



Prospects for the Asia Pacific Region

Proceedings of the
7th ORF-ECC Conference
29 June to 2 July 2014
Moscow

OBSERVER RESEARCH FOUNDATION, NEW DELHI
EXPERIMENTAL CREATIVE CENTRE, MOSCOW

Contents

Roundtable Partners	1
Programme Agenda	3
Introduction	4
Summary of Proceedings	5
Sessions	5
Session 1: Understanding the historic influences and contemporary flash points in the region	5
Session 2: Military and political strategy of the great powers in the region	7
Session 3: Regional geo-economics and its impact on regional politics	9
Session 4: Demographic drivers and their role in shaping national agendas in the region	11
Closing Remarks	18

Prospects for the Asia Pacific Region

Proceedings of the
7th ORF-ECC Conference
29 June to 2 July 2014
Moscow

Roundtable Partners

OBSERVER RESEARCH FOUNDATION (ORF)

The Observer Research Foundation was established as a private, not-for-profit, think tank that seeks to influence public policy formulation. The Foundation brings together leading Indian economists and policy-makers to present an agenda for economic reforms in India. Since the Foundation's inception, ORF scholars have made significant contributions toward improving government policies.

ORF research projects have resulted in immediate and tangible impact on economic and strategic policies of the country. Today, ORF is known among policy-makers, both in India and overseas, as a place pulsating with fresh ideas that help shape public policy. At ORF, ideas are reflected in the projects and programmes that are undertaken by various institutes and programmes.

The Foundation's activities are divided into two categories: Projects and Events. Both are an intrinsic part of the Foundation's objective to shape and influence public opinion and create viable, alternative policy options in areas as divergent as employment generation in backward districts and real-time strategies to counter Nuclear, Biological and Chemical threats.

EXPERIMENTAL CREATIVE CENTRE (ECC)

The International Public Foundation “Experimental Creative Centre” - IPF-ECC (or Kurginyan Centre) is an independent public association based in Moscow. It was established by a group of political scientists, sociologists, and specialists in cultural studies in 1990.

The Kurginyan Centre's principal programs of research cover the following areas:

- Political Philosophy of Transitional Social Processes
- Political, Economic, Scientific and Cultural Elites
- Religious and Cultural Challenges to the Russian Statehood
- Security of the Russia's National Resource Base
- Processes Developing at the Macro-Regional and Local Levels
- Principles and Technologies of Management in Unstable distributed systems.

Analytical products prepared by the Centre are used by political structures of diverse spectrum, as well as by the state agencies of the Russian Federation.

Through the years of its existence, the Centre has published a number of books written by Sergey Kurginyan and other experts. The socio-political and scientific bimonthly, RUSSIA XXI journal, has been published by the Centre since 1993. Well-known Russian and foreign experts, scientists, political essayists and public figures are among its contributors.

The School Of Integral Analysis almanac, which first went to press in 1998, is yet another product of the Centre. It provides analytical assessments of the broad spectrum of Russian and global socio-political problems, as well as their theoretical interpretation. The Centre was among the founders of the International Counter-Terrorism Academic Community (ICTAC) created in 2003 to research and counter terrorism. In December 2004, the Centre was granted the status of an NGO, associated with the UN Department of Public Information.

Programme Agenda

30 June 2014

Session 1 **Understanding the historic influences and contemporary flash points in the region**

11.00 - 13.00

Chair Yury Byaly
Speaker 1 Rajeswari Rajagopalan
Speaker 2 Michail Dmitriev

Session 2 **Military and political strategy of the great powers in the region**

15.00 - 17.00

Chair Rajeswari Rajagopalan
Speaker 1 Andrey Arkhipov
Speaker 2 Uma Purushothaman

1 July 2014

Session 3 **Regional geo-economics and its impact on regional politics**

11.00 - 13.00

Chair Andrey Arkhipov
Speaker 1 Vivan Sharan
Speaker 2 Yury Byaly

Session 4 **Demographic drivers and their role in shaping national agendas in the region**

