emerge as the two great states vigorously pursue divergent security
objectives without regard to each other’s national interests. This will imperil the peace and security of the region.

The position will be particularly acute for Washington. Inevitably, the United States will come under pressure from many Asia-Pacific states, including its friends and allies, if it fails to recognize that China has critical interests that can be addressed without seriously impinging on the interests of other states within the region.

Some of these issues, notably the political status of and U.S. relationship with Taiwan, intelligence gathering, and the disposition of U.S. forces in the region, are primarily in the U.S. domain. The first two, Taiwan and intelligence gathering, are largely bilateral matters for China and the United States. Nonetheless, the resolution of these two issues does affect other nations because a change in the status quo may change the larger strategic environment, as the three communiqués did in 1972, 1979, and 1982 (discussed in Chapter 5).

Those communiqués demonstrated that dramatic change in major power relations is possible. Although the environment is different than it was 40 years ago, when the United States saw the advantage in breaking the Sino-Soviet alliance, the opportunity to achieve a new, non-confrontational security environment in the Asia Pacific offers its own rewards.

The disposition of U.S. forces in the Asia Pacific has a multilateral dimension. Although each decision about the basing of forces may seem to be a bilateral issue between the host nation and the United States, in reality the overall security balance in the region is affected. It behooves the smaller nations of the region to start to develop a view on how these bilateral decisions affect the wider region. The same can be said of the more sensitive territorial disputes. The continuing failure of disputant nations to consider the broader ramifications is likely to lead to more tensions, such as those surrounding the Senkaku/Diaoyu Islands territorial dispute.

The seemingly minor territorial disputes over uninhabited islands that have come to the fore in the last decade illustrate the importance of developing a new security architecture for the Asia Pacific. The current arrangement of leaving all these disputes to be resolved at the bilateral level places excessive pressure on the two states involved. The current actions of the disputant states, with their use of coast guard and naval vessels for patrols, law enforcement, and provocative visits to the islets, have rapidly escalated the situation in the absence of any effective intermediation. Even if the underlying sovereignty disputes cannot be resolved, a better process is required to moderate these disputes so that they do not threaten the overall stability of the region.

A new security architecture will have to recognize that the balance of power in the Asia-Pacific region is undergoing fundamental change. It will also require an acceptance, at least for the foreseeable future, that the two great powers of the region will have divergent political systems. This means a tightly integrated, North Atlantic Treaty Organization (NATO)-type solution is not in the offering.
The major failing at present is that there is no specific forum for important security matters to be referred. To the extent that they are considered at the multilateral level within the Asia Pacific, such matters are discussed through the East Asia Summit (EAS), which lacks a specific security focus, or through various forums under the Association of Southeast Asian Nations (ASEAN) umbrella. At present the discussion of security matters is essentially ad hoc and usually occurs only by consent of the involved parties. There is no institutional framework that requires these issues to be formally considered.

The EAS provides an opportunity for development. At present the EAS operates through a series of ministerial meetings, working groups, and an annual leaders’ summit. It does not have a council of members or a secretariat that would enable continuous dialogue on current security issues. The progressive institutional development of the EAS and the ASEAN Defense Ministers’ Meeting Plus (ADMM+) will provide the opportunity to strengthen dialogue on the key security issues affecting the Asia Pacific.

The imperative for such initiatives will be the desire to preserve the peace and security that the region has enjoyed for the last 30 years. Fresh thinking will be required. It is unlikely to only come from China or the United States. Every state in the region has a vested interest in the stability of the region, and therefore a duty to think creatively on how best to enhance the prosperity and peace that has lifted more people out of poverty than any other time in history.
Wayne Mapp is a commissioner in the New Zealand Law Commission. He was previously the minister of defense and minister of science and innovation from 2008 to 2011. As minister of defense he was responsible for developing a White Paper on Defence, which laid out the pathway of New Zealand’s defense policy and capability through 2030. He was the country’s first minister of defense in 27 years to be hosted by the U.S. Pacific Command at Pearl Harbor, Hawaii. He was the member of Parliament for the North Shore electorate in Auckland from 1996 to 2011, and he was awarded the Companion of the Queen’s Service Order for parliamentary and ministerial services in 2013.

Dr. Mapp was born in 1952 in Northland, New Zealand, and grew up on a farm in Reporoa, in the central North Island. He gained a bachelor of laws with honours at the University of Auckland, a master of laws from the University of Toronto, and his PhD in international law from the University of Cambridge. He worked in private practice after graduation. From 1984 to 1996, he lectured at Auckland University where he was an associate professor of commercial law and member of the University Senate. He specialized in international law, taxation law, and constitutional issues. He has published internationally in these areas. Dr. Mapp was a commissioned officer in the New Zealand Army (Territorial Force), where he specialized in military intelligence, infantry, and signals. He has a private pilot license and is also a glider pilot.
The New Zealand Paradox
Adjusting to the Change in Balance of Power in the Asia Pacific over the Next 20 Years

AUTHOR
Wayne Mapp