

Going Global

Going Global

Australia, Brazil, Indonesia,
Korea and South Africa
in International Affairs

edited by

Melissa Conley Tyler

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Konrad
Adenauer
Stiftung



Australian
Institute of
International
Affairs

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Publishers

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National Library Board Singapore Cataloguing in Publication Data

BL85
201.5 -- dc22

OCN642645383

Printed in Singapore

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Editorial

Melissa H. Conley Tyler and Wilhelm Hofmeister***

This volume is the product of a joint Australian Institute of International Affairs and Konrad Adenauer Stiftung event ‘Going Global: Australia, Brazil, Indonesia, Korea and South Africa in International Affairs’ held in Jakarta on 25-26 May 2010. This event broke new ground by bringing together five institutes of international affairs to discuss the ways in which their countries might be seen as ‘Going Global’ in a changing international system.

Impressive delegations attended from five institutes active in international issues: the Australian Institute of International Affairs (AIIA), Centro Brasileiro de Relações Internacionais (CEBRI), Indonesia’s Centre for Strategic and International Studies (CSIS), South Korea’s Institute of Foreign Affairs and National Security (IFANS) the South African Institute of International Affairs (SAIIA). The event was funded by the Konrad Adenauer Stiftung with support for the Australia delegation from the Australian Department of Foreign Affairs and Trade.

The event provided a forum to discuss and review how Australia, Brazil, Indonesia, South Korea and South Africa deal with their respective places in the world and in their regions. It was thought that this grouping, although unusual, met the requirements for fruitful comparative discussion. There are a number of similarities between the countries: all five countries are important cornerstones of their regions and yield influence through their foreign policies and membership of multilateral institutions. However at the same time there are a number of salient differences between these countries, including in the way that they conceptualise and implement their foreign policy. Discussions lived up to expectations by exploring both similarities and differences to illuminate common problems.

Following opening remarks, discussion was divided into four topics:

- Regional Powers, Regional Responsibilities
- Dealing with Global Powers
- Global Challenges
- Global System

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This structure has been preserved in this publication. Section one looks at how the five countries manage issues in their regions. Section two looks at these countries' relations with great powers – and, in some cases, their desire to be global powers. Section three looks at global challenges that are shared by all five countries – such as nuclear non-proliferation, energy security and climate change. Finally, the last section focuses on recent changes in global governance, particularly the G20, and ways that the five countries could collaborate to contribute to the development of a global system more accommodating of their needs.

So-Called Middle Powers

One of the surprises for organisers of this event was the strong interest each had in dialogue among this unusual grouping. Participants shared the view that discussing commonalities and differences among Australia, Brazil, Indonesia, South Korea and South Africa would be useful – even if it wasn't clear what this group of countries should be called.

Participating countries were variously defined as:

- “countries with regional influence and growing global importance”
- “countries with some influence on our respective regions”
- “like minded countries with significant standing in their respective regions”
- “countries with expectations that they will play a greater role”
- “so called middle powers with aspirations for international status”
- “like-minded five”
- “countries whose voices have to be heard.”

Each of the countries could be seen as on a journey moving from a regional perspective to a more global one. This is part of a more interesting variable new geometry than the old dichotomies of East-West or North-South.

Many things are shared between these countries such as global challenges, which each country faces equally, and the emerging global system which all have a stake in and a place in. All are faced by the issue of how to relate to global power shifts. They also have some ability to help solve global problems.

However the many real differences between the five countries remain evident. A range of relevant differences determined how each country was impacted by global challenges – for example, as developed or developing countries, with large or small population, that are reliant on coal or include renewables in their energy matrix, subject to Kyoto Protocol ‘Annex 1’ or not, under or not under the US nuclear umbrella, and with an industrial or a resources-dependent economy.

Regional Powers, Regional Responsibilities

Looking at the role of each country in its immediate region, all except South Korea have a specific – if not unchallenged – role as a regional power. For South Korea, the nature of its neighbourhood – surrounded by China and Japan – means that being a regional power is not a realistic goal.

Each of the participating countries has a stake in its region due to a mix of factors including humanitarian impulses, national self-interest and reciprocity for past support from neighbours. At the same time, each country has some ambivalence about leadership. Many of these countries are uncomfortable with the disparities between themselves and others in the region. They are uncomfortable with power and feel the pull of solidarity. It was noted in discussions that “the problem is not being devoid of power, but having too much power.” The concepts of “accidental hegemons” and “reluctant leaders” were raised.

For Brazil, one answer is “to act in non-hegemonic, non-leadership role.” For South Africa, the answer is “continental co-operation.” For Indonesia, there is ambivalence about exercising power given its membership in ASEAN. While Australia does at times attempt to act as the “regional superpower” in the Pacific, it doesn’t get much thanks for doing so.

Common issues discussed were questions on what is meant by power, the legitimacy of power, the need for solidarity with other countries and the issue of one country representing – or being perceived to represent – a whole region.

Discussion also focused on the concept of region for each country. It was noted that Australia has a range of potential “homes” in the world: for example, the Pacific, the Indian Ocean or the Asia Pacific more broadly. For Indonesia, the idea of its “region” is moving from ASEAN to a wider idea of the region.

Korea’s region has historically been a battleground of great powers and can’t be understood without reference to the great powers. This contrasted strongly with the view on South America which is generally perceived a less important region strategically. It was noted that this may be bad for the region’s pride, but good for its freedom of action.

Global Powers

Each of the five countries had a slightly different perspective on the issue of dealing with global powers.

For some countries, the focus was on particular great powers and relationships with them and between them. Australia and South Korea focus strongly on the perceived “G2” of the US and China, as can be seen by the chapters in this volume.

For other countries, the focus is on the quest for “global significance” at a time when new actors are rising in the global system. From Brazil, there is the vision of Brazil as a country that can contribute to global solutions, especially as a mediator between the strong and the weak. Indonesia, too, aspires

to a “more active role in international affairs” which, in one sense, has already occurred since Indonesia is now present in global forums. The question for Indonesia now is how to deal with this position.

One issue discussed was the difficulty of developing the capacity to meet these ambitions. There may be a significant gap between emerging powers’ perceived global responsibilities and the internal social issues and problems that they face. Some participants felt that participating countries’ ability to contribute to global public goods is badly overstated.

Global Challenges

Global challenges discussed included economic development, food security, the global financial system, nuclear proliferation, deforestation, climate change and energy security.

Indonesia’s situation was noted as having both international and external dimensions left from a challenging history: “Indonesia’s march in history has been most difficult.” Key challenges for Indonesia include economic development, agriculture, food security, the need to make the global financial system sustainable, energy and climate change and nuclear proliferation. Proliferation was noted to be “a threat today no less than during the height of the Cold War”. For Korea, proliferation was noted as an ongoing and very serious concern. It was noted as a positive development that countries are now approaching non-proliferation with a “newly formed sense of urgency in this area.” Like-minded states were called upon to play a more instrumental role in non-proliferation efforts.

Energy issues were identified along with climate change as one of the twin challenges for emerging countries. A welcome sense of the innovation occurring in energy issues was given – “seeing the opportunity in every difficulty” – and the gap was noted between countries’ negotiating positions and what is actually happening on the ground in energy issues.

South Africa and Brazil focused on climate change from very different perspectives: Brazil with its clean energy matrix of 50% renewable sources and South Africa with its 90% dependence on coal. However both are attempting to act as advocates for the developing world in climate change discussions.

It was noted that dealing with each of the challenges identified by participants is beyond the ability of any one country. They may even be beyond the ability of the system of sovereign states. This suggests them as areas for potential co-operation among like-minded powers.

It was noted that this gives impetus for a call to see if countries can work together on common challenges by “promoting a sense of common destiny and mutual trust”. Even if full global agreement on issues is not currently possible, there are still things that smaller groups of countries can do together, many of which are non-politicised. For example, in the absence of universal agreement

on climate issues, a number of practical and technical measures are still possible, including the exchange of data and information, comparison of practices and capacity building.

Global System

Perceptions of paralysis in the multilateral system is driving a move by many countries to collective action. A crisis of the global system was diagnosed in various failures of multilateralism. This has led to hybrid arrangements where countries ‘forum shop’ for arrangements that meet their needs.

In such a situation, states like the five participating countries potentially have much to offer and can play an active role in international affairs. It was suggested that the five countries need to focus on well-chosen and realistic “niche diplomacy” – but that at least the environment for action is currently broadly favourable, with major powers having some reason to accept other countries playing an active role. Positive factors include the election of a more multilateralist US President, and the re-thinking caused by the global financial crisis.

Looking in more depth at when institution-building works and when it doesn’t, it was suggested that, at times, having a crisis can be good news. The G20 has grown in prominence because of the global financial crisis and the need to find an appropriate institution to assist in dealing with it. The intriguing suggestion was made that one benefit of the G20 may be to keep the US (and its G2 symbiont, China) from acting in ways that is good for it nationally but bad for everyone else. G20 arguably has a socialising role.

There was discussion of the importance of the G20 in the recovery and exit strategy from the global financial crisis. Looking at G20 successes to date suggests that the G20 can help chart a strategy through upcoming G20 meetings to take the world from the immediate crisis into needed structural reform. Priorities could include helping restructure East Asian domestic economies away from export dependence, as well as with re-balancing global governance through reform of international financial institutions.

Other suggestions for G20 priorities included promotion of “open-minded discussion of solutions to ‘fairly technical’ economic and financial issues,” promoting access to development finance (especially for Africa), and caucusing about and preparing the way for large UN conferences on specific issues.

However a necessary note of caution about G20 was injected into discussion. A number of issues were raised including its perceived arbitrary and unrepresentative membership, its primarily economic focus, its lack of institutional ability, lack of synergy between members and alleged unwieldiness. Some participants suggested that G20 will be most effective if it focuses narrowly on international financial system institutional reform.

Views differed on whether the G20 would definitely replace the G8 (which would remain only as a caucus largely dealing with security matters within the G20) or whether it would be a transitional institution, perhaps with limited value.

A number of participants warned of the need to have realistic expectations. It was noted that in many ways the agenda for G20 is still being set by G7. Even the composition of the G20 is still in flux. Realistically, it is only likely that the G20 will be able to make short term gains; but at the same time, G20 actions need to have a long term vision.

While some were skeptical about the G20, it was noted that “it is the only thing we have at the moment.” Thus “the task is how to take advantage of our similarities in order to effectively exercise our influence within G20 while putting aside our differences.”

A number of problems were noted that impede co-operation among the participating countries. These five countries are very different. They have never worked as a group or attempted to work as an effective lobby. Their capacity remains unproven. Each of the countries would need to learn a lot more about the others to do this job effectively given that “it is not in our nature to be co-operative. We have to deliberately work on co-operation and camaraderie.” It was hoped that discussions at this forum formed a good start on this task.

Conclusion

The chapters in this book reflect and give greater substance to these discussions. We hope these chapters take the discussion among the Australian, Brazilian, Indonesian, Korean and South African delegations to a wider audience and share the illuminating and diverse perspectives on the issues covered.

Whatever the differences between chapters, they all agree on at least one point: we live in a time of great change in which countries will have to think strategically about their response. Each of the participating countries needs to prepare for the future and work out how to deal with what comes next: “confronted with a world we didn’t make and which sometimes even seems out of control.”

At a time of transition it is good to come together and share perspectives, particularly among newer groupings where the perspectives of the other countries are not always well known.

**PART 1:
REGIONAL POWERS,
REGIONAL RESPONSIBILITIES**

South Africa in Africa

*Nomfundo Xenia Ngwenya**

Following its first democratic elections in 1994, South Africa officially rejoined the international community of nations and immediately encountered expectations that it would provide leadership on the African continent. South Africa's continental vision has been captured under its 'African Agenda', which guides the country's bilateral and multilateral relations with the continent.

This chapter identifies the ideas, individuals and institutions that have steered South Africa's engagement with the continent since 1994. The discussion on ideas will present the rationale behind South Africa's decision to play an active role in the political and economic affairs of the continent. Each president since 1994 has had his ideas shaped by his history as well as the environment in which he had to operate. Thus, the chapter will provide an explanation of how each president has pursued the African Agenda. Given the fact that Thabo Mbeki has been the longest-serving post-apartheid president thus far, discussion will make significantly more reference to foreign policy during his time. Thereafter, the key institutions that have been created by South Africa to assist with the implementation of its African Agenda will be identified, with the strategic role of each institution highlighted. Finally, the discussion would not be complete without an assessment of how the rest of the continent views South Africa's engagement with it.

The African Agenda – South Africa's Regional Relations at a Glance

The ideas that guide South Africa's continental engagement are captured in the government's 'African Agenda', the central tenets of which are the eradication of wars; improvement of the economic and social conditions of Africa; improving governance in Africa; and amplifying the African voice in international governance institutions.¹ Although the African continent is divided into five regions – North, East, West, Central and South (with South Africa falling within the latter) – the sheer size of South Africa's economy relative to the

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¹ C. Landsberg, 'South Africa's African Agenda: challenges of policy and implementation,' paper prepared for the Presidency Fifteen Year Review Project, available online: http://www.europarl.europa.eu/meetdocs/2009_2014/documents/d-za/dv/3_african_agen/3_african_agenda.pdf, (accessed 27 July 2010) and Department of Foreign Affairs, *Annual Report 2008-2009*, p. 43.

rest of the continent requires any assessment of the country's regional activity to include the entire African continent, especially so-called 'Sub-Saharan Africa'.

In 2009, South Africa had the highest GDP in Africa, coming in at number 33 in the world with a total of US\$285,983 million. The second highest African GDP was US\$188,334 for Egypt, almost \$100,000 million less than South Africa. It was followed by Nigeria at US\$166,994.² The economic importance of South Africa to the African continent, coupled with the relatively peaceful transition from apartheid to a democratic state in 1994, has led to the aforementioned global expectation that South Africa should play an active leadership role in steering Africa's peace and development initiatives. In the economic sphere, for example, President Clinton's Commerce Secretary Ronald H. Brown designated South Africa as one of the world's 'Big Emerging Markets' on which the United States would have to expend more resources; specifically intending to help South Africa spearhead Africa's economic growth.³ In the area of conflict resolution, major powers like the United States, the United Kingdom and France have expressed their willingness to channel their support for building peacekeeping capabilities through South Africa.⁴ Indeed, at the political level South Africa has played a key role in resolving outstanding African conflicts while simultaneously contributing towards transforming the continent's multilateral architecture so that it is geared towards responding to 21st century global challenges. It has also made inroads into the economic realm with South African businesses penetrating many previously untapped African markets and sectors.

Despite the obvious political and economic imperatives for South African leadership in the region, South Africa's leadership style has been a source of contention between the country, the region and major global powers at different stages since South Africa's democratisation. Before discussing these tensions, attention should first be paid to the domestic and regional ideas that have influenced South Africa's foreign policy choices.

² World Bank, 'World Bank Development Indicators,' (1 July 2010) available online: <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf> (accessed 31 March 2011).

³ H. Bodansky, 'In our international commercial relations, we must look like America: Secretary Brown makes outreach a part of the Commerce Department's new diversity policy,' *Business America* (15 October 1994).

⁴ M. Schoeman, 'South Africa as an Emerging Middle Power: 1994-2003', in D.J.A. Habib and R. Southall (eds.), *State of the nation* (Cape Town: Human Sciences Research Council, 2003), p. 358.

Ideas

Domestic Motivations for African Orientation

South Africa's apartheid-era international relations have predictably had a significant impact on the foreign policy choices that the country has made since 1994. Based on this history, there are two main reasons for South Africa's prioritisation of Africa in its foreign policy. The first relates to the role played by the vast majority of post-independence African states in supporting South African liberation movements' struggle against apartheid. The destabilisation policies of the apartheid regime were seen as a major setback to continental development and integration. Thus, the demise of apartheid is seen by the South African government as a critical moment for post-apartheid South Africa to take responsibility in setting a new development path for the African continent.

The second reason for South Africa's active role in Africa is the pursuit of national interests. The domestic socio-economic inequalities that were perpetuated by apartheid have left the post-apartheid government with significant challenges in building the nation and averting social upheaval. To this end, South Africa's post-1994 presidents have made it clear that South Africa "cannot afford to be an island of prosperity in a sea of poverty" since that would ultimately derail domestic post-apartheid reconstruction efforts.⁵ Thus, concerted efforts to end wars and guide greater development in the rest of the continent are a way of ensuring that problems associated with state collapse in other countries of the continent do not spill over into South Africa.

The other element of self-interest is that after almost two decades of isolation through international sanctions, South Africa's return to the world stage in 1994 meant that it needed to seek new markets where South African companies could take advantage of the expertise honed domestically in the apartheid era. At the time, there was still overwhelming global disillusionment with Africa and not many external investors were interested in entering Africa, except in the traditional resource extraction sectors.⁶ As Daniel, Naidoo and Naidu aptly put it, "[h]aving been frozen out of much of the world ... South African corporates had a surplus of investible capital available and were keen to take advantage of the weakness of the economies of the north of it."⁷ Thus, the decision to orientate South Africa towards Africa was initially driven by

⁵ African National Congress, 'Statement of the National Executive Committee of the African National Congress on the occasion of the 98th anniversary of the ANC' (8 January 2010) available online: <http://www.anc.org.za/ancdocs/history/jan8-10.html>

⁶ D.J.V. Naidoo and S. Naidu, 'The South Africans have arrived: post-apartheid corporate expansion into Africa', in D.J.A. Habib and R. Southall (eds.), *State of the nation* (Cape Town: Human Sciences Research Council 2003), p. 374.

⁷ *Ibid.* p. 374.

the imperative of creating a viable space for South African business to expand its reach, while giving South Africa a ‘first mover’ advantage in Africa through its expansion into a diversified range of sectors including “wholesale and retail, general business services, financial services, construction, energy, property development and agriculture.”⁸

Identifying the main ideas behind South Africa’s engagement with the African continent and examining how South Africa has chosen to pursue these ideas helps explain South Africa’s leadership style in the region.

South Africa’s Leadership Style

South Africa has sought to extend its domestic ideas on continental development to bilateral and multilateral forums. Despite domestic and external expectations on South Africa to provide decisive leadership, the country has placed great emphasis on regional consensus. It must be remembered that the apartheid regime used its economic muscle to destabilise the continent, especially the southern African region, as a way of punishing those states that supported South African liberation movements. As a result, there has been a long history of suspicion towards South Africa and the post-apartheid government has been conscious not to appear like its predecessor by dictating norms to the region. This is captured in one of President Thabo Mbeki’s ‘State of the Nation’ speeches to Parliament, where he emphasised that South Africa would pursue its international obligations through multilateral institutions such as the Southern African Development Community (SADC) and the African Union (AU) since “[w]hatever we may think of ourselves, none of these give us the unilateral right to force anything on any other independent country.”⁹ This is a particularly significant point to note as Western countries in particular have been puzzled by what they see as South Africa’s ambivalent leadership. Resolution of the conflict in Zimbabwe is a case in point, where Western powers have urged South Africa to lead the regional initiative to condemn President Robert Mugabe and facilitate his removal from power.

Seeking Continental Allies

In seeking consensus, South Africa has made use of partnerships with key African states. It partners with states that it considers to share its vision on continental development and integration. This was particularly evident in South Africa’s efforts towards reforming the Organisation of African Unity into the AU in 2000 and creating a continental socio-economic programme,

⁸ P. Draper and P. Alves, ‘Deepening integration in SADC,’ *South African Yearbook of International Affairs* (Johannesburg: South African Institute of International Affairs, 2006/07), p. 103.

⁹ D.J.V. Naidoo and S. Naidu, op cit, p. 388.

the New Partnership for Africa's Development (NEPAD). It partnered with Nigeria, Ethiopia and Algeria as key countries with influence in their respective regions.¹⁰ Furthermore, South Africa often seeks its mandate to 'speak on behalf of Africa' from the AU, such as it has done through the Heads of State and Government Implementation Committee of NEPAD when speaking to the G8 on NEPAD.

Under President Zuma, an 'anchor states' project has been developed by the Department of International Relations and Co-Operation. The objective of this programme is to re-visit South Africa's continental relations since 1994, assess current trends in its interaction with various African countries and take into account possible future trends that may shape the landscape of the continent. The rationale for this project is to identify countries that might share South Africa's values and be best aligned to help it achieve its continental objectives, without sacrificing the pursuit of South Africa's own national interests.

The following section looks at the way in which each president since 1994 has implemented the African Agenda. South Africa has had four presidents since 1994 all under the ruling African National Congress. Nelson Mandela served five years (1994-1999); Thabo Mbeki served nine (1999-2008); Kgalema Motlanthe served a brief seven months after Mbeki's recall by the ruling party (25 September 2008-9 May 2009) and President Zuma has been in power since April 2009.

Individuals

As will be discussed below, foreign policy in South Africa largely reflects the ruling party's thinking, even if each individual brings their own personal style. For this reason, one generally notices a consistency in the fundamentals of foreign policy towards Africa, with some variations in the emphasis brought on by the style of each leader.

The Mandela Years

When Nelson Mandela took office, the direction of his foreign policy was already set by the ANC, which had decided to focus on Africa while it was preparing to take government. Mandela's role as the first post-apartheid president was to first thank old allies and commit the new government to strengthening ties with them. This became visible in his itinerary where he went to thank neighbouring countries and other key actors on the continent. Mandela's first

¹⁰ Senegal was not an immediate choice for South Africa. South Africa, Algeria, Ethiopia and Nigeria decided to include it after President Wade developed his alternative socio-economic programme, which the four states had to bring on board in order to avoid derailing the entire project.

foreign minister, Alfred Nzo, constantly emphasised the centrality of multilateralism to South Africa's foreign policy. As a result, he immediately moved to ensure the country's re-admission to continental bodies after decades of apartheid isolation. Despite embracing multilateralism in Africa, Mandela attempted to assert South Africa's leadership on issues of morality. As a global moral figure, Mandela made it a central part of his foreign policy to pronounce himself on human rights. He wrote in *Foreign Affairs* that South Africa's history would inform its foreign policy and human rights would be fundamental to the country's foreign policy.¹¹ It was the issue of Mandela's views on human rights in Africa that would prove a decisive moment in reinforcing South Africa's desire to lead by consensus. The oft-cited case of South Africa's condemnation Ken Saro Wiwa's execution by the military regime of Sani Abacha in Nigeria and the subsequent isolation of South Africa by the rest of Africa provided Thabo Mbeki with a seminal lesson on African consensus politics.