15.00 - 17.00

Chair Uma Purushothaman
Speaker 1 Vera Sorokina
Speaker 2 Niranjana Sahoo

Introduction

The conference kicked off with remarks from Yury Byaly, who called attention to the highly relevant timing of the meeting, taking place as it was in what he called, 'era of changes'. Hinting at the Ukraine crisis, he emphasised that such changes are fundamental and the equilibrium that was expected to happen since over two decades ago has not materialised. Instead, new conflicts have arisen.

Byaly reiterated that the conference was crucial owing to various developments taking place at the regional and global levels. It is the duty of the expert community, he said, to make their respective countries aware of the risks and threats, along with ways to overcome adverse situations. He underscored the importance of working together to achieve results.

Summary of Proceedings Session 1

PRESENTATIONS

Rajeswari Rajagopalan examined the historical influences and contemporary flashpoints in Asia. She noted that the factors contributing to uncertainty in the Asia Pacific include unresolved border and territorial issues and what she called "the baggage of history". While comparing European and Asian histories, she remarked that while history has brought together some of the old rivals in the European context, it has had the opposite effect in Asia. In fact, history is something that has had the effect of aggravating the differences and bitterness in the case of Asia. She highlighted four cases to illustrate: the India-China Border; South China Sea; East China Sea; and the Korean Peninsula.

Speaking on Sino-Indian border issues, Rajagopalan pointed out that while India-China relations have improved tremendously in the last decade, particularly in the economic arena, the unresolved border and territorial issues between India and China continue to hamper the prospects of harmonious bilateral relations.

Speaking next of the South China Sea dispute, Rajagopalan said that increased regional rivalry, mutual suspicion and competition, have come to define the relations between China and its smaller neighbours despite the huge traction that the Chinese have gained in the economic realm. The recent tensions surrounding the area have shown the potential to emerge as a major flashpoint between China and its neighbouring countries like Taiwan, Malaysia, Philippines, and Brunei. The decision to send an oil exploration rig deep into the contested waters very close to the Vietnamese shores has made the situation quite serious.

While elaborating on the East China Sea, Rajagopalan stated that the rise of China, particularly its military power, has been of great concern to Japan. Claims by both Tokyo and Beijing over the gas-rich East China Sea have continued to hover like rainclouds over their bilateral ties. The situation in the Korean peninsula has been of growing concern, particularly for its neighbours in the last two decades. The 'military first' politics of Kim Jong-il continued with further fervour under Kim Jong-un and the advanced nature of military capabilities and increased defence budget continues to be of concern to North Korea's neighbours as well as India.

Mikhail Dmitriev began his presentation by quoting Lord Palmerstone's speech before the English Parliament in 1849: "We have neither eternal allies nor eternal enemies but what is constant is our interest and this is what we should protect". Dmitriev said that these lines describe current trends in

relations between Asia Pacific countries. He added that the contemporary territorial issues in Asia Pacific bear regional impulses related to emotional, historical memories and international prestige and we immediately add to them, economic issues as well as military and political interests. Dmitriev pointed to the example of conflict between China and Japan over the Senkaku islands. One of the most critical territorial disputes Japan has with its neighbours, these islands are controlled by Japan but sovereignty over them is claimed by both China and Taiwan and they are united on this issue against Japan.

Dmitriev also noted that the current flare-up of territorial disputes in Asia Pacific is linked both to Chinese efforts to restore its influence in South Eastern Asia, and the growing competition between China and the US over hegemony in the region. According to him, the different—and often conflicting—interpretations of historic, geopolitical and international legal consequences of WWII in the Pacific area and the Korean War have led to the deterioration of ties between China and Japan, and Japan and the Republic of Korea.

The Chair concluded the session by making an analogy: Just as a divorced couple uses past events to argue during divorce proceedings, so do nations come up with arguments to legitimate their respective claims over disputed territory.

Session 2

The second session, chaired by **Rajeswari Rajagopalan**, examined the major trends in political and military strategies of some of the major Asian powers.

PRESENTATIONS

Andrey Arkhipov discussed the Asia Pacific region in its traditionally-accepted geographical borders. Delving into the US pivot to Asia, he said that the reason behind the re-balance is the rise of China and the US' desire to maintain its hegemony in the Asia-Pacific. Talking about China's response, Arkhipov shared the popular opinion that it is attempting to increase strategic investments in the economies of Asia Pacific countries in order to overcome geographical blockades.

About democracies attempting to create a new sort of alignment that does not include China, Arkhipov opined that there is no perfect democracy anywhere in the world. He maintained that the more vocal a country is about democracy, the more cynical it is in manipulating its own population, public opinion and global processes to suit its own pragmatic interests.

Speaking about Russia's position, he stated that the country has its longest borders and most of its territory is in Asia and thus has always felt that it is an Asia Pacific power. He admitted that after the collapse of the Soviet Union, there was a period of time when Moscow tried to associate itself with the West. However, Moscow soon realised the folly of turning West-centric. The events in Ukraine have only added to the anti-Western sentiments.

The most important tasks for Russia while ensuring security in Asia Pacific in the near future will be helping to decrease the tensions in the international arena, preserving peace, and preventing the arms race.

Uma Purushothaman began her presentation by stating that the Indo-Pacific region today stands at the centre of world politics. The presence of emerging countries like India and China, a revitalised Japan, military modernisation in the region, the US military economic presence in the region, booming trade, and other issues—have all contributed to the focus of global power politics shifting to this region.

However, strategic rivalries and formal or informal alliances or coalitions with economic and strategic imperatives among the major powers have pushed them to look beyond just their boundaries. Therefore, each one of these powers has adopted and is evolving military and political strategies to advance its interests in the region and beyond. She brought attention to various defence

cooperation agreements and strategic partnerships signed among powers like India, Indonesia, Singapore, Vietnam and Australia. These are signs of a coalition of sorts emerging among the major and middle powers in the Indo-Pacific to shape the security environment of the region. These have been motivated by fears of a rising China and concerns about US decline or lack of commitment to support these countries against potential aggression from China.

Purushothaman noted that while the region abounds in multilateral initiatives, tensions are on the rise because of the economic and strategic imbalances as well as historical grievances in the region. The absence of any overarching security organisation or security architecture in the region has prolonged the classic security dilemma that contributes to creating strife among neighbouring powers in Asia.

She concluded by saying that the economic interdependencies among the major powers and the attendant costs of conflict might act as a deterrent to a full-blown war and ensure that rationality prevails.

Session 3

The third session was chaired by **Andrey Arkhipov** and discussed regional economics and its impact on regional politics.

PRESENTATIONS

Vivan Sharan began his presentation by referring to himself as a 'dove': He believed that in an increasingly interconnected world, economies depend on each other more today than ever before. He focused on three free trade agreements under negotiations in different world capitals today, namely the TTIP, the TTP, and the RCEP. While placing the three FTAs within the context of a rising Asia, he looked at possible outcomes of the same. He reiterated that since all three agreements are inherently both economic and political, the various scenarios as a region must be examined closely as agreements are negotiated.

Speaking about India, Sharan remarked that the country has traditionally been a supporter of the multilateral system of the WTO. However, with the proliferation of global RTAs and the veritable stalemates in the various negotiating rounds, including Doha, India has concluded some important free trade agreements over the last decade, including the Comprehensive Economic Partnership Agreement with Japan in 2011, the Comprehensive Economic Cooperation Agreement with Malaysia in 2011, the Framework Agreement on Comprehensive Economic Cooperation with ASEAN in 2009, the CEPA with South Korea in 2009, the CECA with Singapore in 2005, and an FTA with Thailand earlier in 2003. Sharan also noted that Russia has been considering regional mega free trade agreements.