The Mbeki Years

With Thabo Mbeki as his deputy, Mandela was preoccupied with ceremony while Mbeki delved in the substantive issues of the African Agenda. Mbeki's personal background also played an important role. As one of the ANC members who had spent much of his time exiled in Europe, he was very conscious of the negative images and perception that existed about Africa in the West. As a result, his view was that South Africa could never really be fully respected as an African country while the rest of the continent was not seen in a positive light by the rest of the world. For this reason, his idea of an 'African Renaissance' became a critical element of his foreign policy. This was captured in his 1996 'I am an African' speech to the South African parliament, which laid the foundations for Mbeki's concept of an African Renaissance.¹²

During his presidency, South Africa acted as a mediator in key conflicts such the Democratic Republic of Congo (DRC), Burundi and the Ivory Coast, as well as peacekeeping missions in countries like the Sudan and Liberia. Additionally, South Africa has spent millions of dollars on post-conflict reconstruction. As mentioned earlier, Mbeki also played a key role in re-shaping the OAU into the AU as well as funding these institutions, often paying more than the minimum membership fees required. Furthermore, he took advantage of South Africa's global stature by using bilateral relations with the North as well as various multilateral forums to appeal for assistance for Africa's initiatives. Relations with the North were primarily used to lobby for issues like conflict resolution, debt relief and targeted development aid.

¹¹ Nelson Mandela, 'South Africa's Future Foreign Policy', *Foreign Affairs*, November/December 1993.

¹² Thabo Mbeki, Speech at the Adoption of the Republic of South Africa Constitution Bill (8 May 1996) available online: <http://www.anc.org.za/4322> (accessed 29 March 2011).

Although words like ‘African Renaissance’ do not appear in President Zuma’s lexicon, the foreign policy documentation of the country under his presidency continues to declare a commitment to Africa.

Zuma’s Emerging Africa Policy

While it is only two years since President Zuma took office and his foreign policy execution has yet to take its full form, there are nonetheless emerging patterns on his Africa policy. As was the case with Mbeki, Zuma’s personal history during the apartheid struggle appears to be influencing his emphasis in foreign policy. While he has not called for a scaling back of the continental agenda that was set by Mbeki, Zuma’s time spent as head of the ANC’s intelligence wing with extensive operations in Southern Africa appears to tilt his focus towards the region. In his first year as president, he visited most states in Southern Africa.

The government has also announced new initiatives in countries where the ANC was housed during their liberation struggle, such as Angola, Mozambique, Namibia and Zambia.

Zuma’s presidency has been largely characterised by commercial diplomacy. His visits have included some of the biggest business delegations ever to travel with a South African president. His first state visit to any country in the world was to Angola, accompanied by eleven members of Cabinet and the largest business delegation since 1994. The visit was seen as symbolic of two elements. The first was the use of historic liberation movement ties to repair and strengthen bilateral relations and the second was the strengthening of commercial diplomacy.

Zuma also appears to be exploring new relations with some key African countries. His deputy Kgalema Motlanthe visited Kenya in 2010 and President Zuma is expected to visit that country in the middle of 2011. Similarly, he is expected to visit Senegal before the end of 2011. Neither country has ever been visited by an African head of state since 1994, despite their strategic importance in their respective regions.

Institutions

In pursuing the African Agenda, South Africa has reformed some old apartheid institutions while also creating new ones that encompass the political and economic arena. The role of consolidating the African Agenda also goes beyond government to include government and civil society.

African National Congress International Relations Sub-Committee

The role of political party structures in influencing foreign policy in Africa is often ignored as policy is often considered the preserve of presidents and foreign ministries. The ANC’s headquarters appears to have significant influence

on foreign policy. At its 52nd National Conference in Polokwane in 2007, the ANC's resolutions made a number of proposals on the consolidation of the African Agenda, which one can clearly see in the policies of the South African government. An ANC International Relations Rapid Response Task Team was also formed after Polokwane to address ongoing and emerging pressing international relations issues in which South Africa has an interest. Since Polokwane, the committee has also increased the number of times it meets from once a month to once every fortnight. In its December 2010 assessment, the ANC wrote, "[s]ince Polokwane, the ANC has done work on the continent and in the world through party-to-party relations, participating in certain international fora, conflict resolution on the continent, limited involvement in campaigns, dealt with some of the transformational global governance issues, and ensured ongoing policy development." It has however noted that the sub-committee has limited human and financial resources and it is exploring ways of strengthening this body. The sub-committee has been active in Southern Sudan, for example, where the ANC has had long term historical links with the Sudanese People's Liberation Movement (SPLM). It has therefore played a pivotal role in shaping government's policy as South Africa played a key role in the Southern Sudanese referendum, as well as the strategic planning for an independent Southern Sudan.

Government Departments

The main government institutions responsible for driving South Africa's foreign policy are the Department of International Relations and Co-operation (DIRCO) which, between 1994 and 2009, was known as the Department of Foreign Affairs, and the Department of Trade and Industry. In a move that indicates South Africa aim to have an African focus across various government departments, international relations units were established across the spectrum of government departments, even those that do not traditionally engage in foreign policy. The purpose of this was to enable these ministries to participate in bilateral and multilateral efforts to engage the continent, including through the provision of technical assistance and capacity-building initiatives. The second purpose of this was to empower these ministries to participate in global multilateral institutions on behalf of Africa, for example the Ministry of Environmental Affairs taking the lead on behalf of Africa at the World Summit on Sustainable Development in 2003. The involvement with the continent has also gone beyond the national government. Although South Africa is not a federation, its nine provinces and associated municipalities also conduct their own bilateral relations with other Africa countries.

Development Financial Institutions

In order to lend financial muscle to South Africa's Africa Agenda, the country has also relied on domestically-created financial institutions. Key among

these are the Development of Southern African (DBSA) and the Industrial Development Corporation (IDC). Whereas the DBSA is focused purely on infrastructure in the immediate sub-region, the IDC operates across the continent and in a range of sectors. The DBSA has its roots in the apartheid government but since then it has been revamped towards building greater partnerships between South Africa and the region, thus creating an area of development in the Southern African region. Its mandate is to fund “physical, social and economic infrastructure” by playing multiple roles as a financier, advisor, partner, implementer and integrator to mobilise finance and expertise for development projects.¹³

The IDC was created in 1940 with a domestic mandate to accelerate South Africa’s industrialisation process. This was extended to Southern Africa in 1998 and to the rest of Africa in 2002.¹⁴ The Africa Unit’s main objective is to support South African industries that want to engage in business across the continent in a range of industries from mineral resources to services such as telecommunication and real estate. It also provides export finance for South African companies and has a direct stake in sectors such as mining and beneficiation, agro-processing, infrastructure (telecoms, energy, water and sanitation, transport), tourism, healthcare, education, manufacturing, information communication and technology, forestry and related products, franchising, transportation and construction.¹⁵

Development Co-operation

Having realised that development assistance is an important part of assisting a number of African states, South Africa has set up a fund that would identify projects and initiatives that are worth funding in its bilateral relations. In 2005, South Africa established the African Renaissance and International Co-operation Fund (ARF). Administered by the DIRCO, this fund aims to promote co-operation with other African countries for “the promotion of democracy [and] good governance; the prevention and resolution of conflict; socio-economic development and integration; humanitarian assistance and human resource development.”¹⁶

¹³ African National Congress, ‘International Relationst [*sic*]’ in *ANC Today*, Vol. 10 No. 45, 3-9 December 2010 in <http://www.anc.org.za/docs/anctoday/2010/at45.htm>; ‘Development Bank of Southern Africa’ (2010) available online: www.dbsa.org (accessed 31 March 2011).

¹⁴ Industrial Development Corporation, ‘Africa Unit’, available online: <http://www.idc.co.za/Africa%20Funding.asp> (accessed 31 March 2011).

¹⁵ *Ibid.*

¹⁶ Department of International Relations and Co-operation, ‘Establishment of the African Renaissance and International Co-operation Fund’ (2004) available online: <http://www.dfa.gov.za/foreign/Multilateral/profiles/arfund.htm>, (accessed 31 March 2011).

South Africa is currently in the process of re-visiting the manner in which it disburses development assistance and it will soon establish the South African Development Partnership Agency (SADPA), under which the ARF will also fall. As mentioned earlier, a number of national government departments have thus far been involved in providing a range of financial and technical assistance to countries across the continent. This has led to poor co-ordination, duplication and often excessive amounts of money spent in one country without a properly co-ordinated strategy of what the South Africa hopes to achieve through its development assistance to that country. SADPA aims to correct this and streamline processes of identifying and implementing the South African government's development co-operation objectives. It will also offer ideas on how best to partner with non-African countries that wish to co-operate with South Africa in their involvement with the continent through trilateral co-operation.¹⁷

South African Business

The South African private sector has also been an active participant in the African Agenda, even if it is not often in co-ordination with government. South African corporations have helped change the availability and quality of services in Africa, while adding to state revenues for the implementation of development projects. In Uganda, for example, telecommunications giant MTN is the biggest single taxpayer.¹⁸ Although South Africa has been criticised by some for not investing sufficiently in soft power within its region,¹⁹ South African companies have helped popularise South African goods and culture. This includes companies in the retail sector, such as Shoprite, which have built new shopping malls that were previously not a feature of most Sub-Saharan African countries. Television channels like DSTV and the now-defunct African wing of the national broadcaster the South African Broadcasting Corporation (SABC), have brought South African news, programmes and musical culture to the continent.

¹⁷ Sue Van der Merwe, 'Address by Deputy Minister of International Relations and Co-operation in reply to the budget vote', (Cape Town: National Assembly, 28 June 2009) available online: <http://www.dfa.gov.za/docs/speeches/2009/merw0619.html>

¹⁸ South African Minister of International Relations and Co-operation, Ms Maite Nkoana-Mashabane (personal interview, Pretoria, 29 July 2010).

¹⁹ K. Smith, 'South Africa as a regional leader: gaining acceptance and legitimacy through the use of soft power', paper presented at the Department of International Relations and Co-operation Conference on 'Closing the Gap between domestic and foreign policies', (Pretoria: 5-6 November 2009).

South African Civil Society

South Africa also benefits from the increased activity of its civil society across the continent since 1994. A number of South African think tanks have extended their research enquiry beyond South Africa's borders, often partnering with local institutions in various African countries. Some South African institutions aim to create pan-African organisations by establishing offices in a number of African capitals. For example, the Institute for Security Studies (ISS) has offices in Addis Ababa and Nairobi and is planning to set up in Dakar. South African institutions continue to dominate the rankings of policy think tanks in the region. The only global ranking of think tanks, which is conducted by the University of Pennsylvania, ranked the South African Institute of International Affairs first in Sub-Saharan Africa, while the rest of the seven top performers were all South African.²⁰ This has seen South African policy institutions leading research on issues that relate to the African Agenda, particularly in areas like conflict resolution, governance and economic integration.

African Reactions to South Africa

Although the focus of this chapter has been on how South Africa engages with the rest of the continent, it is also important to consider how the continent has reacted to South Africa. This is useful in helping determine the opportunities for and obstacles to South Africa pursuing its stated objectives and vision for the continent. The first question to ask is whether or not South Africa's leadership of the continent is as natural and uncontested within the continent as it is often assumed externally and, more importantly, whether or not the continent has any capacity to frustrate South Africa's efforts.

There have been tests to South Africa's assumed role of leadership, both in Southern Africa and in the wider continent. These challenges have come from key leaders within Africa who have considered themselves above learning lessons from South Africa, especially when they were instrumental in bringing the current government to power. For example, Libya's President Muammar Gaddafi's idea of the immediate creation of a federal United States of Africa stands in stark contrast to South Africa's favoured gradualist approach. Within Southern Africa, three countries (Angola, Namibia and Zimbabwe) sent their troops into the Democratic Republic of Congo in 1998 despite South Africa's position that dialogue between the warring factions was a more sustainable alternative. President Robert Mugabe went on to withhold an invitation to South Africa to the SADC meeting that year.²¹ Similarly, the ongoing disagree-

²⁰ http://www.gotthinktank.com/wp-content/uploads/2010GlobalGoToReport_ThinkTankIndex_UNEDITION_18_.pdf (accessed 31 March 2011).

²¹ Schoeman, op cit, p. 359.

ment between South Africa and three of the members of the Southern African Customs Union (Botswana, Lesotho and Swaziland) over the Economic Partnership Agreements with the European Union have raised questions about what it would take for South Africa to be more assertive, especially when its interests are directly under threat from countries like Lesotho and Swaziland who rely on South Africa for two-thirds of their revenue to Southern African Customs Union.

African countries have at times chosen non-African actors above South Africa, such as was the case in the country's bid for the Federation of International Football Associations (FIFA) 2010 Football World Cup. South Africa places much importance on hosting mega sporting events to project a global image of being 'world-class'. African countries did not support South Africa's bid for the 2004 Olympic Games and although South Africa won the bid to host the FIFA World Cup, the African delegate did not vote for the country despite South Africa presenting its bid as an 'African' bid.²²

The rapid expansion of South African companies has also come under attack. Criticism includes allegations that South African companies were taking advantage of poor regulatory frameworks in many African countries to avoid implementing the same labour standards that they were used to implementing at home; and that South African companies were not sourcing their produce in the countries where they operated, thus undermining local industries. There has also been protectionist concern among some key African states that the expansion of South African companies could lead to South African domination, such as the Kenyan opposition legislator who complained that "... we'll end up owning nothing in Kenya ... they bulldoze their way around. It seems they still have the old attitudes of the old South Africa."²³ The South African government has expressed concern over this and through the DTI it has tabled a Code of Conduct for South African businesses in Parliament, as a way of ensuring that the practices of the private sector do not undermine the attempts of the government to build good relations with the continent.

South Africa is also facing pressures to its African Agenda from within. Some critics argue that the country needs to be less ambiguous about its role in the region and be more assertive in the partnerships that it establishes²⁴ while not being afraid to "break with the view of the collective when circumstances

²² T. Mabasa, 'Hayatou loses his temper' *Kick-off Magazine* online edition, (26 April 2010), available online: <http://www.kickoff.com/news/15084/caf-president-issa-hayatou-coy-about-emmanuel-adebayor.php>, (accessed 27 July 2010).

²³ Quoted in D.J.V. Naidoo and S. Naidu, *op cit*, p. 387.

²⁴ A. Habib, 'South Africa's foreign policy: hegemonic aspirations, neoliberal orientations and global transformation', *South African Journal of International Affairs*, Vol. 16, No. 2, (August 2009), p. 150.

require it.”²⁵ Some within government and civil society ask questions as to what benefits South Africa has enjoyed as a result of its investments in the continent, particularly in the area of conflict resolution. Examples are cited of the DRC where South Africa invested millions of dollars in the Inter-Congolese Dialogue that led to the peace and establishment of a Congolese government. However, there are perceptions from some members of the business sector that when South African companies attempt to secure major contracts for reconstruction in the DRC, they tend to be undercut by external actors like Chinese and French companies. Despite these concerns, the view that Africa continues to present many opportunities for South Africa continues to dominate.

While popular academic analysis claims that South Africa is perceived negatively in Africa, some research points to South Africa’s popularity in a number of African countries. A 2011 BBC World poll showed that while positive views of South Africa were on the rise globally, this rise was especially evident among African states. What is interesting to note is that the highest rate of positive views was in Kenya (73%) and Nigeria (67%), two countries that are considered South Africa’s rivals in East and West Africa respectively.²⁶ Therefore, economic and political competition at the government level might not necessarily translate into negative reception at the societal level. There nevertheless remains a dearth of research fully to understand the impact of and reaction to South Africa in Africa.

Conclusion

Since 1994, South Africa’s foreign policy has remained consistent in its orientation towards Africa. The country has continued to champion ideas on how to promote African development while actively partaking in the creation and maintenance of the institutions required to advance these ideas. Even as increasing domestic pressures require the government’s attention, it is unlikely that the government will abandon the African Agenda since it is in any case a part of helping to achieve domestic objectives. What may happen, however, is that South Africa will better co-ordinate and streamline the institutions geared towards implementing its agenda while ensuring that money spent on building peace, institutions and disbursing development co-operation will ultimately build greater confidence in the country’s leadership as a reliable partner for development.

²⁵ E. Sidiropoulos, ‘Post-Mbeki, Post-transition: South African foreign policy in a changing world’ *South African Yearbook of International Affairs* (Johannesburg: South African Institute of International Affairs, 2008/2009) p. 12.

²⁶ Langeni, L. ‘Survey sees SA rising as a positive force in the world’, in *Business Day*, 8 March 2011, <http://www.businessday.co.za/articles/Content.aspx?id=136498> (accessed 31 March 2011).

Many Codes: Australia's Myriad Regional Homes



*Graeme Dobell**

As a nation that has four major football codes, Australia also claims access and membership rights in as many different regions.¹ The only nation to have a continent to itself, Australia looks out on several regions where it wants to belong.

In these various regions, Australia plays different roles, from great power to junior partner. We are regional joiners: a clubbable nation. The quest is to be on the inside, the fear is of being excluded.

Ideas of exclusion or inclusion tell something of the deeper uses of 'region', which seems a relatively neutral, geography-flavoured word. Introduce ideas of neighbourhood, relationships, community, or even home, and we see how emotions and aspirations broaden.

When I wrote a book about Australia's multitude of regions, the motif or theme was 'home'.² I used this dictionary definition: "*home*": *A place, region, or state to which one properly belongs, in which one's affections centre, or where one finds rest, refuge, or satisfaction.* To find satisfaction or affection in your region is an ambition both worthy and complex. But if you then have a series of regions, do you seek a series of homes?

Sport illustrates the point. Australia's promiscuous regionalism is expressed in the different sports it plays with its regions.

Cricket is our Indian Ocean sport: the game that dominates relations with India, Pakistan, Bangladesh, Zimbabwe and Sri Lanka, and a key sport, along with rugby, with South Africa.

In Asia, we play soccer. Soccer shows the malleable nature of Australia's regions. We used to be in Oceania when qualifying for the World Cup. We moved to Asia for World Cup purposes and our domestic teams now play for the Asia Cup. For Australia's Asian engagement, the soccer redefinition of

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¹ The codes: Australian Rules Football, Rugby League, Rugby Union and soccer

² Graeme Dobell, *Australia Finds Home: The choices and chances of an Asia Pacific journey* (Sydney: ABC Books, 2000)

region from Oceania to Asia is a melding of geo-politics, geo-economics and what really animates many Australians: sport.³

In the South Pacific, we play rugby – Rugby Union has a wider international reach, but in terms of Australian popular culture, the Pacific impact has been in Rugby League. The South Pacific sends its elite rugby players to Australia. The big change in the makeup of Australia's professional Rugby League teams in this generation has been the extraordinary surge in recruiting from the Islands. In the National Rugby League, nearly one-third of players come from Tonga, Samoa, Fiji, Maori or Cook Island heritages.⁴ If the people of Queensland and New South Wales now have a grasp of Polynesian pronunciation, they've learnt it from the Islanders playing Rugby League. Call it the 'Fuifui Moimoi' effect – the name of a man mountain from Tonga who crashes through tackles for the Parramatta Eels.

Cricket, rugby, soccer: different sports, different regions, but all part of the Australian experience of their own nation and where it can be at home. The complexity of cricket says something about the intricacy of the relationship with India, just as the crunching physical exuberance of rugby speaks to the South Pacific experience.

Australia and the United States have an alliance separated by the Pacific, a common language and the lack of any common sporting obsession. The only mainstream sports that Australia shares with the United States are golf and tennis, and they don't offer any war-like metaphors useful to Australia's central military relationship.

Not only does Australia have a range of regions and roles, the nature of those regions keeps altering. It's quite post-modern: the political geography of Australia's regions has gone through several profound changes during its life as a nation.

Defining Regions

Physical geography may be immutable but political geography plays chameleon games.

When Australia became a nation in 1901, its region – like its mental orientation – was European. The new federation looked beyond its borders to see a neighbourhood that lived under the flags of Britain, France, Germany, The Netherlands and the United States. This comfortable European geography

³ See Anthony Bubalo, *Football Diplomacy*, (Policy Brief, Lowy Institute for International Policy, November, 2005), available online: <http://www.lowyinstitute.org/Publication.asp?pid=314> (accessed 29 March 2011)

⁴ Roy Masters, 'League's Polynesian powerplay muscles in on indigenous numbers', *Sydney Morning Herald*, (24 April 2009), available online at: <http://www.smh.com.au/news/lhqnews/broy-mastersb/2009/04/23/1240079798304.html> (accessed 29 March 2011)

suffered an abrupt and violent death in 1941. Japan gave Australia its existential moment, a fright that still haunts Australian strategic thinking. The geography dominated by European flags assumed its true form in Asia, the Pacific and the Indian Ocean. After five centuries, the Vasco da Gama era subsided quickly, giving way to new labels that ranged from decolonisation to liberation.

For Australia, 1975 ranks as another moment of change and departure, when ideas of region were altering anew. The US ally departed from Vietnam, marking the end of Australia's 'forward defence' policy in South East Asia, and the same year the Australian flag came down in Port Moresby, marking the end of Australian rule in Papua New Guinea.

On both fronts, it was a moment when old ways passed. Australia could no longer seek security *from* Asia; it must find security *in* Asia. In the South Pacific, Australia would need to think more like a partner, not a ruler.

One driver of this effort has been the stark view of policy makers in recent decades that Australia had no natural geographic ally apart from New Zealand. The search for new homes and relationships is an attempt to broaden what is 'natural' and the choice of allies.

Despite the vast distances of the continent and the surrounding oceans, Australians have never sought the comfort of pure isolationism. Often, though, there have been elements of geographic denial. Our homes in the 20th century included Britain, the British Empire, the Commonwealth, the 'West' and the United States alliance. As expressions of identity they ignored Australia's geography. They are no longer sufficient. Australia enters the 21st century open to its regions in ways never before seen in our history. The discriminatory immigration barriers are gone, the tariff wall is virtually down to zero and the defence policy seeks partnerships with neighbours.