Presenting his perspective, Byaly spoke about the political and economic trends in the Asia Pacific region and also globally. He observed that the conflicts in Asia Pacific will be expanding and growing geographically. Noting that conflict between the US and China is inevitable owing to their hegemonic global ambitions, he even warned that the people in the Asia Pacific region should tread carefully in engaging in this conflict.

The revolutions that accompanied the global financial crisis took place with massive political information, organisational, financial, and sometimes real support from some foreign countries. During this global economic competition, along with economic special operations of man-made crisis, more military-like information and political mechanisms is used. To provoke such conflicts such as the Ukraine crisis, predominant powers could use all sorts of measures.

Similarly, Byaly said, in Asia Pacific the US in the nearest future will try to act in a similar fashion. The US will try to damage the economic agreements of ASEAN and RCEP and also to spark a

system of regional conflicts with China. He said there was reason to fear the further involvement into this 'conflict funnel' of not only Japan, Korea, Vietnam, Philippines, Brunei, as we see now, but many other countries in the region including Burma, Malaysia, Indonesia in the strategic transit seafaring zone of Malacca straits including Russia which is more active in Asia Pacific, and the suppression of which is among the strategic priorities for the US including India with its well-known border and other problems.

Byaly also said that China too its own global ambitions and will not submit to US pressure, even though Beijing and Washington share close economic ties. This is what we need to prepare for.

Session 4

Uma Purushothaman chaired the session on demographic drivers and their roles in shaping national agendas in the region. She noted that the Asia Pacific, which is home to about 61 percent of global population, is characterised by a major demographic transition. The changing demographic profiles of the major powers in the region are likely to affect the ratio of influence internationally, and these will also have implications in terms of migration, urbanisation, and provision of services to the populations.

PRESENTATIONS

Opening the session, **Vera Sorokina** argued that the link between national demography and political and economic processes of regional and global level is not always obvious. Take the case of the Chinese diaspora, she said. The early wave of migrants were vastly different from the latter ones: Since the new migrants are better educated, they play a major role in the integration of Asian countries into the global market. For instance, the individual industries of ASEAN country economies are almost fully under the control of the Chinese diaspora (in Taiwan, the Chinese diaspora controls 90 percent of the investments in trade and industry).

Niranjan Sahoo then gave an overview of demographics in the Indo-Pacific. He highlighted the implications of demographic transition for each of the major powers in the Asia Pacific: While for India it is at present a demographic dividend, it could very easily turn into a nightmare if suitable policies are not pursued.

He noted that demographics will have most serious consequences for the region in terms of impacting on conflicts and the kind of relationship that each region has with the others. He observed that given the manner in which demographic trends are unfolding, countries notwithstanding high degree of nationalist fervour and military capabilities, would be forced to open their borders, and further ease restrictions on trade and people-to-people movement. For instance, while Sino-Japanese relations maybe at its worst, owing to the dispute over what *The Economist* called an 'island rock', economic and demographic compulsions of both societies would actually prevent conflicts from escalating beyond a certain level. Given the massive economic interdependency and large population to cater to, especially China's large young population versus Japan's large ageing population, this would ensure regional stability. Similar possibilities can be seen in South Asia where India is increasingly opening its borders to even countries like Pakistan. In a sense, then, these demographic patterns probably open vast possibilities for cooperation.

During the discussion a participant wondered if the demographic processes could become catalysts for future economic wars or military conflicts. To this, Sahoo replied that a large population means a large workforce and should be used as an opportunity. Vera Sorokina opined that a large population could be either positive or negative, depending on how they are mobilised.

Major Observations

Session 1

While history has had the effect of bringing together some of Europe's old rivalries, it has had the opposite effect in Asia. Many of Asia's current conflicts are 'leftovers' from the past, with long animosities with historical roots.