A nation that is open to its neighbours needs to find a sense of home, of belonging, for its own well being. Australia's homes will have social and psychological dimensions – beyond traditional realms of defence, trade and diplomacy – reaching into domestic politics, education, media and, of course, population.

The first point which is central (but often only hinted at) is that Australia confronts a long period of relative decline as its neighbours in Asia get wealthier and stronger. Australia will measure itself, and be judged, relative to Asia. It is a key trend often hinted at but rarely stated in blunt terms. In the phrase 'relative decline' the important word is relative. Relative decline does not equate with decadence or internal failure. Australia can keep getting richer and grow ever more affluent. But over the long term, Asia and the Indian Ocean community will be doing the same thing at a faster rate.

Secondly, Australia seeks – more than ever before – to have a regional role. Australia has greater freedom of movement as an active middle power than it enjoyed through much of the 20th century. To be heard, Australia must seek the strength of new coalitions and groups. Thirdly, Australia and its regions must

cope with shifts in the constellation of great powers; the United States, Japan, China and India.

All these forces feed into a fourth trend: a set of debates about convergence or interaction with neighbours whose cultures and traditions are alien. While Australians may be unaware of academic debates about cultural convergence versus the clash of civilisations, these issues have a long and deep history in Australia under another guise: the fundamental debate about the nature and purpose of immigration.

More than at any other time in its history, Australia wants to play an international role that is self-reliant and less dependent on great and powerful friends. The end of the Cold War dismantled many of the alliance imperatives that constrained Australia's options. This new sense of strategic choices is both liberating and frightening. It drives Australia to seek ever greater regional interaction in a growing network of forums, coalitions and relationships. Whether by choice or circumstance, Australia must be an active middle power seeking linkages beyond the traditional alliance with the United States.

The desire of Australian leaders to locate Australia's 'region' has been a foreign policy theme since World War II.⁵ But the shift from describing Australia as being close to the region to being part of the region can probably be dated from the Hawke Government and Prime Minister Hawke's promotion of the idea of Australian 'enmeshment' with Asia. The formulation often used by diplomat Richard Woolcott was that Australia wanted to be the 'odd man in' within Asia.

Former Minister for External Affairs Paul Hasluck, writing in 1980, said the issue of region mattered because Australia was 'without a perch' on the international stage:

While it is true that culturally, ethnically, historically and, until recent years economically, we were closely linked with Western Europe, in the conduct of international affairs our situation, resources, risks, opportunities and options as well as our changing economic interests are different from those of Western Europe. Yet we are not sure of our own identity nor fully acceptable politically to other member nations in the geographical region to which we belong.⁶

To examine some of the definitions Australia uses of its neighbourhood is to see a myriad of identities or potential homes. The Strategic Review in 1994 said Australia's 'region' is the "Asia Pacific" which it defined as the Indian subcontinent, South East Asia, North East Asia and the South West Pacific.

⁵ See Meg Gurry, 'Identifying Australia's "Region": From Evatt to Evans', *Australian Journal of International Affairs*, Vol. 49, No. 1 (May, 1995)

⁶ Paul Hasluck, *Diplomatic Witness: Australian Foreign Affairs, 1941-1947* (Melbourne: Melbourne University Press, 1980) p. 250

Australia's "nearer region" was a phrase used to encompass South East Asia, the South West Pacific and the eastern reaches of the Indian Ocean.⁷

The 1987 White Paper described an area of "direct military interest": 10 percent of the earth's surface stretching 7000 kilometres from the Cocos Islands in the Indian Ocean to New Zealand and the islands of the Southwest Pacific; and 5000 kilometres from Indonesia/PNG in the north to the Southern Ocean.⁸ The phrase "direct military interest" was adopted from the 1986 Defence review by Paul Dibb who said it was the area where Australia should "seek to exert independent military power".⁹ Dibb also recognised a "sphere of primary strategic interest encompassing Southeast Asia and the South Pacific generally", where developments could "affect our national security, but any military threat to Australia would be indirect".¹⁰

Former Foreign Minister Gareth Evans' 1989 statement on Australia's Regional Security defined "our own region" as the ten countries of South East Asia and Indochina, all the countries of the South Pacific Forum and the eastern reaches of the Indian Ocean.¹¹

The two sides of Australian politics have adopted a common regional vocabulary, especially in defence planning. The Coalition Government's Defence White Paper in 2000 spoke of Australia's "nearer region" (South East Asia and the South West Pacific) and the "immediate neighbourhood" (Indonesia, East Timor, Papua New Guinea and the island states of the Southwest Pacific).¹² The Labor Government's Defence White Paper in 2009 spoke of "the important strategic interest in the security, stability and cohesion of our immediate neighbourhood, which we share with Indonesia, Papua New Guinea, East Timor, New Zealand and the South Pacific island states."¹³

These various Australian definitions refer to zones of geography which can overlap but also serve as distinct regions. It means that Australia claims to share regions with Pacific Island states; with the ten diverse states of South East

⁷ Australian Department of Defence, *Strategic Review 1993*, tabled in Federal Parliament by Defence Minister, Robert Ray, (Canberra: Defence Centre, February 1994), p. 1

⁸ Australian Department of Defence, Defence White Paper, *The Defence of Australia* (Canberra: AGPS March, 1987) p. 2

⁹ Paul Dibb, *Review of Australia's Defence Capabilities*, Report to the Minister for Defence, (Canberra: AGPS, 1986), p. 3

¹⁰ *Ibid.* p. 4

¹¹ Gareth Evans, *Australia's Regional Security*, Foreign Minister, (Canberra: Commonwealth of Australia, December, 1989), p. 1

¹² Australian Department of Defence, Defence White Paper, *Our Future Defence Force*, (Canberra: Commonwealth of Australia, December, 2000), p. 19

¹³ Australian Department of Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*, (Canberra: Commonwealth of Australia, May, 2009), p. 42

Asia and Indochina; and with whatever regional community can be discerned in the Indian Ocean. This conforms to no other conventional division into zones of interaction or spheres of influence: “We belong to no single region as the rest of the world perceives itself, but within – or worse, alongside – several. In policy terms, therefore, we live in several regional environments.”¹⁴

The advent of the Howard Government in 1996 asked different questions about Australia’s involvement with its region, although much of the language of engagement remained. A sense of hesitation about regional relations mirrored contending visions of Australian society and where it should go.

When the Howard Government took office, it said that Australia did not need ‘special’ relationships, and did not have to choose between its history and geography. John Howard sought to argue that in foreign policy Australia could align its national interests and its national values. Happy is the nation that can achieve such a harmony. Yet even Howard found he had to mute some Australian values in pursuing the national interest in dealing with China.

Howard was reflecting his deeply-held view, expressed during his first visit as leader to Jakarta, when he said that Australia would not aspire to be “a bridge between Asia and the West”.¹⁵ On the floor of Parliament in 1999, after Australia led the international force into East Timor, Howard sought to proclaim final victory on his terms:

We have stopped worrying about whether we are Asian, in Asia, enmeshed in Asia or part of a mythical East Asian hemisphere. We have got on with the job of being ourselves in the region. In turn, the region has recognised that we are an asset and have a constructive role to play in it.¹⁶

Close to the end of his term in office, the Howard’s tone had become more relaxed. In a speech in Vietnam in 2006, he talked about how Asia had a natural place on Australian streets and Australia was at home in Asia:

A combination of Mandarin and Cantonese is now the most widely spoken foreign language in Australia ... When you tell that to an Asian leader or even more so, to a European leader, they’re perfectly astonished. And it’s just an illustration of the way in which we are naturally and comfortably and permanently part of this region and see our future in it.¹⁷

¹⁴ Hugh Collins, ‘Concluding Reflections’ in G. Fry (ed.), *Australia’s Regional Security*, (Sydney: Allen & Unwin, 1991), p. 158

¹⁵ John Howard, Official banquet given by President Suharto, speech by the Prime Minister, (Jakarta: 16 September 1996) p. 3

¹⁶ John Howard, *House of Representatives Hansard* (21 September 1999) p. 7620.

¹⁷ Graeme Dobell, AM, ABC Radio, November 21, 2006, available online at: <http://www.abc.net.au/am/content/2006/s1793482.htm> (accessed 29 March 2011).

Consider the range of places Australia can talk about when it discusses the neighbourhood or the places where Australia seeks to belong: the South Pacific, Oceania, the Pacific basin, East Asia (or in Gareth Evans effort: the East Asia hemisphere) and the East Asia Summit, the Indian Ocean, the Indian Pacific, and the biggest, catch-all creation: the Asia Pacific.

Truly, a cornucopia of regions. The profusion hints that this is an evolving work in progress, not a finished construct. Australia seeks to be involved in an act of creation, not to join regions which are fully formed. Political imagination will matter as much as economic integration. Key constituent elements in Australia's various conceptions of its regions involve: the United States and the Asia Pacific, the South Pacific, ASEAN and East Asia, India and the Indian Ocean community.

The Expanding Asia Pacific

Australia did much to popularise the concept of the Asia Pacific, particularly through APEC. In the literature of the early 1980s the common descriptions were more often of the Pacific Rim, Pacific basin or Western Pacific.

As the term Asia Pacific grew in usage, India was often excluded. Thus, India was not part of APEC when the Asia Pacific club was created. Nor was India invited as APEC's idea of Asia Pacific membership expanded to include Russia, Mexico, Peru, Chile and Papua New Guinea. India's economic dynamism has brushed aside the quibble that it might be Asian but did not have a Pacific shore.

Strategic and economic necessities dictate that concepts of region must stretch to include India, even though it is still outside APEC. The Asia Pacific is the phrase that does the stretching, reaching from India across East Asia to the United States. The term Asia Pacific allows Australia to claim a common regional relationship with both Northeast Asia and the US.

Finding terminology to reach Northeast Asia is essential to reflect the economic reality of the key trading relationships – all in Australia's top ten – with Japan, China, Hong Kong, South Korea and Taiwan. That is the economic dimension.

The security-defence dimension is all about the United States. The alliance with the US is the basis of Australia's defence policy. And regionally, Australia is explicit in describing the "crucial" US role as the ultimate security guarantor in the Asia Pacific.¹⁸

The Labor Government's 2009 Defence White Paper expressed the traditional view of the US military pre-eminence in Asia, while lamenting its passing:

¹⁸ Australian Department of Defence, Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*, (Canberra: Commonwealth of Australia, May, 2009), p. 43

Australia has been a very secure country for many decades, in large measure because the wider Asia Pacific region has enjoyed an unprecedented era of peace and stability underwritten by US strategic primacy. That order is being transformed as economic changes start to bring about changes in the distribution of strategic power. Risks resulting from escalating strategic competition could emerge quite unpredictably.¹⁹

Australia sees itself aligned with Japan and South Korea in a common alliance interest to keep the US inside the Asia game. A perception of fading US strategic dominance can make that effort seem even more vital. India has been added to that list in Canberra's formal defence accounting:

The Government's judgement is that strategic stability in the region is best underpinned by the continued presence of the United States through its network of alliances and security partnerships, including with Japan, the Republic of Korea, India and Australia and by significant levels of US military capability continuing to be located in the Western Pacific.²⁰

Canberra wants regionalism to reinforce, rather than weaken, the United States' 60 year old system of bilateral alliances in Asia. The aim is to build new regional structures of engagement that reach beyond the bilateral treaty system and bilateral trade flows. This dynamic is at work within the alliances, especially in the institutionalisation over the past decade of the trilateral security dialogue between the US, Japan and Australia.

South Pacific

According to the 2009 Defence White Paper:

Australia is linked to the South Pacific and East Timor by shared geography and history.²¹

The South Pacific is where Australia learns the lesson long familiar to the US: the one thing you never get as the regional superpower is thanks.

Australia extends formal or de facto security guarantees to the small developing states that run in an arc from the north of the continent into the South Pacific. In recent years, this has been dubbed the 'Arc of Instability'. A less emotive term would be 'Australia's Arc', which points to the role and responsibilities taken by Canberra.

¹⁹ Ibid. p. 49

²⁰ Ibid. p. 43

²¹ Ibid. p. 35

The Arc matches the list of states where Australia seeks to underwrite security: East Timor, Papua New Guinea (and the troubled island province of Bougainville), Nauru, Solomon Islands and Vanuatu. The one country most decidedly outside Australia's security influence (much less guarantee) is Fiji, the South Pacific's sole military dictatorship.

Australia has significant economic weight in the South Pacific, reinforced by its role as the largest aid giver. This influence is enhanced by intimate links with New Zealand. Australia and New Zealand have what is, effectively, a common economy and their nationals move freely between the two countries.

Despite the importance of Australia in the South Pacific, the regional superpower is constantly reminded of its limits. Witness the open confrontation with Fiji and the often testy, occasionally fraught, relationship with Papua New Guinea.

The Pacific Islands Forum is the vital regional institution. Australia seeks to use the Forum for dialogue, governance and norm setting. The Islands use the Forum for similar purposes, but also as a means to manage or influence Australia and New Zealand.

Australia's ability to impose norms on the region is shown by the Forum's expulsion of Fiji after its 2006 coup. Fiji is the single country most responsible for creating the Forum and Suva houses the Forum secretariat. To see the significance of Fiji's dismissal from the Forum, imagine ASEAN expelling Thailand for having a coup, or the Organisation of American States ejecting Argentina or Brazil for failing the democracy test.

The Australian discussion of region often means a sole focus on Asia because it is fundamental to trade and security interests. Yet to look only to Asia is to ignore the ties of history and responsibility to Papua New Guinea and the South Pacific and the enduring geographic imperative of the Islands. This mix of memory and motive stretches back to the 19th century pre-federation debates about Australia's role in the Islands and the profound shock in the 20th century of the Pacific war. An Australia which plays a creative role as the South Pacific superpower can reinforce its claims to a natural place in other neighbouring regions. Equally, an Australia that fails in the South Pacific will harm its claims to count as a member of other regions.

ASEAN and the East Asia Summit

As the Indonesian analyst Jusuf Wanandi argues, Asia's region will be "defined on the basis of political realities rather than geography".²² And the politics of inclusiveness can stretch the reach of a region: "In geo-political and geo-

²² Jusuf Wanandi, *Global, Regional and National: Strategic Issues and Linkages*, (Jakarta: Centre for Strategic and International Studies, 2006), p. 46

economic terms, East Asia might include India, Australia and New Zealand.²³ It was precisely such elastic regionalism which saw India, Australia and New Zealand admitted as founding members of the East Asia Summit (EAS).

The East Asia Summit surely qualifies as a work of political will and geopolitical imagination, reaching well beyond any geographic definition of region. Australia entered the EAS at the invitation of Association of South East Asian Nations, not at the behest of the regional giants.

Relations with ASEAN offers another dimension to Australia's diverse set of regions. With the US, Australia is the junior alliance partner. In the South Pacific, Australia is the senior partner. With ASEAN, Australia acts as an equal, one of a bunch of middle powers that jostle as well as co-operate. The element of middle power competition explains why Australia so often clashed with Malaysia during the two decades that Prime Minister Mahathir Mohamad ruled in Kuala Lumpur.

Mahathir believed that Australia would always choose the US over Asia, and thus Australia should be treated as an outsider in Asia. The creation of APEC was one effort to circumvent the Mahathir argument by geographic expansiveness. Australia's founding membership of the EAS marked a regional rejection of the lingering Mahathir veto.

The central relationship for Australia in ASEAN is with Indonesia. Indonesia is the lens through which Canberra views South East Asia, just as Papua New Guinea colours Australia's view of the South Pacific.

Indonesia can shape Australia's regional dreams or dominate its nightmares. Indonesia is so vital, Australia has even been prepared to come to blows: during Confrontation in the 1960s and in East Timor in 1999.

When Jakarta and Canberra pull together, things happen: for example the creation of APEC, the Cambodia peace process and regional approaches to fight terrorism and jihadists. Even the great rupture over East Timor had its immediate genesis in top level conversations between Canberra and Jakarta about the need for self-determination in Timor. Canberra was amazed that Prime Minister John Howard's letter to President B.J. Habibie became an element in the immediate rush to a UN vote in East Timor (vivid proof of that line about being careful what you wish for).²⁴

Indonesia's gatekeeper role was again on display in Australia's entry to the East Asia Summit. Jakarta's backing was crucial, just as Indonesian opposition

²³ Ibid. p. 81

²⁴ In December, 1998, Howard had written suggesting a slow process in East Timor that could take a decade or more, with the eventual result preferred by Australia being a vote for East Timor to stay part of Indonesia. The referendum ordered by Habibie happened in August 1999, with 78.5 per cent opting for independence. See Hugh White, 'The Road to INTERFET: Reflections on Australian Strategic Decisions Concerning East Timor December 1998-September 1999,' *Security Challenges*, Vol. 4, No. 1 (Autumn 2008) pp. 69-87.

would have been decisive. Much of the failure of the Rudd Government's effort to create an Asia Pacific Community rested on Canberra's inability to enlist Jakarta in the effort.

Indian Ocean

In 2010 Australia's Minister for Foreign Affairs, Stephen Smith, and the Opposition Shadow Minister, Julie Bishop, both represented Parliamentary seats in Perth.²⁵ A Western Australian perspective automatically adds an Indian Ocean dimension to ideas about Australian regions. Yet Australia has had little success in applying its regionalist ambitions to the Indian Ocean, as Smith conceded in a speech in Perth:

Despite its importance, Australia has, regrettably, neglected the Indian Ocean region. This has not always been so, but it has certainly been the case in the recent past. In the Asia-Pacific Century when economic, political, military and strategic influence is moving to our part of the world, this has to be rectified. We need to look west, as well as east. In Western Australia we have long appreciated that Australia is a country with significant Indian Ocean as well as Pacific interests ... Australia is an Indian Ocean rim country and Perth is an Indian Ocean rim capital.²⁶

In the Indian Ocean, Australia has a series of relatively separate bilateral relationships. If there was to be a species of Indian Ocean regionalism, it would need as its pillars Australia, India and South Africa.

The one attempt at such a creation is IOR-ARC, the Indian Ocean Rim Association for Regional Co-operation, established in 1997. The Association limps along, barely gaining attention from officials, much less ministers, and carries little of the ambition that marks APEC.

IOR-ARC's formation was marked more by competition between New Delhi and Canberra than co-operation. India was determined that Australia would not repeat the foundational role it achieved with APEC. India drove the creation of IOR-ARC to forestall Australia's own efforts. India's conception

²⁵ The Hon Stephen Smith MP was Minister for Foreign Affairs in the Labor Government from 2007-2010. After the 2010 election, he became Minister for Defence. The Hon Julie Bishop MP remains Shadow Minister for Foreign Affairs.

²⁶ Stephen Smith, 'Australia and the Indian Ocean', Speech at launch of ASPI report, Perth, (31 March 2010), available online: http://www.foreignminister.gov.au/speeches/2010/100331_our_western_front.html (accessed 29 March 2011). See also Australian Strategic Policy Institute, *Our Western Front: Australia and the Indian Ocean*, March, 2010, available online: http://www.aspi.org.au/publications/publication_details.aspx?ContentID=248&pubtype=-1 (accessed 29 March 2011).

caused Cabinet-level debate in Australia about whether it would even join because of concerns about compromising the trade principles at the heart of Asia Pacific approaches.

Australia's original aim in the Indian Ocean was to replicate the APEC commitment to 'open regionalism'. The two discussions of the formation of IOR-ARC by the Howard Cabinet set open regionalism as a make or break issue. The Howard Government ordered that Australia would not join an Indian Ocean grouping which had the stated aim of creating a preferential trade bloc. Australia's larger interests in APEC were to be promoted and reflected in the Indian Ocean. At the extreme, Australia would have walked away from any attempt to create an Indian Ocean bloc that broke with the principles of APEC.

The struggle over a preferential trade bloc versus open regionalism was played out in a battle over the interpretation of the Charter for IOR-ARC, which was largely written by India. Because little could be done to change the spirit of the Indian-drafted Charter, Australia concentrated on the wording of a Chairman's statement which became an annex of the Charter. The Chairman's report set out "understandings to capture the spirit of the Charter":

- The Indian Ocean Charter is not a treaty,
- Member states are committed to 'global trade liberalisation consistent with World Trade Organisation principles',
- Members agree that the Indian Ocean Rim Association 'as constituted in the Charter is not a preferential trade bloc'.²⁷

The statement watered-down the veto contained in a key clause of the Indian-produced Charter, which declared that "bilateral and other issues likely to generate controversy and be an impediment to regional co-operation efforts will be excluded from deliberations". The Chairman's statement re-interpreted this to mean that the Association would "provide for a full range of opportunities for considering trade and economic issues among members with a view to promoting co-operation", and noted another point in the Charter which called for the creation of "common ground for regional economic co-operation".

Because IOR-ARC has achieved so little, recounting the battle over its founding spirit tends to the arcane and the arid; the significance of the fight is as an example of how India and Australia often talk past each other. The working standard between New Delhi and Canberra is too often a grudging compromise rather than any genuine agreement. Australia has been slow to approach the regional club dominated by India. It was only in 2010 that Australia

²⁷ Ponnusamy, *Chairman's Report on the Indian Ocean Rim Initiative (IORI) Working Group Meetings* (Mauritius: September 10, 1996) p. 3.

obtained observer status with the summit of the South Asian Association for Regional Co-operation.²⁸

In 2010, both India and Australia spoke of the need to give a fresh push to Indian Ocean regionalism. Foreign Minister Steven Smith cited the need “to increase the relevance and focus” of IOR-ARC activities, noting that the Association’s “interests are as diverse as its broad membership”. Yet the list of things Australia offered for greater Indian Ocean collaboration avoided both security and trade, instead pointing to fisheries, disaster management, education, tourism, and agriculture.²⁹

An important side-effect of the fraught 1996-97 process of founding IOR-ARC was to reinforce Australia’s determination to freeze membership of APEC, shutting the door to India. In 1997, APEC imposed a ten year moratorium on expansion. When the APEC freeze expired in 2007, it was the year Australia chaired the summit. Canberra claimed to find no consensus among other members for India to join, so the door remained shut.

The APEC bar to India is increasingly bizarre. Certainly, the East Asia Summit looked beyond vague arguments about geographic reach to have India as one of its founding members – along with Australia and New Zealand.

Merging Regions and Seeking ‘community’ or ‘Community’

Regions are expressions of imagination and political will as much as they are about geography, trade flows and alliances. A central point of regionalism is expressed in the credit card ad line: membership has its privileges. Who is in and who is out? The in-out issue forms some of the substance of current discussions about the need to get India into APEC or the US into the East Asia Summit or ASEAN-plus-eight.

The great emerging change in Australia’s various versions of regionalism is in the effect of Asia’s growing power. Many metaphors can be applied to the Asia effect, from tectonic movements to the gravitational pull of new systems. The elevation of the G20 to pre-eminence is one manifestation of Asia’s impact on the global system.

Rising Asia is the imperative crashing together the distinctive homes Australia could imagine around its continent. The once separate regions are drawing closer because of the forces generated by Asia.

The South Pacific illustrates the Asia effect. For much of my four decades reporting on Australian foreign policy, it was possible to write about the South

²⁸ Kevin Rudd, Asia Link Asia Society Forum Speech, Canberra (25 May 2010) available online: <http://www.pm.gov.au/node/6781>.

²⁹ Stephen Smith, *Australia and the Indian Ocean*, Speech at launch of ASPI report, Perth, March 31, 2010, available online: http://www.foreignminister.gov.au/speeches/2010/100331_our_western_front.html (accessed 29 March 2011).

Pacific as a distinct and separate region, only indirectly influenced by what was happening in Northeast and South East Asia. Now, Asia has an impact on the South Pacific in almost every policy area. Almost without being conscious of the effect, Asia's expanding power system reaches into the weaker system of the Islands.

One of the great Island analysts, Professor Ron Crocombe, argues that Asia is replacing the West in the South Pacific: "A spectacular transition is under way in the Pacific Islands. For the past 200 years, external influences whether cultural, economic, political or other, have come overwhelmingly from Western sources. That is now in the process of shifting to predominantly Asian sources."³⁰

For two centuries, the South Pacific took all its key influences from the West, notably its religion. But already the West is giving way in key areas. In the South Pacific today, Asia is already more important than the West in exports, investment and tourism. The money going into fishing, timber, agriculture, hotels, manufacturing and retail – and organised crime – is predominantly coming from Asia. Looking ahead, Crocombe wrote:

Asian nations are now significant politically and strategically. European-derived institutions and systems and English-language remain dominant in the structure of governments, information, education, religion, philosophy, culture, values and beliefs, but are being eroded by Asian alternatives that seem certain to expand.³¹

Australia's response to the Asia effect is to strive to make the shift from regions to communities. The word 'community' has a painful place in Australian diplomacy. The C in APEC was to have stood for 'Community'. Asia would not agree. Thus, APEC still stands for Asia Pacific Economic Co-operation, the name achieved at its birth in 1989. As Gareth Evans ruefully jested, APEC is four adjectives in search of a noun. Nearly two decades after APEC's creation, Australia made another attempt to achieve 'Community'.

In June, 2008, the Prime Minister, Kevin Rudd, announced it was time to build an 'Asia Pacific Community'.³² Rudd called for the Community to be achieved by 2020, spanning "the entire Asia-Pacific region—including the United States, Japan, China, India, Indonesia and the other states of the region." The Community would confront security issues as well as economic

³⁰ Ron Crocombe, *Asia in the Pacific Islands: Replacing the West* (IPS Publications, University of the South Pacific, 2007) p. vii.

³¹ *Ibid.* p. 6.

³² Kevin Rudd, Prime Minister, Address to the Asia Society Australasia Centre, Sydney: 'It's time to build an Asia-Pacific Community', Sydney (4 June 2008) available online: http://www.pm.gov.au/media/Speech/2008/speech_0286.cfm.

and political matters. "None of our existing regional mechanisms as currently configured are capable of achieving these purposes," Rudd said.

A year after setting out on the Community quest, Rudd downgraded the effort to a conversation about 'community' – re-badging the effort as APc, Asia Pacific community.

The drop from capital C to small c was a sign of the frosty regional response to the Rudd effort. In a speech in Singapore in May, 2009, Rudd conceded that the Asia Pacific did not want a new institution nor another set of meetings.³³

Rudd had been seen as trying to eject ASEAN from the regional driving seat. In lowering his sights to a conversation about community, he tried to embrace ASEAN: "An APc could be seen as a natural broadening of the processes of confidence and community building in Southeast Asia led by ASEAN, while ASEAN itself would of course remain central to the region and would also be an important part of any future Asia Pacific community."

By the time of the ASEAN summit in April, 2010, Australia was conceding ASEAN's superior role. The summit said that the ASEAN-plus process, the East Asia Summit and the ASEAN Regional Forum were the institutions to be used in 'the building of a community in East Asia.' The new step from the ASEAN leaders was the formal offer to Russia and the United States to join the East Asia Summit or an expanded ASEAN-plus-eight.³⁴

Rudd got the message. He responded by restating some of his Asia Pacific community language while endorsing the ASEAN structure: "I shall continue to advocate the development of regional architecture that has the right membership and mandate to address the full spectrum of challenges confronting the region – economic, political and security".³⁵ The Prime Minister then named the essential membership for this regional architecture, which exactly matches the emerging ASEAN-plus-eight model.

The inclusion of the United States and Russia in our region's emerging architecture is fundamental to the evolution of what I call an Asia-Pacific community,' Rudd said. 'In fact, so much of Australia's diplomacy has been driven by this core concern - how to integrate in particular the role of the United States in the future broad architecture

³³ Kevin Rudd, Prime Minister, Address at Shangri La Dialogue (29 May 2009) available online: <http://pmrudd.archive.dpmc.gov.au/node/5128> (accessed 29 March 2011).

³⁴ Chairman's statement, 16th ASEAN Summit, Towards the ASEAN Community: from vision to action, Hanoi (9 April 2010) available online: <http://www.aseansec.org/24509.htm> (accessed 29 March 2011).

³⁵ Kevin Rudd, Prime Minister, 'Australia and China in the World', 70th Morrison Lecture, Australian National University, Canberra (April 23 2010) available online: <http://pmrudd.archive.dpmc.gov.au/node/6700> (accessed 29 March 2011).

of our region. In this context I welcome very much the decision of ASEAN leaders ... to encourage the United States and Russia to deepen their engagement in evolving regional architecture.³⁶

The Foreign Minister, Stephen Smith, said Australia was happy for ASEAN to decide on the next steps:

When that emerges, which we're confident it will, then we'll have all of the players sitting around the table at the same place at the same time able to have a conversation, not just about peace and security, but also about prosperity. So we think we are not too far away from achieving a very good practical outcome which meets our objectives.³⁷

One of the minor effects of the Labor Party's overthrow of Rudd as leader in June 2010 was to bury Rudd's Asia Pacific Community/community initiative as a continuing project. There will be no weakening, though, in Australia's broader commitment to regionalism and to seeking a home for Australia in the Asia Pacific.

Rudd's Community ambition was absolutely consistent with the aims and efforts of previous Australian leaders. His failure was in attempting to take the lead in building the Asian structures for an Asian century. The Asian response was that Australia could have a role but would not be the designer. It was a vivid lesson in the politics of negotiating definitions of region. In seeking home, Australia's ambition must be matched by the acceptance of others.

³⁶ Ibid.

³⁷ Linda Mottram, 'Extended interview with Australia's Foreign Minister, Stephen Smith,' *Connect Asia*, Radio Australia, ABC (June 29 2010) available online: www.radioaustralia.net.au/connectasia/stories/201006/s2939721.htm (accessed 29 March 2011).

The Rise of East Asia: Managing the Change



*Raymond Atje**

The geography of global economic activity has undergone rapid change in the last three decades. It used to concentrate primarily in the North Atlantic regions (i.e. North America and Western Europe), but in recent years further regions have emerged as centres of economic activity albeit with varying size and degree of intensity. The most prominent of them is East Asia. The region's share in the global economic output has experienced a noticeable increase during the period under consideration. In 2008 the region's gross domestic product (GDP) in purchasing power parity (PPP) accounted for around 17 percent of the world GDP, up from 12 percent in 1990.¹

Meanwhile, according to Ng and Yeats, between 1975 and 2001 East Asia's share of global exports increased more than three fold.² During the same period, intra-region exports grew even faster. The intra-region exports as a share of world exports rose from one percent in 1975 to six percent in 2001. The region's rapidly growing trade reflects the region's dominant position in global manufacturing, which is the result of a combination of low wages, increasingly educated labour forces, sophisticated technologies, high productivity growth, large markets and, above all, the ability to bundle together these diverse production advantages.³

The growth in intra-regional trade signifies the rapid integration of the region's economies. This rapid progress was partly a result of unilateral liberalisation; prevalent in the region during the period. Since the early 1970s, or perhaps even earlier, successive countries in the region undertook unilateral economic liberalisation. The main objective was to attract foreign direct

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¹ East Asia includes China, Japan, Korea and the ASEAN member countries.

² F. Ng and A. Yeats, 'Major Trade Trends in East Asia: What are their Implications for Regional Cooperation and Growth?' Policy Research Working Paper No. 3064 (Washington: The World Bank, 2003).

³ Asian Development Bank, *Emerging Asian Regionalism: A Partnership for Shared Prosperity*, (Manila: ADB, 2008).

investment (FDI) so as to create jobs.⁴ In this respect, unilateral economic liberalisation was part of their economic development strategy.

During the same period companies from Japan and later from Korea and Taiwan began relocating some of their production facilities to other countries in East and South East Asia. Initially, they relocated only labour intensive activities to South East Asia where wages were lower. Incidentally, the period also marked the emergence of production networks, driven primarily by new information and communication technologies. This was especially true for the automotive and electronic industries. A production network is essentially a division (and subdivision) of labour within an industry where different countries or locations produce different parts and components of a product. This process is based on breaking a production (value) chain into small steps which enables firms to choose the most cost efficient location for each step on the value chain. But it is also possible that different firms from various countries transact with each other and form a production network.

Athukorala and Yamashita argue that, since the early 1990s, intra-industry trade has grown faster in East Asia than in, say, North America or Europe.⁵ In other words, East Asia is increasingly more dependent on this form of international specialisation than those other regions.

Another factor believed to have contributed to East Asia's rapid economic growth is the adherence of countries in the region to an export-led growth policy. It is essentially an effort to speed up the industrialisation process through the export of goods in which the country in question has a comparative advantage. This was one reason why countries in the region pursued unilateral economic liberalisation. Export-led growth might necessitate the opening of certain domestic markets to foreign competition in exchange for market access in other countries.

Note that regionalism, a byword for a formal economic integration, did not play any role in the early years of the regional integration process. In fact, the region did not have any form of single regionalism until the early 1990s that is, until the ASEAN Free Trade Arrangement (AFTA) was launched. However, by the turn of the century, there was a sudden sharp increase in the number of free trade arrangements (FTAs) involving countries in the region. Each FTA has its own rule of origin (ROO) which may be different from rules of origin adopted by other FTAs. In light of this development, Baldwin argues that economies

⁴ R. Baldwin, 'Managing the Noodle Bowl: The Fragility of East Asian regionalism', Working Paper (Geneva: Graduate Institute of International Studies, 2006).

⁵ P. Athukorala and Y. Nobuaki, 'Production Fragmentation and Trade Integration: East Asia in Global Context', Working Paper, (Canberra: Research School of Pacific and Asian Studies, Australian National University, 2005).

in the region are experiencing a ‘noodle bowl syndrome’,⁶ that is, a tangle of different ROOs to the disadvantage of their own exporters).

Fragility of East Asia’s Economic Development

The rapid economic progress and the proliferation of FTAs pose challenges to countries in the region. The first main challenge is how to maintain rapid economic growth. This issue came to the fore during the 2008 global financial crisis. For over three decades East Asian countries have relied on exports to power their economic growth which, arguably, has brought prosperity to so many people in the region. Consequently, their exports, especially those of China, have grown so large that their economic sustainability depends largely on the capacity of the rest of the world absorb them. This, in turn, depends on the latter’s economic growth. The vulnerability of this model was clearly evident during the recent global financial crisis.

During the crisis, countries in East Asia saw their exports and imports plummet. Japan, for instance, saw its exports drop by 21.4 percent on annualised basis in the last quarter of 2008. Exports of other countries such as Malaysia, the Philippines, Singapore and Thailand also dropped significantly during the same quarter. Meanwhile, exports from China, Indonesia and Korea started to shrink in the early 2009.

The crisis led most of the East Asian countries into recession with a few exceptions, most notably China and Indonesia. These two countries only experienced a slowdown in their respective economic growth rates. This was largely due to the fact that both China and Indonesia have significantly high domestic demand which enabled them to weather the crisis without falling into recession. Other countries were not so fortunate.

The global financial crisis has set off some rethinking in East Asia about the sustainability of the export-led growth strategy. One idea that has been suggested is for East Asian countries to adopt rebalancing growth strategy instead. The idea is for each country to increase the share of domestic consumption in its GDP to enable it to better withstand crisis in the future. This may be a fine idea except that it is not always easy to implement. For instance, in the early 1990s Japan began to experience a period of prolonged low growth bordering on recession. The Japanese government had tried, but failed, to stimulate domestic demand even though the interest rate was virtually zero. The low growth lasted for about a decade. Besides, it is unknown what ‘proper proportion’ of domestic consumption, investment and trade in the GDP should be aimed at. Finally, even if they have high enough domestic consumption, small open economies such Singapore, Hong Kong or, for that matter, Malaysia are likely to remain vulnerable to any large, unanticipated external shock. In

⁶ Baldwin, *op. cit.* (2006).

the final analysis, it is doubtful that any East Asian countries will change its policy to suit the suggestion in the near future. The region bounced back from the global financial crisis relatively quickly.⁷

The second main challenge is how to prevent the existing network of regional economic activities or, again to borrow Baldwin terminology, 'Factory Asia' from breaking down. Factory Asia is fragile for a number of reasons. First, each economy's competitiveness depends on the well functioning of intra-regional trade. This is because, as noted, an increasing fraction of intra-regional trade constitutes trade in parts and components (i.e. intra-industry trade). A failure of one country or company to deliver will affect the performance of other countries involved in the same production network. Second, so far many countries in the region have not bound their most favoured nation (MFN) tariffs to the World Trade Organization (WTO) and, hence, cannot guarantee that they will not raise their tariffs in the future. The relatively low MFN tariffs are primarily the result of unilateral liberalisation programs and are therefore, liable to reversal. Finally, as noted earlier, the 'noodle bowl' syndrome threatens to inhibit the smooth functioning of intra-regional trade.

The third main challenge is how to minimise the likelihood of future region-wide systemic crises. Notwithstanding the rapid progress or, perhaps more accurately, because of it, the region is susceptible to economic shocks. In the span of one decade, East Asia experienced two severe financial crises. One originated inside the region while the other originated outside the region.

In 1997 East Asia plummeted into a major financial crisis that originated in Thailand and spread rapidly to the neighbouring countries. In its wake, and because of its severity, the affected countries looked for external financial assistance. Indonesia, Korea, the Philippines and Thailand turned to the International Monetary Fund (IMF) for help in containing the crisis. Because of the quota limitation, IMF asked other countries such as Japan to participate in providing the assistance. But the crisis persisted for quite a while; in some cases, such as in Indonesia, economic conditions deteriorated even further.

More recently, the global financial crisis that started in the United States in September 2008 following the collapse of Lehman Brothers quickly spread to the rest of the world. The crisis had two effects: financial and 'real'. The financial effect was largely a liquidity problem. Prior to the crisis many major financial institutions used leveraging (i.e. borrowing) to accelerate their growth or return. When the crisis began to unfold, those institutions were forced to deleverage to lower their risks of default and limit their losses. As a result of the sudden and massive global deleveraging, financial flows to East Asia turned negative.

⁷ See also 'Fatalism v fetishism: How will developing countries grow after the financial crisis?' *The Economist*, June 2009.

On the 'real' side, as mentioned earlier, the crisis has caused the collapse of East Asian countries' exports, which in some cases dropped by around 30 percent. The crisis also fed through to domestic demand with sharp contractions in investment and, in some instances, consumption. Consequently, East Asia's economic output also contracted or, in a few cases, experienced a slow-down in their economic growth.

Once again countries in East Asia looked for financial assistance to mitigate their problems as well as for precautionary purposes. Interestingly enough, this time around none of them turned to the IMF for help. This, notwithstanding the fact that, in the wake of the global financial crisis the IMF activated its emergency financing mechanism (EMF) to speed up the process for loan approval to crisis-afflicted countries and relax its quota rules. In addition, it also approved a new short-term lending facility (SLF) for countries with sound economic and financial policies. Instead, countries in the region entered into bilateral swap arrangements with each other and with countries outside the region.

Managing the Change

A number of measures have been proposed to ensure the sustainability of East Asia's economic development. One of them is to create an East Asia-wide regional agreement that will supercede the existing FTAs involving countries in the region.⁸ First, a single region-wide FTA would resolve the 'noodle bowl' problem since it would make ROOs resulting from the existing FTAs irrelevant. This, in turn, would ensure the smooth functioning of the region's production networks and, hence, enable economies in the region to improve or, at least, maintain their economic performance. Second, it would allow greater policy coordination among the member countries. An Asian Development Bank study found that there is deepening macroeconomic interdependence among the East Asian countries as a result of the region's growing trade and financial ties.⁹ Yet, there is little evidence of macroeconomic policy convergence. This is despite the fact that increased macroeconomic interdependence requires greater policy coordination so as to improve their ability to undertake concerted actions, especially during times of crisis.¹⁰

⁸ Baldwin, *op. cit.* (2006).

⁹ Asian Development Bank, *op. cit.* (2008).

¹⁰ It should be cautioned however that a formal regional institution does not always guarantee that the member countries will coordinate their macroeconomic policies. The 2010 fiscal crisis involving some European Union members such as Greece, Portugal and Spain is a case in point where the root cause of the crisis is the failure of these countries to adhere to the EU fiscal rules set out in the Treaty of Maastricht.

At the moment countries in the region entertain two competing regional architectures: ASEAN Plus Three and ASEAN Plus Six. The ASEAN Plus Three grouping comprises all ASEAN member countries plus China, Japan and South Korea, while the ASEAN Plus Six grouping adds Australia, India and New Zealand. It seems, however, that neither of these two groupings will become a formal regional institution in the near future. This is mainly because two of the largest economies in the region, China and Japan, support different groupings: China favours ASEAN Plus Three while Japan favours ASEAN Plus Six. Meanwhile ASEAN, which is often regarded as the driving force behind the development of East Asian regionalism, has so far not been able to exercise the kind of leadership necessary to push the process forward.

The inability to turn ASEAN Plus Three or ASEAN Plus Six into a formal organisation does not imply that these groupings are irrelevant. On the contrary, both of them have been quite successful in promoting further economic co-operation among countries in the region. ASEAN Plus Six, for example, is the main benefactor of the Economic Research Institute for ASEAN and East Asia (ERIA), a research body that was established to support ASEAN Secretariat activities. But more relevant to the issue at hand is the establishment of the Chiang Mai Initiative Multilateral (CMIM).

The CMIM was established under the auspices of ASEAN Plus Three. It is a self-managed reserves pooling arrangement governed by a single contractual agreement. The total size of the reserve pool is \$120 billion for which China, Japan and Korea will contribute 80 percent of the amount as follows: China (together with Hong Kong SAR) will contribute \$38.4 billion (32 percent), Japan \$38.4 billion (32 percent) and Korea \$19.2 billion (16 percent). The ASEAN countries together will contribute \$24 billion (20 percent) to the pool.

The idea of having greater regional financial co-operation is twofold: to prevent or, perhaps more accurately, to reduce the likelihood of a systemic financial crisis from happening and, in the case of a crisis, to mitigate its impact on the affected country or countries. With regard to CMIM, there is the desire, in the event of a crisis, to have a mechanism for the quick disbursement of funds with minimal conditionality. The desire to have a quick response is understandable. A failure to respond promptly to a demand from a country facing a looming crisis may end up costing more than if prevented at an earlier stage.

However the desire to have minimal conditionality poses a dilemma. Countries may run into financial problems due to various causes and, therefore, require different approaches. On the one hand, a country with a sound overall economic condition may face a dire financial problem because it has been subjected to a large unanticipated external shock. In this case, it would be unfair to impose strict conditionalities on such a country; it will only delay the required response. On the other hand, countries may run into financial problems of their own making. The 2010 crisis in Greece is a case in point. It ran into financial problems due to the economic mismanagement with a high budget deficit relative to the size of the country's economic output. In such a

case, stricter conditionality is deemed necessary: first, to compel the government in question to undertake necessary corrective actions to address the root causes of the problem at hand and second, it acts as a deterrent to minimise the likelihood that a similar problem will reappear in the future.

To achieve this, the CMIM should have a strong, credible and independent regional surveillance mechanism that should be put in place prior to the CMIM becomes operational. The surveillance body would monitor the members' economic conditions and convey its findings to respective governments.

On a related issue, there is a need to intensify dialogues among financial regulators in the region concerning macro-prudential regulation. Such dialogues will allow regulator to exchange information as well as views concerning how to best regulate the region's financial markets. To the extent that it is possible, they should have a greater coordination on their macro-prudential regulations. It should be recognised, however, such regulations depend on the size and complexity of the financial systems in those countries. That does not automatically preclude the possibility of harmonisation of macro-prudential regulations, however. There are issues that are common to all countries in the region. How to reduce the incidence of systemic risks? What kind of macro-prudential tools that can be introduced region wide so as to avoid jurisdictional and regulatory arbitrage? How should the regulators deal with off-balance sheet activities? These are the questions that the countries in the region should address so as to improve the effectiveness of their financial co-operation.

Finally, governments in the region should utilise the same platform (ASEAN Plus Three or ASEAN Plus Six) to promote concerted growth-enhancing structural reforms, including measures to improve economic institutions and incentive systems in their respective countries. In addition, they should also promote behind-the-border liberalisation, including the liberalisation of the factor markets, (i.e., market for labour, capital and land). The idea is that concerted actions will improve the likelihood that countries involved will implement those reforms as well as the chance that the regional grouping in question will become a formal regional institution.