The emergence of new powers and their interplay with the major powers has brought in new dynamics into play in Asia. The shifting balance of power dynamics, uncertainty and weakening of alliance system as a whole, emphasises the potential carried by the choice of hard power options as a means to find solutions to territorial issues in destabilising Asia.

Asia's current phase of uncertainty with the rising 'China factor' is casting a major shadow in the evolving regional dynamics. China's posturing on the South China Sea in the last few years has had several strategic implications. Increased regional rivalry, mutual suspicion, and competition have come to define the relations between China and its smaller neighbours. Territorial disputes in Asia Pacific are linked both to the policy of China to restore its influence in South Eastern Asia and to the growing competition between China and the US over hegemony in the region.

While India-China relations have improved tremendously, particularly in the economic arena, the presence of territorial issues between India and China have continued to hamper the prospects of overall improvement. There is also the suspicion in among some sections of the strategic community in India that the continuing border dispute with China is also a manifestation of Chinese unwillingness to share the Asian stage with another country that it views as a competitor.

Traditionally, India has maintained a neutral stance on the South China Sea. However, it has become proactive on this issue in the last few years, given the rising profile of India as well as the changing dynamics in Asia. This will have an indirect impact on India's own dealings with China, particularly relating to the border issues.

Session 2

The Asia Pacific region is characterised by an acute increase of inter-governmental differences and risks for international stability. This is exacerbated by the competition for influence between the great powers.

There is no overarching security organisation or security architecture in the region. This would mean that with the classic security dilemma at work, leading perhaps even to a nuclear arms race, there are strong chances of a miscalculation leading to strife, although the economic interdependencies among the major powers and the attendant costs of conflict might act as a deterrent to a full-blown war and ensure that rationality prevails.

The main factor influencing the deterioration of the situation in Asia Pacific is the collision between the economic and political interests of the US and China.

A major role in defining the future military and political architecture is played by the countries of the area that is now referred to as the 'Indo-Pacific' region.

Contributing to the focus of global power shifting to the Indo-Pacific region are various factors, including: the presence of emerging countries like India and China; a revitalised Japan; military modernisation in the region; the US military and economic presence in the region; and booming trade.

The main aim of China's military modernisation is to protect its physical and economic assets. It also wants to challenge the conventional military superiority of the US and its allies in the Asia Pacific. China's military build-up is based on a projectile-centric strategy which aims to exploit in its favour theatre geography, financial asymmetries, and gaps in international law.

India's political strategy in the region is best seen in its Look East Policy. Over the years, the policy which initially focused on building ties with the South East Asian countries has now moved on to improving ties with countries in East Asia.

The US pivot has economic, political and military dimensions. The idea behind the pivot is essentially to reassert its dominance in the region in the wake of an increasingly assertive China, and also to give strategic reassurance to its friends and allies in the region.

The Russian Far East is Russia's gateway to the Asia-Pacific. Russia is also improving trade links with the region. At the same time, it is enhancing its military ties and cooperation with countries like India and Vietnam.

Australia, meanwhile, sees itself as a gateway to the Indo-Pacific and it was the first country to officially recognise the term 'Indo-Pacific' through its defence white paper of 2013. It has a key role to play in US' rebalance, owing to its geographical location and its economic and political integration with Asia.

South Korea does not seem to have a military strategy independent of the US. However, it has also been increasing its defence budget and its political strategy towards the region is otherwise to integrate more economically with it.

Therefore the region is witnessing an increase in cooperation amongst these powers towards establishing a framework that can take some pressure off the twists and turns in the US-China relationship.

Session 3

In Asia, China is the biggest barrier for American economic domination. Beijing captures global markets of low conversion products not only in Asia, Latin America, Africa, but also in Europe and US.

India, for its part, has traditionally been a supporter of the multilateral system of the WTO. Over the past decade and half, however, with the proliferation of global RTAs and the veritable stalemates in the various negotiating rounds including Doha, it has been seriously considering regional trade agreements.