Conclusion

Since East Asian economies came out of the global financial crisis relatively faster than the rest of the world, the centre of gravity of the world economy is moving gradually toward the region. But the crisis once again underlines the vulnerability of the region's economies to systemic risks which implies an increasing macroeconomic interdependence among them. However, as the study by ADB argues, policy co-operation in this area is still lacking.¹¹ It is imperative, therefore, to intensify policy dialogues among the East Asian

¹¹ ADB, *op. cit.* (2008).

governments. The aim is to facilitate macroeconomic policies, (i.e. monetary, financial and fiscal policies convergence). This will enable the region's governments to undertake concerted actions to stimulate economic growths, to prevent or at least minimise the likelihood of systemic crisis and, in a time of crisis, to minimise its impact on the region as a whole.

PART 2: GLOBAL POWERS

Regional and Global Powers in a Changing International Order: Australia's Dealings with the Powerful



*Nick Bisley**

While famously described as anarchic and lacking a centre of authority, international life is, in practice, a deeply hierarchical business. The powerful do what they will, the weak endure what they must and those in between take their advantage where they can. Because of this, much of the scholarship of international relations takes as its primary focal point the dealings of the powerful. As Waltz famously put it, “a general theory of international politics is necessarily based on the great powers”.¹ The academic field, and indeed the broader policy and public discourse, has tended to accept the idea that there are broad categories of states, determined by their concentrations of power, inhabiting the lonely world of international politics. There is a small coterie of great powers, whose dealings matter most of all, and a larger group of major powers, not quite of the same stature as the great, but nonetheless of considerable heft. Below that group, lay the middle powers and underneath them are all the other minor powers, the proletarians of international affairs.

In their immediate neighbourhoods, powers of the middle rank at the global level can be regional heavyweights and have tremendous influence over their surrounds. Middle powers have tended to think of themselves as having a niche role in world politics. Not mattering as much as the powerful but neither utterly inconsequential, through clever diplomacy, helpful institutional structures and a smatter of good fortune, middle powers can be important players at the international level.² The behaviour and fate of these in-between powers is of interest to scholars and policy-makers for a number of reasons. Their experiences reveal the circumstances in which more ordinary members of international society find themselves. While of great systemic importance, there are by definition very few great powers, and thus insights gleaned from their

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¹ Kenneth N. Waltz, *Theory of International Politics* Reading, (MA: Addison-Wesley, 1979), p. 72.

² Andrew F. Cooper, Richard A. Higgot and Kim Richard Nosal, *Relocating Middle Powers: Australia and Canada in a Changing World Order* Carlton, (VIC: Melbourne University Press, 1993).

experiences in, for example, institution building, trade negotiations or alliance politics, are unlike those of most states. Gauging how middling powers fare can provide a more nuanced understanding of the structure of international system and the locations and forms of power and influence which operate within these structures. Middle powers are especially sensitive to shifts in these areas and as such at a time of power transition, their experiences, constraints and opportunities are of particular interest.

The purpose of this paper is to examine the experiences of one particular member of this in-between group, Australia, and the way in which it relates to the most important players in the international system. The aim is not to provide a detailed empirical analysis of Australia's dealings with the powerful; rather, it is to use the Australian case to draw a number of conclusions about life as a middle tier power in contemporary international society. Australia is the focus for a number of reasons. Australia has long thought of itself as a unique middle power and has self-consciously pursued a middle power strategy in its foreign policy. More importantly, relations with powerful states have been the key organising principle in Australian foreign policy. The redistribution of power in the international system that many feel is underway is of immediate significance to Australia. Thus Australia's experience can be seen as a sort of barometer for effort to make sense of the implications of this both for middle powers themselves and for the system as a whole. More generally, Australian experience shows that it is not entirely clear that the almost medieval hierarchy of 'great' 'major' 'middle' and 'lesser' powers continues to make sense in contemporary world politics.

Great, Global and Regional Powers

When looking at Australia's relations with the powerful, it is apparent that some care needs to be taken when considering the behaviour of particular categories of states in the international system. For Australia, and indeed all states in the Asian region, the two most important powers with which it has to deal are the US and China. From a certain perspective, one might say that by definition, these two are thus great powers. But the term great power has historically connoted more than powers that are foremost in the minds of their neighbours or those that have, as realist scholars aver, the greatest military capacity.³ A 'great power' is a particular kind of state that has a specific function to play in international society and that is distinguished by both its material wherewithal and the special role that it plays. The great power is a member of an elite club in international society; one that has both rights and responsibilities that are different from all others. Great powers are those states that

³ For example: John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: WW Norton, 2001), p. 5

take on a responsibility to manage international order, in return for which they are given special dispensation from the rules of conduct that are applied to ordinary participants in the system.⁴ They provide international public goods to manage international order and do so by, for example, maintaining balances of power, underwriting institutions and keeping sea lanes open. This is not just because it is in their interest, but because they conceive of the system's interests and their own as intertwined.

In the current order, there is only one state that thinks of itself and behaves like a great power, understood in this classical sense. The other states that are of weight, such as China, India, Japan, Russia, Britain or Germany do not have the material stature nor do they carry out the managerial public goods provision of the great power role.⁵ If they are not great, what are they? This group can be thought of as a set of 'global powers', a new category of powerful state. This is a state that is of global importance due to the geographic spread of its economic and strategic interests. It has a global diplomatic weight and consequent global strategic impact. But these states are not great powers because they do not play a managerial role in international order; they do not provide public goods and do not see a fundamental link between their interests and those of the system as a whole. Global powers are not interested in undertaking the roles historically associated with the great powers and for that matter, those states that can be considered in or close to in this group are presently not capable of so acting even if they wished to do so.

The emergence of the global power is a function of shifts in the location of power but it also reflects changing forms of power in the international system due to the complex transformations associated with globalisation, the interlinking of state interests and the way in which states, hamstrung by a lack of resources, have been able to take on a global influence previously unimagined. A global power is also a more selfish power than a great power, as the role it takes reflects a narrower understanding of interests than that which has historically informed the great powers. While a world with fewer public good providers may be potentially more unstable as collective action problems produce unwanted instabilities in the system and as increasingly powerful states think in narrowly self-interested ways, it does open up possibilities for influence for middling powers which might otherwise not have been available.

The current order has a much more variegated category of states than many imagine. We need to rethink the traditional category of the middle power

⁴ For the clearest articulation of this see Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* 2nd edition, (Basingstoke: Macmillan, 1995), pp. 194-222

⁵ This is unusual and for some scholars a deeply problematic state of affairs. This paper does not have space to consider the implications of a world with one great power, however, for further discussion see Nick Bisley, *Great Powers and International Order* Boulder, (CO: Lynne Rienner, forthcoming)

and to recast it in terms that relate more to the nature of its regional and global interests than to its material attributes. In part this is a reflection of the somewhat limited nature of the ideas with which a middle power has traditionally been associated. Middle powers are generally thought to be those states with a middling standing in a series of reasonably basic material measures of power such as GDP, population, geography, natural endowment and the like. Yet basic attributes of power only capture part of the story. To use a sporting metaphor, rather than trying to determine where a state stands in some imaginary league table of national resources, we need to recognise that there are different leagues. Rather than ranking states based only on material attributes, we need to group states according to the kinds of states they are understood in terms of their interests, their diplomatic behaviour, their influence beyond their borders and the extent to which they contribute to regional or global public goods.

From this perspective, one can thus identify a range of different groupings of states in contemporary international society.⁶ There is one great power, the United States, followed by one global power of the first rank, the People's Republic of China. There are two second tier global powers, India and Japan and then a small group of regional powers that have global influence, including the UK, France, Germany, Russia and Brazil. Following that there are regional powers with some broader international influence, here we find Australia, Canada, South Korea, Indonesia, South Africa and Saudi Arabia. One could possibly also make the case for Mexico, Turkey and Italy in this group as well. This categorisation reflects degrees of influence, membership of key institutions at the regional and global level, the scale and complexity of countries' international interests and the extent to which they adopt a self-conscious strategy to take an active role on the international stage. Given the fluid nature of power and the rapidly changing shape of interests in the current order, these are subject to change and movement between groupings is to be expected over the coming years.

Australia and Global Powers

United States

Since the decline in the strategic and economic significance of Britain, Australia's relationship with the United States has been the most important feature of Australian foreign policy.⁷ The cornerstone of this is the alliance, formalised

⁶ I recognize that there are a range of non-state actors that are considerable importance to world politics, such as international institutions, firms, NGOs, civil society organisations, transnational criminal organisations; however, the primary concern of this paper is the behavior of states.

⁷ Desmond Ball, "The US-Australian Alliance: History and Prospects" Working Paper 330, (Strategic and Defence Studies Centre, Australian National University, January 1999).

in the 1951 ANZUS treaty, which in recent years, has been reaffirmed as the key organising principle of Australian strategic policy.⁸ The alliance not only represents a geopolitical guarantee to an Australia which perceives itself to be vulnerable and located in an unstable part of the world, but also provides Australia with access to intelligence, defence technology and training, as well as broader diplomatic advantages. There is a strong consensus among policy-makers, politicians and public opinion as to the importance of the alliance.⁹ This sentiment is robust, crosses party lines and is particularly strongly held by policy-makers.

While in broad themes this consensus crosses party lines, there are nonetheless subtle but important differences in the way in which relations with Australia's most important partner have been pursued by the two main parties. Between 1996 and 2007 Australia was governed by Prime Minister John Howard's Liberal-National Party Coalition which oversaw a remarkable period of economic expansion. It was notable not only for its distinct brand of social conservatism but also by an unusual degree of stability at the apex of government, with the Prime Minister, Foreign Minister and Finance Minister all in the same post for the entirety of the government's term.¹⁰ Under the Coalition, and particularly from 2001, Australia strengthened and tightened its relations with the US and did so through primarily bilateral means. Indeed the Howard Government explicitly rejected the multilateral and institutional priorities of the preceding Labor Government, and sought to place most of its efforts on bilateral approaches to key states.

Central to the Howard Government's approach to the US was the belief that the United States was likely to remain the world's most powerful and important state over the longer term.¹¹ Contrary to those who felt that American primacy was unlikely to last, particularly with the emerging challenge of China and India, the Howard Government believed that the strategic parameters of the early twenty-first century were likely to remain in place for the long run. This, alongside the deeply held belief in the importance of the US-Australia relationship, led the Howard Government to invest very heavily in the bilateral relationship and most particularly the alliance.

⁸ Nick Bisley 'Enhancing America's Alliances in a Changing Asia-Pacific: The Case of Japan and Australia', in *Journal of East Asian Affairs* 20.1, (2006), pp. 47-73.

⁹ In the most authoritative survey of Australian opinion and foreign policy, 86% of respondents rated ANZUS as 'very important' or 'fairly important': Fergus Hanson, *Australia and the World: Public Opinion and Foreign Policy*, Lowy Institute Poll, 2010, (Sydney: Lowy Institute for International Policy, 2010), p. 12.

¹⁰ For an assessment of the Howard Governments see Nick Cater (ed), *The Howard Factor: The decade that changed Australia* (Melbourne: Melbourne University Press, 2006).

¹¹ Paul Kelly, *Howard's Decade: An Australian Foreign Policy Reappraisal* Lowy Institute Paper 15, (Sydney: 2006), Chapter 5.

While this process had many strands, including establishing regular ministerial and sub-ministerial meetings, there were a number of particularly important aspects of the Howard Government's approach to the US.¹² First, through a series of commitments the government rejuvenated and transformed the ANZUS alliance from a cold war regional artefact into a key part of America's global strategy. While this was not a self-conscious exercise at the outset, it was the result of a range of developments, most notably the shift in American strategic policy that followed the terrorist attacks of September 2001. Prime Minister Howard serendipitously happened to be in Washington DC on 11 September and met with Bush the day after the attacks. He committed Australia to do all it could to support America in its response including the first ever invocation of the ANZUS treaty. This culminated in Australian participation in Afghanistan and, more controversially, in the invasion and post-conflict reconstruction efforts in Iraq. In so doing, Australia was not only paying a premium for its alliance protection, but it was expressing a belief that the character of security threats in the twenty first century obligated alliance action at the global level. The government also committed Australia to a series of material acquisitions such as the M1A1 Abrams tank and the F35 Joint Strike Fighter and committed itself to participate in America's missile defence program. This unambiguously signalled that Australia's strategic future was firmly bound up in its alliance with the US.¹³ The determination was clear: that Australia and the US had fundamental interests in common, they would take action to protect these interests and that their strategic relationship existed in a world in which threats could emanate from all corners of the globe. Thus the alliance had become global in its strategic implications.

The second way in which the relationship was tightened was the high-profile negotiation and conclusion of a preferential trade agreement in 2004, the United States Free Trade Agreement. While Australia had a long run commitment to the multilateral trading system, alongside many other states in Asia, in the first years of the twenty first century it began to negotiate a series of bilateral agreements fuelled in part by frustration with the stalled Doha Round as well as broader economic objectives.¹⁴ For the Howard Government the USFTA had a particular economic and political appeal. Economically, it would better integrate the two economies and lead to increased investment in Australia, greater export opportunities and productivity gains through

¹² For greater detail on the dynamics of the relationship see Maryanne Kelton, *More than an Ally: Contemporary Australia-US Relations* (Aldershot: Ashgate, 2008).

¹³ On this see Rod Lyon, *Alliance Unleashed: Australia and the US in a New Strategic Era* (Canberra: ASPI, 2005).

¹⁴ On this generally see John Ravenhill, 'The New Trade Bilateralism in Asia' in Kent E. Calder and Francis Fukuyama (eds), *East Asian Multilateralism: Prospects for Regional Stability* (Baltimore, (MD: Johns Hopkins University Press, 2008), pp. 78-105.

the discipline of competition brought about by integration. Politically, it was thought to play an important role in ruling out the economic friction that, in the past, had been an irritant to geopolitical relations. By taking potential trade and investment disputes off the table, the USFTA would act to underwrite the strategic commitment Australia had made with the US. The government also perceived domestic advantage as the agreement was presented in the 2004 election campaign as something that only the Howard Government could have achieved.

The economic and political tightening of the relationship was the result not only of common interests, but also the remarkably close personal relationship that Howard developed with President Bush. They established a degree of intimacy that was crucial to the conduct of the relationship and which stood in stark contrast to Howard's frosty relations with President Clinton. They were both instinctive conservatives who shared a common world view on the role of markets and on social mores. Most particularly, they had a very similar attitude to the threat posed by transnational terrorism.¹⁵

Finally, the United States was the centre piece of the Australian Government's foreign policy, but it was also the lens through which it viewed all its other bilateral relations under Howard. The relationship with the US, and most particularly the alliance commitments, structured the way in which Australia dealt with virtually every state with which it has significant dealings. This is not to say Australia approached relations with a 'friend-or-enemy' mentality, rather that the character of the alliance played a determinative role in shaping the way in which Australia managed relations with other states. This was particularly evident in Australia's dealings with India, China and Japan, but equally so in its relations with ASEAN states and South Korea.

Through strategic choice and reaction to events, the Howard Government had bound Australia more tightly to the United States than ever before. It had done so not by entangling the US in regional multilateral processes but through an active bilateralism led by the Prime Minister. It involved strategic, economic and political strands and was firmly rooted in the bureaucratic institutions of government.

In November 2007, the centre-left Labor Government of Kevin Rudd was elected. Some anticipated that the government would (or should) repudiate the heavy emphasis on the US in Australia's foreign dealings and the Coalition's preference for bilateral approaches.¹⁶ In keeping with longer run practice, the Rudd Government maintained the strong political priority on the alliance and on broader economic and political relations with the US. It sought to distinguish itself from the Howard Government by ending participation in

¹⁵ See: Kelly, op. cit. (2006), pp. 47-61.

¹⁶ For example see chapters by Hugh White and William Maley in Robert Manne (ed) *Dear Mr Rudd: Ideas for a Better Australia* (Melbourne: Black Inc, 2008).

coalition activities in Iraq, with the last Australian troops leaving in July 2009. That said, it did not detach itself from the broader alliance commitments in Southwest Asia; indeed it has committed Australia to the Afghanistan conflict over the longer run, having increased the Australian troop presence in April 2009.¹⁷

The Rudd Government sought to reduce the rhetorical emphasis on the US and is sensitive to the criticism of obsequiousness that was levelled at the Howard Government. The Government also moved away from the priority on bilateral approaches and has particularly sought to reinvigorate Asia's multilateral processes. This was intended to provide a better way to manage Asia's dramatically changing strategic and economic landscape, to improve Australia's influence in the region and to help bind the interests of the major powers together. In this respect, Rudd sought to blend bilateral and multilateral processes more explicitly in its dealings with the US. The problem it faced was that its primary gambit in this area, the calls for an Asia-Pacific Community, was largely been met with a considered regional disinterest.

The Rudd Government has also reduced the extent to which the alliance relationship influences its considerations in dealing with other powers, most obviously India, Japan and China. There was also a greater degree of ambivalence shown by the Rudd Government toward America's long term prospects. Given developments since their 2007 election it is not entirely unreasonable that perceptions about America's long term prospects would be down-graded. While not quite embracing the view of those, like Kishore Mahbubani,¹⁸ who see an 'irresistible' rise of the East, the government clearly believes that America is not going to retain its position of primacy in Asia or the world indefinitely.¹⁹ This has prompted a degree of uncertainty in Australian strategic policy, a common trait in the region, evident in the hedging of policy bets that is involved with simultaneous commitments to increasing war-fighting capacity and promoting regional multilateral security dialogue. Finally, Rudd actively sought to develop his own intimacy with President Obama. There was a much trumpeted 'meeting of minds' at the G20 summit in September 2009, as well as effusive praise from the White House for the Prime Minister, even if the substance of an intimate relationship appeared less compelling than the efforts to construct the image of closeness. This is not a criticism, the list is long of those who wished to be close to Obama, but it is telling that personal relations were thought to be of sufficient importance as to warrant active burnishing.

¹⁷ Emma Rodgers, 'Rudd confirms Afghanistan troop boost', ABC News, 29 April 2009, available online at: <http://www.abc.net.au/news/stories/2009/04/29/2555859.htm>.

¹⁸ Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Affairs, 2008).

¹⁹ This is most clearly articulated in the 2009 Defence White Paper, Department of Defence, *Defending Australia in the Asia-Pacific Century: Force 2030* (Canberra: Commonwealth of Australia, 2009).

Australia's approach to the United States has and is almost certain to remain dominated by the alliance and the strong sense that this security commitment is fundamental to Australia's well-being. There have been notable differences in style, tone and substance between the two major parties but the gap between the two is narrower than either would prefer to admit. Australia continues to advance its relations with the US primarily through bilateral channels; although it seeks to improve multilateral processes in Asia, it appears to share many Asian states' ambivalence about the prospects of this coming about.

China

While the strategic, ideological and cultural affinities between the US and Australia are long-standing, the other power which commands Australia's attention, the People's Republic of China, presents a much more complex policy challenge. Relations with powerful states have been at the heart of Australian foreign policy in the twentieth century. Managing this difficult task was made more straightforward by the natural fit between its economic and strategic interests. The most pressing issue that China presents for Australian policy-makers is the evident tension between Australia's strategic relations with the United States and its economic interests with China.

Perhaps the most remarkable achievement of the Howard Government's foreign policy was the simultaneous improvement in relations with the US and China. The way in which it succeeded in this double act was by working actively to isolate Australia's relations with China from its commitments to the US. Some argue that this was made politically possible by the very close relationship that Howard had developed with Bush,²⁰ whereby Australia's credit with America was so good that improving relations with China would not impinge upon the alliance. The Howard Government took a pragmatic approach to China, in which shared interests would be the sole point of discussion, and that the policy focus would be primarily on bilateral mechanisms. There was a considered decision not to bring up human rights or democratic concerns as these would be counterproductive both to any longer term objectives in these areas and to the immediate goal of improving bilateral relations.

The efforts to develop relations were not straightforward for Australian policy-makers. Most notably, during a trip to Beijing in August 2004, Foreign Minister Downer said that in the event of a conflict over Taiwan, ANZUS would not necessarily be triggered.²¹ This was initially thought to be a gaffe on Downer's behalf, but was in fact an attempt to signal Australia's growing strategic challenge to the US as policy-makers sought the elusive goal of

²⁰ Kelly, op. cit. (2006), pp. 67-68.

²¹ Hamish MacDonald and Tom Allard, 'ANZUS loyalties fall under China's Shadow', *Sydney Morning Herald* 18 August, 2004.

'not having to choose' between China and the US. Nonetheless, by the end of the Howard Government, relations with China were remarkably good with negotiations underway for a China-Australia preferential trade agreement and the establishment, in September 2007, of an annual China-Australia strategic dialogue.²²

By following a pragmatic, interest-led and bilateral path, the Howard government successfully oversaw a dramatic improvement in relations with China. The election of the Mandarin speaking former diplomat Rudd, it was assumed, would naturally follow on the work of the preceding government. Indeed, initially Japan's fears that it would be neglected by a China obsessed government seemed to be confirmed.²³ Yet, remarkably, due both to circumstances beyond the government's control and its somewhat clumsy handling, relations between the two noticeably deteriorated.

The Rudd Government sought to undertake both bilateral and multilateral paths to managing its relations with China. It continued to pursue the strategic dialogue forum and high-level visits, with Rudd calling in Beijing on his first major trip outside Australia (following on from stops in Washington and London). Efforts to improve regional multilateralism were intended to improve Australia's influence in the region and to help manage the relations of the region's dominant powers. However, these efforts did not have much purchase on China and the bilateral relationship was damaged by a number of issues. Rudd's confidence in his knowledge of China led him mistakenly to bring human rights concerns back into bilateral relations which did not play well in Beijing. Equally, a series of incidents in 2009 led to a further deterioration of relations. There were a number of efforts by Chinese firms to invest in Australian mining concerns that were turned down by the government or by shareholders, the most famous of which was Rio Tinto shareholders turning down a bid for a substantial stake by Chinalco. This was followed by the arrest and subsequent jailing of Australia Rio Tinto executive Stern Hu for industrial espionage and the diplomatic row over a visit by Uighur leader Rebiya Kadeer. This, alongside the identification of China as a potential security risk in the Defence White Paper, set Australia-China relations back considerably.

Many slate the failure to manage the relations back to the absence of a clear strategic framework for managing Australia's interests with China,²⁴ as well as an over-centralisation of the foreign-policy process in the Prime Minister's office. Noticeably, the efforts to develop close personal relations

²² After much negotiation, the regular meeting was announced on 6 September 2007 and the first meeting held on 5 February 2008 attended by ministers of the newly installed Labor Government.

²³ Alan Dupont, 'Don't Neglect Uneasy Japan', *The Australian* 9 June 2008.

²⁴ Stephen FitzGerald, 'Learning to Live with China', *East Asia Forum*, 6 September 2009, available online at: <http://www.eastasiaforum.org/2009/09/06/learning-to-live-with-china/> (accessed 31 March 2011).

between Obama and Rudd have not been matched by similar efforts in China. The central problem appears to be the lack of a core organising principle shaping Australia's relations with China. While there are some obvious shared interests, such as mutually beneficial trade and investment relations as well as a common view to the benefits of regional stability and security, there are rather different perceptions on either side as to what constitutes the real common ground. For example, China's view as to what is a commercial as opposed to strategic investment is rather different from Australia's. Australian policy pronouncements regularly point to common participation in regional institutions yet here also there are very different views between the two as to the function of institutions, the membership, work program and broader role in the regional order that make this a problematic basis for relations. Equally, perceptions as to what is required to maintain regional stability and security vary, particularly when it comes to the role of the US in this process over the medium to longer term. As such, interests in the absence of a strategic framework are a limited foundation on which to build relations.

Like all Asian states and societies and, indeed, many other states the world over, China's dramatic economic rise and its consequent strategic and diplomatic heft is challenging traditional approaches to Australian foreign policy. Australian Governments of both hues have sought to deal with China through a combination of bilateral and multilateral processes. The Coalition Government placed a greater emphasis on the bilateral and having a clearer strategic vision. The Labor Government was less effective in its bilateralism and its efforts to promote improved multilateralism did not yield any significant breakthroughs.

Regional Powers and the Changing Order

As a regional power directly exposed to the dramatically changing economic and strategic landscape of Asia, Australia's experiences in dealing with two global powers are revealing not only of the specific challenges faced by Australia but those faced by regional powers in a rapidly changing international system.

While the Rudd Government has proved to be more diplomatically clumsy than many may have expected given the Prime Minister's background, some of the problems derived from circumstances beyond Australia's control. In some ways, Australia's experience reveals uncertainty about which policy tools work best in managing relations with global and great powers but also raises questions about the utility of traditional approaches to statecraft. For example, the links between states and societies forged by the complex array of trade, finance, and communication networks should be conducive to multilateral institutions. Yet multilateral experience to date is less than heartening. It is not just poor diplomacy which explain the distinct lack of enthusiasm for Rudd's Asia Pacific Country concept. Traditional inter-state institutions do not

seem particularly effective at providing the kinds of public goods that many seek (such as improved trust and better economic policy coordination), and hence interest continues to be muted. Equally, states are also taking a much more statist and nationalist approach to many of the most immediate issues of common concern than many might have expected. The problems that emerged at Copenhagen are the most striking example of this trend. In the dilemmas Australia faces in its economic dealings with China and its strategic relations with the US, one sees the limitations of traditional approaches to statecraft. While Australia values the alliance greatly, it is not clear that the benefits that accrue from the relationship necessarily offset the costs in terms of flexibility that such a classic form of statecraft demands.

As in many other Westminster-style democracies, Cabinet government in Australia is increasingly giving way to a more presidential style of governing. In many states, not only democracies, foreign policy is increasingly the prerogative of heads of state and government and their ministers and minders, while the influence of diplomats in the decision-making and negotiation process is increasingly diminished.²⁵ Under both Howard and Rudd, this centralisation process has been particularly acute in foreign and defence policy. As such, policy is increasingly vulnerable to the opportunities and constraints of the leader and his or her minders. Heads of government have remarkable weight in negotiations and can ensure bureaucratic follow through that lesser figures may find difficult. Equally, it also means that if the leader is not involved then inattention and paralysis may well ensue.

Foreign policy analysts have long argued that globalisation has sufficiently blurred policy remits so as to make the old distinction between domestic and international policy increasingly irrelevant, even going so far as to coin the infelicitous phrase the ‘intermestic’ to convey this sense.²⁶ While it is true that almost every sphere of government activity is shot through with international and transnational concerns, Australian experience reinforces the ongoing salience of domestic politics in shaping foreign policy decision-making. Whether negotiating free-trade agreements, pushing for reform of Asian multilateral institutions or responding to transnational terrorist threats; decisions are taken with an eye firmly on the domestic implications of foreign policy. Whether this is due to the level of media scrutiny of politicians or the particular preferences of recent prime ministers is not entirely clear, as foreign policy has not suddenly become more salient as an electoral issue. Nonetheless the shadow of

²⁵ On this generally see: Rik Coolsaet, ‘The Transformation of Diplomacy at the Threshold of the New Millennium’ in Christer Jonson and Richard Langhorne (eds.), *Diplomacy: Volume III Problems and Issues in Contemporary Diplomacy* (London: Sage 2004), pp. 1-24.

²⁶ See Christopher Hill, *Changing Politics of Foreign Policy* (Basingstoke: Palgrave, 2003), Chapter 8.

domestic political considerations is surprisingly strong in Australia's foreign dealings and particularly with the global powers.

The current international order is in a state flux, and this is nowhere more evident than in Asia. Central to this process is the perceived narrowing of the gap between the US and a series of emerging powers, which appears to herald a more oligopolistic international order. Indeed some have gone so far as to argue that the predominance of China and the US is likely to be such that a potential 'G2' arrangement is needed to achieve concerted international action in almost any sphere.²⁷ Yet while there is likely to be a greater number of powerful states in the international system over the coming 25 years, it does not follow that this will mean that regional powers will be of decreased influence. Indeed, the very palpable limits to what individual states can do on their own, even the most powerful, means that a space for influence is opening up for regional powers. One of the most immediate challenges for regional powers is to begin to work collectively to encourage emerging global powers to conceive of their interests in broader and more systemic terms. It is clear that contemporary circumstances require the provision not only of leadership but also an array of global public goods relating to a wide policy spectrum from fiscal policy coordination to climate change. For regional powers, the cost of global powers not proving leadership and public goods is likely to be very high.

A world of global and not regional powers is a particularly vexing issue for Australia. For a country that has instinctively cleaved to the powerful, shifts in the forms, locus and utility of state power present a very obvious challenge. To whom should Australia turn for comfort and protection? The answer may well be to turn to no one. Conditions in the coming century may be such that regional powers are better served through embracing self-reliance mixed with an active international engagement and regional powers would do well to better equip themselves to think through the implications of these possibilities. Whatever the century holds, one most immediate lesson is clear: Australia's relations with the powerful are best served when policy-makers and politicians have a clear strategy in mind and a healthy dose of pragmatism shapes their thinking and decisions. Unclear priorities, unrealistic assessments of influence and weight and weakly pursued ideals are a poor way to manage a regional power's interests in a world of such abundant risk and opportunity.

Australian experience also speaks to the broader need for policy-makers and scholars better to understand the forms and distribution of power in the current order. The complexity of interests and diffusion of power caused by the networks of globalisation has undermined the utility of many traditional tools of statecraft. New approaches are needed and regional powers, those most exposed to these changes, have a vested interest in divining the process needed.

²⁷ Zbigniew Brzezinski, 'The group of two that could change the world', *Financial Times* 14 January 2009.

Rising China and Its Implications for South Korea's Foreign Policy

*Heungkyu Kim**

Rising China

In the 21st Century, one of the most endemic phrases in the world must be “rising China.” Many prestigious organisations, think-tanks and scholars predict that the Chinese economy will be the top-ranked in the world by 2030. Some also seriously worry that China is challenging the US hegemony in international politics, destabilising the world. China’s economic performance has been remarkable from the late 1970s to the present, with an average annual growth of 10 percent percent. This record exceeds Japan’s and Korea’s ‘economic miracles’ of past decades. By 2020, compared to other newly-developing states like India and Brazil, the size and potential of the Chinese economy will still be attractive to foreign investors. Furthermore, the demographic composition of young and old in China will remain at an optimum level for economic growth. In domestic politics, the Chinese Communist Party has successfully maintained its control and political stability.

According to the grand strategy for economic development addressed in the 15th Party Congress in 1997, China’s target was US \$ 12,800 per capita by 2050 for the completion of modernisation in the 100th anniversary of the establishment of People’s Republic of China. If achieved, by 2050 China will be the top-ranked country in terms of economic size. Table 1 shows China’s three-step development strategy.

Table 1: Economic Goals of China’s Grand Strategy

Content/Year	1980	1990	2000	2010	2020	2050
Stage	1 st Step		2 nd Step	3 rd Step		
				Petit 1st	Petit 2nd	Petit 3rd
GDP per Capita (Planned)	100	200	800	1600	3200	12800
GDP per Capita (Actual)		200+ (1987)	800+ (1995)	3000+ (2008)	?	?

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In 1995, China had already exceeded the target for the year 2000. By 2008, China's GDP per capita had almost reached the target for the year 2020 and will certainly be higher by the end of 2010. This is almost 10 years ahead of China's plan.

China was a leading country in recovering from the international financial crisis resulting from the Wall Street crash in the United States.¹ At the zenith of the crisis in 2009, China recorded a GDP growth rate higher than 8 percent. Such success elevated the international status of China, leading to the term 'G-2'.² The United States confirmed China's new status in July 2009 by initiating a new Strategic and Economic Dialogue with China to deal with world affairs as well as bilateral strategic concerns.³

New Direction of China's Foreign Policy

Along with its economic rise, strategic ideas in China have also evolved and diversified. The characteristic of China's foreign policy during the Jiang Zemin era (1989-2002) is best described by the "hide capacities and bide time" principle, the core idea of the 'developing country diplomacy school.' However, reflecting China's growing national capacity, the strategic policy during the Hu Jintao era (2002-present) has gradually changed into an attitude of "being able to accomplish something," the main idea of the 'newly rising to great power diplomacy school.' (新興大國外交)

China under Hu Jintao took a more active foreign policy in pursuit of status as a 'great power'. It added the principle of 'co-operation' while emphasizing the previous two mottos of 'peace' and 'development from Jiang's era. When the second North Korean nuclear crisis occurred at an early stage of Hu's succession to power, Hu's China rejected the previous position of 'hesitant intervention' in external matters. Instead, it took up a more active role as a mediator and established a solid international image as a 'responsible great power' by successfully launching the Six-Party Talks.

¹ Regarding a rather cautious optimism on the recovery of China, see Barry Naughton, 'China's Emergence from Economic Crisis,' *China Leadership Monitor*, No. 29 (2009).

² According to Bloomberg Columnist William Pesek, it was Donald Straszheim, Vice Chairman of California-based Roth Capital Partners, who first used the term "Group of Two" in an IMF annual meeting at Singapore in 2006. Available online at: www.bloomberg.com/apps/news?pid=20601039&refer=columnist_pesek&sid=aqqZAdwbluJk# (accessed 31 March 2011).

³ Regarding the US-China Strategic and Economic Dialogue, see: Heungkyu Kim, 'The US-China Relations and Implications for Korean Unification,' presented in the KAIS international Conference held in Seoul Korea, September 11, 2009.

Chinese leadership under Hu has espoused mottos such as 'Peaceful Rise', 'Peaceful Development', 'Peace (harmony) First' and 'Harmonious World'.⁴ China's foreign policy has placed more weight on relations with neighboring countries compared to Jiang's foreign policy. Since 2003, China has doubled its overseas investment in neighbouring countries including Myanmar, Cambodia, Bangladesh and North Korea.⁵

During Jiang's era, China laid out a new perspective of international relations called the 'New Security Concept,' which depicted great power relations in terms of a non-zero sum game, placing emphasis on mutual benefits and co-operation rather than conflicts. The introduction of such a concept sent a strong signal to the world that China was a country accepting the *status quo* in international relations. China's foreign policies started operating under pragmatic principles in security environments from the late 1990s in order to maintain China's economic priorities and adjust to the post-Cold War order. China regarded relations with the United States as its most important bilateral relationship and sought to avoid conflict with the United States under all circumstances.

The pragmatic approach and the pursuit of a more active international role naturally led China to a strategic re-evaluation of the two Koreas under Hu Jintao. Under Hu's leadership China has worked on transforming the relationship with North Korea from 'a special relationship' to 'a normal state-to-state relationship', while still appreciating the strategic value of North Korea. When the first North Korean nuclear crisis broke out in 1993, the Korean peninsula became an arena for great power politics, although relations with its neighboring countries still remained important. China established a 'strategic cooperative partnership' with South Korea in 2008, opening a political space to deal with North Korean issues at the bilateral level between South Korea and China.

However, ambivalent attitudes regarding the Korean peninsula in Chinese foreign policy complicated the Chinese objectives, laid out specifically in a mixture of strategic and short-term interests.⁶

Diversified Chinese Strategic Thinking

Chinese strategic thinking is no longer monolithic. A top-down approach to Chinese decision-making is likely to cause a misunderstanding of Chinese for-

⁴ There were reservations about this slogan in China. It is still debated whether it is appropriate.

⁵ Scott Snyder, *China's Rise and the Two Koreas: Politics, Economics, Security* (Boulder: Lynne Rienner Publisher, 2009), p. 116, More than one third of Chinese foreign aid goes to North Korea.

⁶ Samuel S. Kim, "China and North Korea in a Changing World," *Asia Program Special Report* No.115 (Woodrow Wilson International Center, September 2003), p. 12.

eign policy. Chinese strategic thinking is evolving as decision-making requires more professional support.

In dealing with North Korea, three groups of Chinese thinkers can be identified depending on their criteria they use to analyze China's status in the world. The three schools are known as the 'traditional geopolitical school' which include chauvinistic nationalists, the 'developing country diplomacy school' (開發途上國外交) and the 'newly rising great power diplomacy school' (新興大國外交). The respective ideas of these groups are not necessarily isolated, but intermingled.

Traditional Thinkers

The first group, the traditional geopolitical school, pays more attention to China's past glory, influence and principles. This school is divided into a traditional geopolitics group and socialist group. Both groups place importance on the buffer zone role of North Korea for China in terms of geopolitics or ideological affinity. Although any ideological affinity tying North Korea to China has been removed from official Chinese foreign policy language, geopolitics, a more traditional language, has been revived among old elites and the military. The traditional geopolitical school regards the nature of Sino-US relations as competitive rather than co-operative and harmonious. In this view, the Korean peninsula is still the battle ground for influence among great powers, having struggled over it for thousands of years. This group also possesses more psychological affinity to North Korea than South Korea because South Korea has allied with the US.

In a recent survey of Chinese elites, 23 out of 30 surveyed supported either gradual reduction or withdrawal of the US military on the Korean peninsula, meanwhile only 7 out of 30 supported maintaining current levels of US military presence.⁷ This group favours military intervention in case the US unilaterally enters the territory of North Korea and Chinese core interests are severely threatened. Although the contexts are different, a summary of "Keeping an Eye on an Unruly Neighbor" written by Bonnie Glaser, Scott Snyder and John Park was under influence of such thought, implying Chinese military intervention in the North Korean territory: "If the international community did not react in a timely manner as internal order in North Korea deteriorated rapidly, China would seek to take the initiative in restoring stability."⁸

Gong Keyu, a young Chinese scholar at the Shanghai Institute of International Studies, succinctly summarises the view in her new article, stating "the historical interest of China in the geopolitical situation of Korea

⁷ From the author's unpublished survey data conducted in December 2008 with specialists on the Korean peninsula or international relations in China.

⁸ See Bonnie Glaser, Scott Snyder, John S. Park, *Keeping an Eye on an Unruly Neighbor* (CSIS, January 3, 2008) 'Summary'.

allows China to play a unique role in the relevant affairs on the Korean peninsula. The Korean peninsula is of special geopolitical significance.”⁹

The influence of this school in China's policy-making on the Korean peninsula has weakened as Chinese leadership has started to see the strategic importance of the Korean peninsula in the broader context of international relations and place policy priorities on co-operative bilateral relations with the United States. However, the voices of this group could be strengthened if China's vital interests were ignored. For example, if the Chinese economy were faltering, these voices could get stronger.

Developing Country Diplomacy School

The second group, the developing country diplomacy school, comprises a major line of Chinese foreign policy. The upholders of this school comprise the mainstream of China's foreign policy. They like to identify China as a developing country, fully recognizing its backwardness and the gap between China and developed countries, in particular the United States, in national capacity. This group has taken the pragmatic approach featured in the term ‘hide capacities and bide time’ (韬光養晦). Based upon such recognition, this group supports affirming China's foreign policy goal in establishing peaceful relations for the purpose of continued economic development until at least 2020 when a ‘medium-level of well-being’ will be reached. This group pays more attention to maintaining stability in the region through foreign policy and is a driving force in seeking to transform the relationship with North Korea into a normal state-to-state relationship.

This group is very much afraid that, if economic development is marred by friction with the United States, the Chinese Communist Party could be faced with serious domestic social and economic problems that would lead to a crisis of its own leadership. Therefore, this group supports co-operative partnership with the United States while recognising the dominant position of the United States in international relations in practice, and integration of China into an international system.¹⁰

In case of a North Korean contingency, this group prefers cautious policies toward the United States and military intervention, taking reactive approaches to the initiatives of other countries. In fact, this group is reluctant to intervene into North Korea. A North Korean contingency situation would increase regional instability and unpredictability and become a major hurdle for China's

⁹ Keyu Gong, ‘Tension on the Korean Peninsula and Chinese Policy,’ *International Journal of Korean Unification*, Vol. 18, No. 1, (2009).

¹⁰ This line of argument is often found in the reports of mainstream Chinese thinkers such as Wang Jisi, Director of the School of International Relations at Beijing University; Qin Yaqing, the Vice-President of the Chinese University of Foreign Affairs; and Yang Jiemin, President of the Shanghai Institute of International Studies.

development strategy as well. Hence, it must be avoided. According to this school of thought, the current situations are very different from those of the 1950s when China intervened militarily in the Korean War. From this perspective, we are in a post-Cold War period so the level and depth of China's interdependence in the world is not comparable to the period of the 1940-50s. The damage of entering into another Korean war would be unbearable for China.

Rising to Great Power Diplomacy School

The third group of thinkers, the 'newly rising to great power diplomacy' school, is noteworthy. The strong views of this school can be found among young intellectuals in international relations as well as in young Internet users.¹¹ The influence of this school on policy-making is on the rise.

Although Chinese official foreign policy uses the language of the second group, representing the growing confidence and nationalism in China, the ideas of the third group are gradually gaining power among Chinese elites. In the 17th party Congress, these voices were obviously apparent. Focusing more on the principle of 'taking necessary steps' (有所作为) rather than "hide capacities and bide time," this group argued that China must be more active in placing its interests and policy agendas before international society as a newly rising great power.

This group favours taking initiatives on certain issues to gain more space for Chinese foreign policy. In the case of a North Korean contingency, this group is likely to favour playing more active roles as a great power in the region in dealing with the issue, as well as, protecting China's interests, although this group would hope to avoid direct military intervention on the Korean peninsula. They are likely to oppose any unilateral intervention in North Korea either by the United States or South Korea but to promote multilateral intervention, such as by the United Nations, if necessary.

Tentative Evaluation

Both the developing country diplomacy and the newly rising to great power diplomacy schools focus on the strategic value of North Korea in a broader context of international relations than the traditional geopolitics school. These perspectives of the former tend to regard North Korea as a trouble-maker, which incurs more costs for China's relationship with the United States and its future economic development.

¹¹ In this line of scholars can be found, for example, Jin Canrong, Deputy Chair of the School of International Relations at People's University; Yan Xuetong, Prof. of Qinghua University; Zhu Feng, Professor of Beijing University; Zhang Liangui, Prof. of the Party School; Shen Dingli, Professor of Shanghai Fudan University; Zhang Debin, Prof. of Shanghai Fudan University.

However, in general the nature of China's policy on the Korean peninsula is rather conservative and favors the status-quo. First, the characteristics of Chinese decision-making, which require consensus-building, make it prone to resistance. Second, Chinese leadership as technocrats generally favor piecemeal approaches. Third, North Korea still holds strategic value both as a way of checking the expanding regional influence of the US and as a means of increasing the role of China in the region.

North Korea is also fully aware of the evolving ideas of these schools and their negative implications for North Korea. It is noteworthy as well that the perspectives of the rising to great power school do not necessarily demand a drastic change of China's North Korean policies given other complex strategic situations.

Table 2: Policy Orientations of China's Strategic Schools

	Traditional School	Developing Country School	Rising Great Power School
International Status	(Old) Great Power	Developing Country	Rising Great Power
Temporal Focus	Past	Past to Present	Present to Future
Relationship with the United States	Competitive	Co-operative	Hedging
Perception of North Korea	Buffer Zone	Trouble-Maker	Trouble-Maker/ Limited Strategic Assets
Policy Means on North Korean Issues	Political Support and Economic Aid	Economic Aid and Diplomatic Persuasion	Complex Means (Including Coercion)
North Korea Contingency Policy	Intervention	Co-ordinated Action with the United States in Caution	Opportunist/ Multi-lateral approaches
Policy on the Korean Peninsula	Recovery of Influence	Status-quo	Status-quo with Potential to Change

Source: Heungkyu Kim, 'From a Buffer Zone to a Strategic Burden: Evolving Sino-North Korea Relations during Hu Jintao Era', *The Korean Journal of Defense Analysis* Vol. XXII, No. 1, Spring 2010.

Given the debates among different thinkers in China, China's current interests in North Korean issues can be summarized as follows: first, maintenance of stability and peace on the Korean peninsula is a top priority; second, resolving

North Korean nuclear ambitions through peaceful means; third, that if regime change occurs, North Korea not have an anti-Chinese regime; and if possible, a pro-Chinese regime; fourth, avoidance of escalation into an international military conflict that would harm China's development; fifth, since it is too early to have a unified Korea that any such unification be resolved through international management; sixth, opposition to a United States intervention on the Korean peninsula and preference for bilateral compromise and agreements with South Korea as well as the United States; finally, if the Korean issue cannot be resolved through bilateral negotiations, a preference for taking the issue to the United Nations. Taking Korean issues to the UN is a realistic way to achieve consensus among the competing schools. This option satisfies traditional thinkers by deterring the United States and South Korea from securing influence in North Korea, it satisfies the developing country diplomacy school by avoiding conflicts and inducing co-operation with the United States, and it satisfies the newly rising to great power diplomacy school by allowing China to take a more active role in international politics.