India has concluded some important free trade agreements over the last decade. Some of them include the Comprehensive Economic Partnership Agreement with Japan in 2011, Comprehensive Economic Cooperation Agreement with Malaysia in 2011, the Framework Agreement on Comprehensive Economic Cooperation with ASEAN in 2009, the CEPA with South Korea in 2009, the CECA with Singapore in 2005, and an FTA with Thailand earlier in 2003.

However, India remains a small player in global trade relative to its size both in terms of population in absolute terms in terms of GDP, contributing to less than two percent of global trade and even less in terms of value added trade.

The US is developing two global economic blocs: the Trans-Atlantic Trade and Investment Partnership with Europe and the Trans-Pacific Partnership with the Asia-Pacific region.

The TTIP is a closed negotiation; the TTP is open but India is unlikely to join those negotiations.

The China-supported RCEP seeks to achieve a modern and comprehensive trade agreement among members and the core of the negotiating agenda would cover goods, trade in services, investment, economic and technical cooperation and dispute settlement.

It is in India's interest to strengthen the WTO and simultaneously strive to conclude the RCEP on favourable terms.

In Europe, Russia is the major problem for the US because the EU countries are linked to Russia by close ties in the area of energy supply and modern technologies.

Session 4

Major demographic transition is a characteristic of the Asia Pacific region. These changes have implications in terms of migration, urbanisation, and provision of services to the populations.

The link between national demography and political and economic processes of regional and global level is not always obvious.

The Chinese diaspora is the largest in the world. According to Chinese experts, it accounts for somewhere between 50 and 80 million people.

More than 70 percent of China's diaspora live in the ASEAN countries and it is there that their influence on the national economies is most significant. The largest Chinese communities are found in Taiwan, Hong Kong and Macau, Indonesia, Malaysia and Thailand.

Economists predict that greying and shrinking labour force in China may impact the country's high economic growth and can cause social havoc in a society which is characterised by high levels of income inequities.

Demographics have played a crucial role in China's three-decade long, breathtaking economic growth. China's labour force growth ceased in 2010 and by 2040 its working age population is projected to decline to 15 percent. There are projections that China will grow older before it grows rich.

By 2020, India is expected to reach a 'demographic bulge' with average Indian population at around 29 years, while total population will reach beyond 1.4 billion and the country is expected to have a young population of over 500 million.

To maintain its economic growth and military might as a big power, Russia must rethink its immigration policy as well as a mechanism of making more out of less.

Japan stands at the receiving end of demographic changes. The country has had the steepest and longest fertility fall in recent decades. For instance, in 2008, the country recorded 40 percent as many as births it had 60 years before. Over the next two decades, the low fertility rates will drive Japan's total population from 127 million to 114 million, representing a massive 10-percent decline.

As a result of demographic divide, immigration from one region to another region or even from within the country is bound to increase and this migration which one has seen in the Middle East in the 80s and 90s is going to be repeated in places like Japan, Russia and Australia.

In order to maintain high economic growth, most of the countries of the region will be forced to simplify their immigration policies and labour laws. Countries that are most likely to do so include those in South East Asia, East Asia and North America and to an extent, South Asia. Russia and Japan, which are opposed to immigration, will be forced to find ways to maintain their growth and social stability.

Closing Remarks

Though there were various diverse opinions on the evolving situation in the Asia Pacific region from the Indian and Russian side, there was consensus that current territorial issues in Asia Pacific are shaped by emotional, historical memories and international prestige. Moreover, economic issues and military/political interests make imbalances inevitable. The role of history in shaping the presentation of grievances was also noted at the conference.

In their closing remarks, Yury Byaly stated that the various presentations should be taken in a positive stride, while Nandan Unnikrishnan expressed confidence about the success of future endeavours between ORF and ECC.