The Chinese interests outlined above can be counted upon even in the most serious situations involving military intervention and adjusted depending on the US position, acknowledging South Korea's position and the future state of North Korea.

Implications for South Korea's Foreign Policy

The Changing Regional Security Environment

Given the history, strategic interest, and power configuration of the evolving schools of thought in China's foreign policy, China is not likely to take any initiative on North Korean issues, including North Korea's nuclear ambitions. China will most probably pay attention to changing regional security situations; in particular China will pay special attention to US policies. In this regard, China's policy can still be regarded as dependent upon US policies.

South Korea's foreign policy will be influenced by the regional configuration of international relations; most importantly US-China relations. Given the current degree of US-China strategic co-operation, Japan faces a dilemma which requires it to adjust its foreign policy direction. Under the new US-China *entente cordiale*, the strategic value of Japan to the United States is likely to wane.

South Korea would be left with no alternative but to work closely with both the United States and China, as both countries have respective roles, capacities and the will to intervene in Korean issues, including the North Korean

nuclear crisis.¹² Under the threat of North Korean nuclear weapons, the South Korea-US alliance must be the pillar for South Korea's security architecture. However, given the complex situation in the Koreas, South Korea's foreign policy should be more complicated and multi-dimensional, seeking co-operation from neighbouring countries. South Korean support for China is also relevant to transforming the six-party framework into a regional security forum and establishing a peace regime on the Korean peninsula along a strengthened bilateral alliance with the United States.¹³

Such a complicated situation in the future would be a great challenge for South Korea. South Korea must constantly prepare for the future transformation of regional politics, in particular China's policy towards the Korean peninsula and be able to respond to it accordingly. Without such dynamic policy preparation, South Korea will fail to use a crisis on the peninsula as an opportunity for a positive outcome.

South Korea's China Policy

The new dynamics of US-China co-operation may provide opportunities for South Korea under certain conditions. At this juncture, however, it poses enormous strategic difficulties for North Korea and appears to present more challenges than benefits for South Korea's foreign policy as well. It will be difficult to solve the North Korean nuclear conundrum and Korean issues in general with a mindset rooted in US-China strategic conflict, a typical but outdated concept. South Korea now needs to take China's interests into serious consideration as well. Above all, in an era of US-China strategic co-operation, South Korea needs to be prepared to analyze the situation from multiple standpoints, and formulate measures dealing with the possibility of alienation from Korean peninsula issues as a result of US-China consortium.

Whatever the course of events, the prevention of such alienation through proactive diplomacy should be one of the main objectives of South Korea's foreign policy. South Korea should by no means seek to isolate China from the unification process. Rather, South Korea must seek Chinese co-operation

¹² Although South Korea's mediating role between the two great powers is not an easy task, should more positive circumstances arise such a role should not be excluded. See Wang Jisi, 'China's Search for Stability With America', *Foreign Affairs*, Vol. 84, No. 5 (Sep/Oct, 2005), pp. 39-48.

¹³ For the need for a framework to maintain stability in the Korean peninsula, see James Goodby, 'Creating a peace regime in Korea', *PacNet* No. 23 (Honolulu: Pacific Forum CSIS, May 30, 2006) available online at: http://www.csis.org/component/option,com_csis_pubs/task,view/id,3268/; Leon V. Sigal, 'Building a Peace Regime in Korea: An American View', *International Journal of Korean Unification Studies*, Vol. 15, No. 1 (2006), pp. 30-52; In-Gon Yeo, 'Search for Peaceful Resolution of the North Korean Nuclear Issue', *International Journal of Korean Unification Studies*, Vol. 15, No. 1 (2006), pp. 53-65.

premised on a positive conviction that any future scenario on the Korean peninsula would not be zero-sum for Chinese interests in the region.

With strong economic interdependence as a foundation, South Korea must work to broaden the scope of its political, social, cultural and military relations with China in order to cultivate mutual trust between the two countries. Bilateral relations must be enhanced on all fronts so as significantly to weaken the causal link between the aforementioned issues of potential discord and mutual animosity.

A careful review of the evolution of China's intention and capabilities regarding South Korea is also necessary. This would involve an accurate understanding of China's strategic objectives, degree of military readiness, sustainability of its economic growth, domestic challenges and, finally, China's strategic thinking vis-a-vis the changing political-security climate on the Korean peninsula and the North East Asia region as a whole. In achieving this understanding, Korea should neither exaggerate nor underestimate China's goals, capabilities and possible roles in the region.

Any deterministic thinking should be avoided. It is not necessary to think that China would take destabilizing and aggressive measures as it did in 1950 should a contingency or unification situation occur. China can exercise a positive and constructive influence over North Korea in keeping North Korea's unpredictable behaviour in check. South Korea's proactive and prudent foreign policy must help China's realistic and pragmatic thinkers and leaders prevail over traditional buffer-zone thinkers in strategic decision making.

To do so, bilateral dialogues must be invigorated. To begin with, South Korea should start a strategic dialogue at a 1.5 track level with China on Korean issues. It would be ideal for the United States to initiate dialogue with China in a similar vein. Based upon trust accumulated by such dialogues and contacts, this could be elevated to dialogue at the track one level as well as trilateral dialogue when necessary. Without well-coordinated communication, however, the task of finding a win-win solution may be difficult to achieve and as a result provides a source of turbulence in the future.

Obama's East Asia Policy and US-South Korea Relations



*Hyun-Wook Kim**

Since the Obama government took office in 2009, there have been many policy changes from the previous Bush administration. The Obama Government emphasises the role of international community, alliance mechanisms and international or regional institutions in shaping of foreign policy. The purpose of this chapter is to link these changes to the North East Asian region and US-South Korea relations.

This chapter looks at the East Asia policy of the Obama Government and the way that the US-South Korea relationship has been affected by US policies in East Asia. The first section of this chapter concerns the Obama Government's East Asia policy, which is followed by the second section which is about the current status of US-South Korea relations. A final section provides some policy prescriptions for South Korea.

Obama's East Asia Policy

President Obama's initial East Asia policy was summarised as a 'balanced strategy', focusing on the 'power of balance', rather than the 'balance of power'. Balance of power is a Cold War concept, and this concept in Northeast Asia is associated with balancing China. Instead, Obama's emphasis on the power of balance indicates that he would promote balance with major Asia countries, including China, in order to avoid unnecessary conflicts and disputes. However, this policy more resembled an offshore balancing strategy, which was rather passive in its tendency. As the Obama Government moved its focus to domestic economic problems, its policy towards East Asia shifted down its policy agenda. The Obama Administration thus postponed solving important issues in East Asia.

Obama's current East Asia policy began to emerge when he visited Japan, China and South Korea in November 2009. The first leg of US President Obama's East Asia tour in November was Japan, and in a speech at the Suntory Hall in Tokyo he announced a new Asia policy initiative.¹ The crux of the

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¹ 'Remarks by President Barack Obama at Suntory Hall' (14 November 2009) available online: <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-suntory-hall> (accessed 31 March 2011).

Obama administration's new Asia policy was stated to be active engagement with Asia: "Since taking office, I have worked to renew American leadership and pursue a new era of engagement with the world based on mutual interests and mutual respect."

One of the major drivers behind Washington's renewed engagement policy was stated to be a need for "a new strategy for balanced economic growth." President Obama had called for financial system reform, increased savings, curbed spending and reduced long-term deficits as a new strategy for economic growth. In addition, he underscored the importance of stimulating domestic consumption and emphasised that increased exports will lead to job creation. In the Suntory Hall speech, he cited "the limits of depending primarily on American consumers and Asian exports to drive growth" as the reason for the new strategy. President Obama pointed out that the United States was one of the most open markets in the world, and that now, in the new era, it was other countries' turn to further open their markets.²

During his visit to China President Obama and President Hu Jintao reached a comprehensive agreement on broad range of issues, culminating in the release of a joint press statement on 17 November 2009.³ The joint press statement addressed five areas: US-Sino relations; the building and deepening of bilateral strategic trust; economic co-operation and global economic recovery; regional and global challenges; and climate change, energy and the environment. The general assessment was that the joint press statement was more advantageous to Beijing; while the United States succeeded in securing China's commitment to expand co-operation on international issues, it failed to win China's assurances on sensitive issues.

The US-China summit should be viewed in the context of the Administration's vision of the US-China relationship. In September 2009 Deputy Secretary of State James Steinberg presented "strategic reassurance" as a key concept in the Administration's China policy.⁴ Aimed at facilitating a deal between the United States and China, this formula calls on China to make certain concessions to the United States and ensure that China's development and increased role on the world stage will not come at the expense of other countries' security and welfare. The doctrine assures that the United States, for its part, will recognise China's growth potential, welcome China's rise and tolerate China's increased presence in the international system. As can be seen, Washington's "strategic reassurance" is a concept of reciprocity.

² Ibid.

³ 'U.S.-China Joint Statement' (17 November 2009) available online: <http://www.whitehouse.gov/the-press-office/us-china-joint-statement> (accessed 31 March 2011).

⁴ Deputy Secretary of State James B. Steinberg, 'Administration's Vision of the U.S.-China Relationship', Keynote Address at the Center for a New American Security (24 September 2009) available online: <http://www.state.gov/s/d/2009/129686.htm> (accessed 31 March 2011).

President Obama expressed this in his concluding comments in the joint press statement that followed the US-China summit:

I do not believe that one country's success must come at the expense of another. That's why the United States welcomes China as a strong, prosperous and successful member of the community of nations.

Our relationship going forward will not be without disagreement or difficulty. But because of our cooperation, both the United States and China are more prosperous and secure. We've seen what's possible when we build upon our mutual interests and engage on the basis of equality and mutual respect.⁵

During his visit to Japan President Obama and Prime Minister Hatoyama held a summit on 13 November 2009 and adopted a three-point Joint Statement toward a World without Nuclear Weapons on the themes of nuclear disarmament, nuclear nonproliferation and nuclear security.⁶ In addition, the two allies agreed to co-operate on energy related technology development, such as energy conservation technologies and carbon capture and storage.⁷ The two countries also agreed to a set of measures to combat global warming, such as reducing greenhouse gas emissions by 80 percent by 2050 and engaging themselves to achieve a successful outcome at the United Nations climate change conference in Copenhagen in December 2009.⁸

However it was clear that the relationship faced some serious challenges with former Prime Minister Hatoyama's view of the United States differing vastly from that held by preceding Liberal Democratic Party (LDP) cabinets. A case in point was the relocation of the Futenma base. Washington said it was concentrating on implementing the agreement, stressing that any discussion on the base's relocation should be limited to the implementation of the 2006

⁵ 'Joint Press Statement by President Obama and President Hu of China' (17 November 2009) available online: <http://www.whitehouse.gov/the-press-office/joint-press-statement-president-obama-and-president-hu-china> (accessed 31 March 2011).

⁶ 'United States-Japan Joint Statement toward a World without Nuclear Weapons' (13 November 2009) available online: <http://www.whitehouse.gov/the-press-office/united-states-japan-joint-statement-toward-a-world-without-nuclear-weapons> (accessed 31 March 2011).

⁷ 'US-Japan Cooperation on Clean Energy Technologies' (13 November 2009) available online: <http://www.whitehouse.gov/the-press-office/fact-sheet-us-japan-cooperation-clean-energy-technologies> (accessed 31 March 2011).

⁸ 'U.S.-Japan Joint Message on Climate Change Negotiations' (13 November 2009) available online: <http://www.whitehouse.gov/the-press-office/us-japan-joint-message-climate-change-negotiations> (accessed 31 March 2011).

US-Japan agreement.⁹ Meanwhile, Prime Minister Hatoyama sparked controversy in Singapore by remarks doubting that the existing US-Japan agreement would be the premise for discussions. What is more, with respect to the war in Afghanistan, Prime Minister Hatoyama hinted at suspending the Japan Maritime Self-Defense Force's refueling support operations in the Indian Ocean, saying Japan was preparing a different support package.

Upon coming into power, new Prime Minister Naoto Kan returned to the previous 2006 agreement concerning Futenma base. However, he faced domestic discontent and a fluid political situation with a House of Councilors election.

The Current US-South Korea Relationship

At the summit in June 2009, South Korea and the United States adopted a 'Joint Vision for the Alliance of the Republic of Korea and the United States of America.'¹⁰ The vision outlined was to "build a comprehensive strategic alliance of bilateral, regional and global scope, based on common values and mutual trust." With an overarching goal of ensuring the peace and security of the Korean peninsula, the Asia-Pacific and the world, the Joint Vision identifies enduring friendship, shared values and mutual respect as the foundation for the US-South Korea alliance. The Joint vision also underscores the importance of 'close relationships among our citizens' as the basis for advancing the alliance.

By clearly stipulating US-South Korea- bilateral co-operation at the Korean peninsula, Asia-Pacific and global levels, the two leaders extended the scope of relations to a global alliance. Regarding the Korean peninsula, the joint vision called for: peaceful reunification on the principles of free democracy and market economy, the complete and verifiable elimination of North Korea's nuclear weapons and existing nuclear programs as well as ballistic missile programs and the promotion of respect for the fundamental human rights of the North Korean people. With respect to the Asia-Pacific region, the joint vision calls for the promotion of democracy, human rights, free markets and trade and investment liberalisation and hints at advancing free trade by emphasizing open economies. In terms of global issues, the document speaks

⁹ See, for example, Justin McCurry, 'US warns Japan over relocation of Futenma airbase: Hillary Clinton says Tokyo must honour 2006 agreement as tension over US military role in region grows', *The Guardian* (22 December 2009) available online: <http://www.guardian.co.uk/world/2009/dec/22/japan-us-futenma-airbase> (accessed 31 March 2011).

¹⁰ 'Joint Vision for the Alliance of the United States of America and the Republic of Korea' (16 June 2009) available online: <http://www.whitehouse.gov/the-press-office/joint-vision-alliance-united-states-america-and-republic-korea> (accessed 31 March 2011).

of the need to respond jointly to global challenges, such as terrorism, weapons of mass destruction proliferation, piracy, climate change and epidemic diseases. It also pledges to increase co-operation in the maintenance of peace in Iraq and Afghanistan. In the joint vision, the two leaders also agreed to strengthen coordination in multilateral mechanisms aimed at global economic recovery.

In the security field, the two allies strengthened Korea's defense posture by pledging a continuing commitment to extended deterrence, including through the US nuclear umbrella. By promising to continue with the restructuring of the alliance, the joint vision attempts to develop the current alliance into a security co-operation relationship, where Korea takes the lead and the United States plays a supporting role. In short, the United States committed itself to providing security through a US military presence on the Korean peninsula, in the region and beyond. What is more, the two Heads of State expressly stipulated extended deterrence which includes the nuclear umbrella, thereby reaffirming Washington's strong defense commitment to Korea.

Economically, the two allies agreed to co-operate further to advance the Korea-US free trade agreement (KORUS FTA). Furthermore they sought to promote co-operation in cutting-edge science and technology, such as low-carbon green growth, civil space co-operation and the peaceful uses of nuclear energy. Lastly, the two countries pledged to continue to place a priority on proven bilateral forums such as the Security Consultative Meeting and the Strategic Consultation for Allied Partnership as mechanisms for enhancing strategic co-operation and achieving common alliance goals.

Following the G20 meeting in Seoul, on 19 November 2009 a South Korea-US summit was held with the President Obama and President Lee Myung-bak reaching agreement on a wide array of issues.¹¹ The most significant part of the summit was that the two leaders gave a concrete shape to the Joint Vision adopted in June and thus agreed to develop the Korea-US relationship into a strategic alliance for the 21st century.

The two allies agreed to implement jointly Korea's "grand bargain" initiative as a means of resolving the North Korean nuclear issue. President Obama announced the date of special representative Stephen Bosworth's visit to North Korea in Seoul, thereby reaffirming the solidity of the Korea-US alliance. In addition, the two countries agreed to hold a meeting of the Korean defense and foreign ministers and the US secretaries of defense and state in 2010 to discuss in detail the future vision for the Korea-US alliance.

While noting that the Korea-US free trade agreement (KORUS FTA) would strengthen the US-South Korea Relations economically and strategically,

¹¹ 'Remarks by President Barack Obama and President Lee Myung-Bak of Republic of Korea in Joint Press Conference' (19 November 2009) available online: <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-and-president-lee-myung-bak-republic-korea-joint-pre> (accessed 31 March 2011).

President Obama pointed out that the prevailing view in Washington on trade imbalances between the United States and Asia was a hurdle to the ratification of the trade accord. President Lee Myung-bak responded that Korea and the United States were trying to strike a trade balance and that the KORUS FTA did not disadvantage the United States.

The summit was significant for four reasons. First, the two leaders reaffirmed their shared principles and understanding vis-a-vis the North Korean nuclear threat, showing harmony in the two countries' strategic objectives regarding the North Korean nuclear problem. President Lee reported that both had reaffirmed their commitment to "the complete and verifiable denuclearization of North Korea".¹²

Second, the two heads of state noted their desire to break the pattern of rewarding North Korea for provoking a crisis. According to President Obama:

The thing I want to emphasize is that President Lee and I both agree on the need to break the pattern that has existed in the past in which North Korea behaves in a provocative fashion; it then is willing to return to talks; it talks for a while and then leaves the talks seeking further concessions, and there's never actually any progress on the core issues.¹³

Their comments show their intention to do away with the policy of swinging back and forth between negotiation and compensation.

Third, with respect to the KORUS FTA, President Obama stated his positive view on the ratification of the FTA noting that it "holds out the promise of serving our mutual interests". He continued:

I am a strong believer that both countries can benefit from expanding our trade ties. And so I have told President Lee and his team that I am committed to seeing the two countries work together to move this agreement forward. There are still issues that are being discussed and worked on and we have put our teams in place to make sure that we are covering all the issues that might be a barrier to final ratification of the agreement.

Hence, the US and Korean presidents had a shared understanding of the economic benefits that the KORUS FTA would bring, as well as the agreement's strategic importance.

Lastly, the two presidents assessed that the transfer of wartime operational control (OPCON), scheduled for 2012, was proceeding smoothly, in accordance with the strategic transfer plan agreed upon by the two sides. They

¹² Ibid.

¹³ Ibid.

agreed to check and evaluate the North Korean threat periodically and review and reinforce the OPCON strategic transfer plan; leaving the door open for the two countries to revisit the OPCON transfer issue in the future.

South Korea's Current Policy

South Korea as a middle power considers its relationship with the United States very significant compared to China or Japan. There are several reasons for this. First, the United States has been a robust partner for South Korea during the entire Cold War period. Through its partnership with the United States, South Korea achieved economic development and democratisation, along with security guarantee vis-a-vis North Korea. Second, South Korea has no negatives in its historical relationship with the United States compared to its long history of invasion and victimisation by neighbouring China and Japan. This historical legacy has also left ongoing territory disputes with China and Japan.

Given these rationales, South Korea should strive to create a more refined and developed relationship with the United States. In doing so, South Korea should take into account three important policy considerations.

First, South Korea should aim to maintain a strategically favorable position in North East Asia. Early in its term the Obama government attempted to form a US-China-Japan trilateral forum to manage issues in East Asia. Even though this attempt failed due to China's negative response, this should encourage South Korea to work positively to be a more strategic regional power.

The situation in Asia remains volatile: the US-China relationship is not positive, while the US-Japan relationship shows some level of friction. This leaves South Korea as the most intimate partner of the United States in the region. South Korea is enjoying many positive results of this such as hosting the G20 summit meeting in 2010 and the 2nd Nuclear Security Summit in 2012.

Second, South Korea should continue to pursue congressional approval of the KORUS FTA.¹⁴ South Korea's free trade agreement initiative is not limited to the United States but also includes the EU, Australia, China and Japan. Among these the KORUS FTA is the most important as it could buttress the entire relationship between the two countries.

Lastly, the US and South Korea should co-operate on issues relevant to the North Korean situation. Throughout the six-party process, the US and South Korea (and possibly Japan) have been working as good partners in negotiating with North Korea and the other six-party members (China and Russia). The

¹⁴ For the text and status of the KORUS FTA, see <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta> (accessed 31 March 2011).

reaction to the sinking of the *Cheonan* in May 2010¹⁵ also proves that there is good co-operation between the US and Korea. As long as North Korea remains a rogue state, the co-operation between the United States and Korea will remain pivotal in this area.

¹⁵ 'Statement by Press Secretary on the Republic of Korea Navy ship the Cheonan' (19 May 2010) available online: <http://www.whitehouse.gov/the-press-office/statement-press-secretary-republic-korea-navy-ship-cheonan> (accessed 31 March 2011).

The New Century of Emerging Powers and South Africa's Response



*Mzukisi Qobo**

In the past two decades or so there has been an accelerated shift in global power structures, evident in the spheres of production, trade and finance. Some of the characteristic features of this development include the relative decline in the power of the US and other traditional powers, as well as in the emergence of a new bloc comprising Brazil, Russia, India and China (BRIC). The BRIC countries are generally seen as the new frontier of global growth in the next several decades.

It is important to underline the fact that this did not simply emerge when Jim O'Neill from Goldman Sachs announced the BRIC trend; this is a phenomenon that has been evolving over time and is reflective of the constant nature of change. Such continual change includes change in the global structures of production, trade and finance. A crucial catalyst in the rise of the BRIC can certainly be traced to the domestic economic reforms undertaken by some of these countries in the late 1970s and early 1990s.

These reforms have been characterised by the role given to the private sector as an important pillar of economic development, the outward orientation in trade policies and the emergence of new commercial actors with global reach in emerging powers. Long before Goldman Sachs published its *Dreaming with the BRICs* Report in 2003¹, the tectonic shifts in global power and economic structures were already in motion.

As early as 1993, the US Department of Commerce under the leadership of Ronald H. Brown and Jeffrey Garten in the Clinton Administration identified a group of countries that were part of the developing world but considered to have the potential to rise in the international system. The officials at the Department of Commerce asked a simple question: 'Where will the US's geopolitical interests lie in the future?' The simple response was that these no longer lay strictly in Europe or Japan, but in 'Big Emerging Markets'. The

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¹ Goldman Sachs, *Dreaming with BRICs: The Path to 2050*, Global Economics Paper No. 99, October, 2003; available online: <http://www2.goldmansachs.com/ideas/brics/brics-dream.html> (accessed 25 March 2011).

outcomes of this exercise are packaged in a book that Jeffrey Garten titled *The Big Ten*.² This process provided clear indicators of the future emerging powers.

This analysis was underpinned by a rigorous exercise that included detailed visits to a number of promising countries in the developing world. Countries with large populations, resource bases and markets, those that were powerhouses in their regions, those with the world's fastest growing middle-classes and expanding markets, and those moving higher up in the global power hierarchy were particularly targeted.

Ten countries made the cut: Mexico, South Korea, South Africa, Argentina, Indonesia, India, China, Poland, Turkey and Brazil. Some of the features that this assessment highlighted were more or less similar to those drawn up by Goldman Sachs ten years later.

It was only later that Goldman Sachs published its report, *Dreaming with the BRICs*, which popularised the view that countries such as Brazil, Russia, India and China (BRIC) would surpass the G7 in economic growth and GDP per capita; becoming become giant economies in the future.³ The report predicted that by 2040 (later revised to 2030) the combined economies of these four emerging powers could eclipse the combined economies of the G7 bloc (UK, Germany, Italy, France, US, Japan and Canada).

Some accounts suggest that the top seven developing countries already collectively make up about 75 percent of the G7 of industrialised nations on a purchasing power parity basis.⁴ A number of other research papers by Goldman Sachs followed either to modify the earlier studies or to buttress results.

The *Next 11 Report*, published in 2007 added yet more countries, but focused on those that had demographic advantages, including Indonesia, Vietnam, Mexico, Egypt and Nigeria as future economies likely to show growth spurts.⁵ South Africa does not feature in any of the Goldman Sachs results. There are various other publications that help in tracing developments in emerging powers, including the annual OECD Economic Surveys; Global McKinsey Institute Surveys and the annual *World Bank Doing Business Report*.

² Jeffrey Garten, *The big ten: The big emerging markets and how they will change our lives* (New York: Basic Books, 1997).

³ Goldman Sachs, *Dreaming with BRICs: The Path to 2050*, Global Economics Paper No. 99, October, 2003; available online: <http://www2.goldmansachs.com/ideas/brics/brics-dream.html> (accessed 25 March 2011).

⁴ Peter Marber, *Seeing the Elephant* (New York: Wiley, 2009).

⁵ Goldman Sachs, 'The N-11: More Than an Acronym' (28 March 2007), Global Economics Paper No. 153, available online: <http://www2.goldmansachs.com/ideas/global-economic-outlook/n-11-acronym-doc.pdf> (accessed 31 March 2011).

Both the UK foreign policy priorities unveiled by the Foreign Secretary William Hague⁶ and the US National Security Strategy⁷ provide very strong reference to emerging powers and the need to work closely with these nations to ensure greater cooperation and stability in the global system. It is worth quoting the US National Security Strategy to demonstrate the extent to which emerging powers are central to major countries' foreign policies:

We are working to build deeper and more effective partnership with other key countries of influence including China, India and Russia, as well as increasingly influential nations such as Brazil, South Africa and Indonesia so that we can cooperate on issues of bilateral and global concern, with the recognition that power in an interconnected world is no longer a zero-sum game. We are expanding our outreach to emerging nations, particularly those that can be models of regional success and stability, from the Americas, to Africa, to Southeast Asia.⁸

A recent publication by two Harvard-based business leadership experts, Tarun Khanna and Krishna Palepu,⁹ undertakes an extensive survey of emerging markets, looking at some of the constraints and opportunities for commerce, as well as the growing boldness of new global actors from these markets.

The scope for examining emerging powers is vast. These countries have taken the world by storm and attract a great deal of interest in how they behave in their own regions. This attention surrounds issues such as what domestic forces drive their renewed confidence on the global stage, the extent to which they are prepared to shoulder global responsibilities on issues related to security (limiting terrorism and nuclear proliferation), energy security, climate change and global financial and economic stability. Another consideration is their commercial activism in Africa, in particular the implications of this for governance, resource management, and sustainable development.

This paper does not dwell on all the issues pertaining to emerging powers, but merely reflects on some of South Africa's responses to the reality of emerging powers in its own region. It is thus divided into three sections. The first discusses South Africa's foreign policy thrust, stressing its normative commitments and African focus. The second looks at South Africa's South-South strategy, the trilateral partnership between India, Brazil and South Africa known as IBSA, as well as alluding to some of the risks posed by the

⁶ See for example William Hague, 'Britain's Foreign Policy in a Networked World' (1 July 2010) available online: <http://www.fco.gov.uk/en/news/latest-news/?view=Speech&id=22472881> (accessed 31 March 2011).

⁷ *US National Security Strategy*, (Washington: White House, May 2010).

⁸ *Ibid.*, p. 3.

⁹ Tarun. Khanna and Krishna G. Palepu, *Winning in Emerging Markets: A Road Map for Strategy and Execution*, (Boston, Massachusetts: Harvard Business Press, 2010).

BRIC Forum. While the third section casts a critical spotlight on a number of unknowns about the BRIC countries as well as potential dangers. In particular this section focuses on BRIC countries' global responsibilities, norms pursued by BRIC countries and how BRIC countries might contribute towards development. The final section concludes with some tentative observations on the future.

South Africa's Foreign Policy Thrust

Since 1994, South Africa has sought to integrate into the global economy in ways that aimed at benefitting Africa, and the country has at various times acted as a bridge builder between the global North and South. Since the mid-1990s, the African Renaissance, as later expressed in the New Partnership for Africa's Development (NEPAD), became the centrepiece of its foreign policy.

In later years, during President Mbeki's second term of office, this was translated into what became known as the 'African Agenda' to emphasise Africa's pre-eminence in South Africa's foreign policy calculation. Notwithstanding its own domestic constraints of poverty and unemployment, South Africa is acutely aware of the expectations for it to play a proactive role in contributing to the development of its immediate region, and to play a constructive role in Africa's prosperity. As Alden and Le Pere argue, 'South Africa's seminal role in African affairs and, increasingly, as a vocal advocate on behalf of developing countries on the broader international stage, has ensured that it is seen as a key player in the emergent post-Cold War system'.¹⁰

The reality that South Africa's destiny is inextricably intertwined with that of the region remains the conscience of South Africa's foreign policy. This African orientation has earned South Africa legitimacy and stature in the global community in general, and in multilateral institutions in particular. Its location within the African continent can only be seen as an advantage as it affords South Africa pulling power in bilateral North-South and multilateral economic engagement.

Since 1994 South Africa's foreign policy has acquired a high level of sophistication. It has, as Adebayo Adedeji points out:

... moved from a role of domineering hegemony to that one of multilateral partnership in its relations with other Southern African countries ... has been fully and dynamically reintegrated into the Southern African region. It has been playing a positive role in the

¹⁰ Chris Alden and Garth Le Pere, 'South Africa's Post-Apartheid Foreign Policy: From reconciliation to revival?' *Adelphi Paper*, (The Hague: Institute for Security Studies, 2003), p. 362.

Southern African Customs Union (SACU) as well as the Southern African Development Community (SADC)¹¹

As such, Southern Africa and Africa are pre-eminent in South Africa's foreign policy. The thrust is mainly on development, stressing South Africa's role in peace-building and post-conflict reconstruction, infrastructure development via South Africa's development finance institutions such as the Development Bank of Southern Africa (DBSA) and deployment of the resources of its Industrial Development Cooperation in leading a wave of investment in the African continent.

South Africa: Emerging Power Status and South-South Strategy

There is no doubting the importance of emerging powers in South Africa's foreign policy orientation. More menacing for South Africa is the growing encroachment of emerging powers into the African continent; an issue discussed later in the paper. The core of South Africa's foreign policy is largely normative and with very weak commercial edges, especially given the disconnect between big business in South Africa and government.

Even in its initial approach to creating partnerships with emerging powers South Africa laid stress on issues of democracy, human rights and global governance reform to enable a space for a development-oriented agenda to emerge. In the mid-1990s South Africa made some efforts to constitute a group of like-minded and influential countries into what it then called the G-South, meant to rival the G7. Countries that were earmarked for this initiative included Nigeria, Egypt, India and Brazil. There was an early recognition in South Africa of the power shifts in the global system.

At the time, the extent of this power shift was not fully grasped. In large measure, the thinking about emerging powers drew force from history; the fact that most of these countries were for many years on the margins of the global system and contesting for a space to assert their voice and interests. Some countries like India were leading champions of the non-aligned movement, which was a powerful force promoting decolonisation and reduced dependence on the West. The South-South agenda that was to emerge in the mid-1990s could be regarded as a continuation of the Cold War era solidarity among developing countries, albeit under different circumstances dictated by the forces of globalisation.

¹¹ Adebay Adedeji, 'South Africa and African Political Economy: Looking Inside from the Outside', in Adekeye Adebajo, Adebayo Adedeji & Chris Landsberg (eds), *South Africa in Africa: The Post-Apartheid Era* (KwaZulu-Natal: University of KwaZulu-Natal Press, 2007), p. 59.

Nonetheless, South Africa constructed its approach towards building stronger relations with countries of the South with a view to balance the preponderance of the West in global governance processes, and to assert a normative agenda that privileged the interests of developing countries. This impulse was evident, among others, in South Africa's positions in the World Trade Organisation (WTO) and other standard setting processes such as the World Intellectual Property Organisation (WIPO), which was vocal in pushing for a 'developmental agenda', often working closely with countries such as Brazil and India. These collaborations have acted to amplify the voice and elevate the interests of developing countries in multilateral processes.

The natural culmination of this was the IBSA mechanism, established between India, Brazil and South Africa with the stated intention of pursuing the reform of global governance with a particular focus on areas such as the United Nations Security Council (UNSC), multilateral trade and the Bretton Woods Institutions. IBSA countries also committed to cooperate on issues related to disarmament and nuclear non-proliferation. It is an agenda that, while at times vaguely defined beyond simply increasing the space for a voice from the South and securing a larger share of the voting quotas in the World Bank and IMF, sustains alliances between these countries.

Over and above issues related to the reform of the global governance agenda, the three countries forming IBSA have structured important collaborations in concrete areas related to defence, education, health, science and technology, tourism, transport and trade and investment among others. Since 2006 these countries began to catapult their relationship to the Heads of State/Government level, and convened annual summits to accelerate the IBSA agenda. The business community and civil society from these three countries have caught on quite quickly, arranging their own IBSA side events in a way that complements the inter-state interactions.

The interests of business actors lie in deepening trade and investment ties, while civil society has the urge to encourage people-to-people interactions, cultural exchanges and the sharing of views and ideas. There is even an academic network component to IBSA to foster intellectual debate touching on broader themes mainly related to global governance and ideas underpinning the emerging global system.

One powerful area of like-mindedness is in the normative commitments of these three countries to issues of democracy and human rights. This agenda features prominently in various declarations made at the conclusion of IBSA Summits. The civil society component is an important signifier of how embedded democratic norms among these countries solidifies their ties.

Further, South Africa and its partners in the Southern African Customs Union (SACU) have concluded a preferential trade agreement with Brazil-led MERCOSUR. The South Africa-led SACU is currently exploring a preferential trade agreement with India which, when signed, could be melded into the MERCOSUR deal to complete a trilateral trade pact.

Given the shallowness of preferential trading arrangements compared to full Free Trade Agreements (FTAs), this IBSA group still lacks economic gravity, thus opening up the possibility of the inclusion of China in the future. This will raise problems in respect to China's normative fit, something that already reveals the potential dangers that could be posed by emerging powers down the line. This also raises possibilities that in the future commercial considerations could trump normative issues.

Indeed, in recent times, a new development largely promoted by Russia has emerged and poses a serious threat to the future of the IBSA bloc. This is the newly created Brazil-Russia-India-China (BRIC) Forum, inaugurated at Yekaterinburg, Russia in June 2009. South Africa was not invited to participate in this group, but has since been pushing hard for membership. The main focus of this group is not normative given its disparate character and does not propound with coherent ideas.

What appears to be at the heart of the BRIC Forum's agenda is the creation of a platform that could counter-balance US leadership in the global system by pushing for an alternative reserve currency. Further, these countries are characterised by some form of strong nationalism, largely resource nationalism, with Russia's economy (outside of the 25 percent export share made up by Europe) also dependent on buoyant energy demand from China and India.

Whereas China has stamped its imprimatur on global manufacturing supply chains, and India a major IT and services economy, Russia sees itself as an energy superpower with influence on global energy markets. While China's main concern is security of supply of vital energy resources, Russia's concern is security of demand. This complex interdependence does, in some ways, explain the rationale for the BRIC Forum.

Another common thread binding these countries is the aim to evolve common commercial diplomacy strategies in respect to developing oil pipelines and refineries as well as mineral extraction. Commercial interests hold the BRIC Forum together. This is also a reflection of the growing emphasis on commercial diplomacy as an essential component of foreign policies of these emerging powers.

Although two of the BRIC Forum members – Brazil and India – are also IBSA members, they are unlikely to be too comfortable with the perceived role of South Africa as a gatekeeper in Africa. They may respect South Africa's foreign policy credentials, however, they do not think highly of it as a major commercial actor on the global stage. Paradoxically, they are apprehensive about South Africa as a potential competitor on the African continent.

BRIC Unknowns

There are at least three unknowns and one puzzle about the BRIC countries. The first unknown is the level of responsibility these countries are prepared to assume to sustain global interdependence on the basis of liberal ideas of opening the world economy and dealing with the critical challenges of climate change and sustainability while pursuing growth and development strategies at a domestic level.

The second unknown (related to the above), is what kind of norms the BRIC countries will pursue. The Post-World War II period saw the US preside over the creation of a slew of multilateral institutions. Following the Bretton Woods Agreement on monetary and financial coordination, institutions such as the World Bank, the International Monetary Fund, the International Court of Justice and the General Agreement on Trade and Tariffs (GATT) were established.¹²

This raises a question: what unique institutional and normative contribution are the BRIC countries hoping to bring? The evidence so far is that they are content with the *status quo*, and are unlikely to change the global agenda. Having a voice in decision-making – that is, in decorating the house rather than overhauling its foundations – seems sufficient for these countries. There are no distinctive values they are proposing. It needs emphasising that the BRIC countries are a motley crew that do not necessarily cohere on norms. Understanding domestic level dynamics may offer insights into the kind of standpoints these countries may assume in global governance deliberations in the future.

Political thought and tradition at the domestic level in some of the BRIC countries, in particular China and Russia, does not suggest an urge for transformative possibilities in the sense of pushing for the democratisation of the market, deepening of democracy and the empowerment of the individual and civil society.¹³ The prevailing schema suggests that the individual and any collective outside of the state is small, and the political class supreme. We are yet to see if these countries could be agents of global transformation in a manner that expands development possibilities for humanity.

Although the Western powers have not always been consistent in living out their values, in particular in their foreign policies in the context of Cold War tensions or expressed in the behaviour of some of their corporate entities in parts of Africa and the Middle East, the international institutional architecture that Western powers bequeathed helped sustain peace during the post-War era. They also helped create a rules-based framework, albeit under circumstance of power imbalance. Regional institutions such as the European

¹² Marber, op. cit. (2009) p. 5.

¹³ See: Roberto Mangabeira Unger, *The Left Alternative*, (London: Verso, 2009), p. 152.

Union and multilateral entities such as the WTO are an offshoot of a normative commitment to foster interdependence and promote peace.

The third unknown about the emerging powers is the extent to which the new powers will expand the possibilities for redressing economic imbalances between the more developed and the less developed members of the global community given that they are no longer strictly-speaking 'developing' countries in the sense used in the Cold War or post-colonial eras. It could well be that the new frontier of tension may lie between the BRIC and African countries as a result of perceived inequalities.

The puzzle the BRIC countries pose relates to the kind of economic system and commercial norms prevalent in these countries. One of the key instruments in structuring commercial diplomacy in the BRIC is the support offered by the state to state-owned entities and a strong drive to promote public wealth and public investment. In some of the BRIC countries there is a centrally driven political assertion over the commanding heights of the economy.¹⁴

Tools such as national oil and gas corporations, other state-owned enterprises, privately owned national champions and sovereign wealth funds constitute the core of commercial diplomacy in BRIC countries. The objectives are clear: to gain global political clout, ensure global competitiveness of national champions or state-owned companies, generate resources to modernise their economies, to create jobs and reduce poverty so as to forestall potential social tensions in the future. This has implications for the extent of political freedom and real space for private entrepreneurship.

While not all of the BRIC countries exhibit the characteristics of state-directed investment, there is a degree of government support towards national private champions which are companies that are in private hands but benefit from a close relationship with the state. As such, state-capitalism plays a powerful role in bolstering political authority.

Countries such as Russia and China lack democratic space and a liberal economic environment. Freedom as a value is indivisible: where it is absent at the political level it is likely to be absent or constrained in the economy. Instead of individuals and voluntary associations having free play and expressing the spirit of enterprise or charity, major conglomerates or state-supported groups dominate the economic space or the state becomes the only welfare provider. The state, rather than individuals, reigns supreme as an entrepreneur. In such circumstances boundaries for democratising markets are rigid.

Given South Africa's deep commitment to political liberalism, a human rights culture, a liberal business climate and regulatory transparency it is clear that there are clashes of values with some of the BRIC countries. There are no easy answers to such tensions but South Africa needs to reflect on this question

¹⁴ This is discussed extensively in Ian Bremmer, *End of the Free Market: Who wins the war between states and corporations?* (New York: Penguin, 2010).

and be clear on the boundaries of its relationship with emerging powers. This also forces South Africa to ponder the significance of its normative character *vis-à-vis* issues related to economic or commercial diplomacy, as well as in agreeing upon terms of engagement with countries that may not share its values. Here the question is: how does South Africa negotiate these differences while maintaining its foreign policy identity?

Conclusion

South Africa needs to make a clear-eyed assessment of these developments in the global political and commercial landscape and ascertain how it seeks to prosecute its own interests in this complex and fluid world. One area that requires strong attention is the African continent. South Africa has played a unique role in contributing towards the continent's development. It should continue to build on this in tandem with developing a clearly articulated South-South strategy that takes shape primarily from the normative standpoint, yet with a clear commercial complement.

To do so South Africa does not necessarily need to work through the BRIC Forum. Instead it could champion Africa's development and be at the forefront of generating alternatives for Africa's future as it has done when it led efforts to launch the New Partnership for Africa's Development (NEPAD). It also needs to tie its Africa agenda closely to its IBSA strategy. In the future, South Africa may also need to push for IBSA's expansion to include pivotal states in Africa, as well as work through selective trilateral engagements that include second tier emerging powers as well as some of the established powers that South Africa has forged strong relations with in the past. Such trilateral cooperation should have Africa's core interests at heart and be mutually beneficial.

Importantly, South Africa's external engagement needs to be supported by national economic prosperity. The welfare and confidence of its people, derived from improved living conditions and full participation in economic activity, is what will lend weight to South Africa's global role. For a long time South Africa has punched above its weight through a combination of international goodwill and its consistent assertion of normative issues. As a global actor, not underpinned by hard infrastructure in the form of a broad-based and diversified economy, and with socially inclusive growth, this will not be sustainable in the long term.

Brazil's New Role in International Politics

Renato G. Flôres Jr.* and Denise Gregory**

It is a pity that the reader cannot share with us the pleasure of eating this wonderful *satay*. We can have this juicy appetiser, made of top poultry meat, in different oriental styles, and we are in... São Paulo, the industrial hub of Brazil. To understand Brazil's international role it is necessary first to grasp the domestic status of the country and its economy. As any student of international relations knows, foreign policy can only succeed if the domestic conditions that support it are in place.

For sixteen years now, Brazil has experienced something it needed badly: stability and continuity in at least a handful of basic policies. Inflation was brought under control; macro-economic governance acquired coherence and consistency, and most importantly, followed a clear, sustained line. Democracy is at work, as best as possible, and concern for the huge proportion of the excluded poor has been translated into effective wealth transfer measures. Poverty levels have decreased from 46 percent in 1990 to 24% percent in 2009. The most important governmental program is *Bolsa-Familia*, which has transferred cash income to 12.8 million families by the end of 2010. The families have to meet certain conditions, including maintaining children's school attendance. The Brazilian economy also benefited from the world commodities boom, as well as new discoveries of abundant natural resources, particularly oil reserves.

Brazil has taken a more assertive role in both the international and regional agendas and assumed increasing leverage in special topics of global impact, such as renewable energy. The country possesses a remarkable variety of natural resources; one of the largest potable water reservoirs in the world, immense fields of rich arable lands, a large and well positioned coast line and mineral reserves, among other natural attributes. It has a clean energy matrix (over 85 percent of the electrical energy in Brazil comes from hydropower); it is one of the world's top producers of ethanol for fuels, a major oil producer

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and has prospectively huge volumes of offshore oil and gas. Brazil has consolidated a highly competitive export sector, with diversified trade both in terms of products and markets. It has recently reached its investment grade and holds foreign reserves above US\$300 billion. It is the world's seventh largest economy in terms of Purchasing Power Parity (PPP), with a GDP of around US\$ 3.6 trillion. Brazil has long operated according to market economic rules and institutions.

Brazil has historically been a recipient of foreign direct investment (FDI), but globalisation has strongly promoted the internationalisation of Brazilian activities, notably in the form of its multinational companies, many of them appearing in the lists of global companies, such as Petrobras and Vale. Brazil reached FDI of US\$48.5 billion in 2010, fourth behind the United States, China and India.

This does not mean that there have been no difficulties. Unstable periods did occur, such as before President Lula da Silva's first electoral victory; and not all social and economic problems have been solved yet. The so-called 'Brazil cost', itself a governance issue, will continue to thwart efforts to modernise the economy. Brazil still faces critical obstacles such as poor infrastructure and a 'logistical bottleneck'. Other serious concerns are related to social issues and problems of public infrastructure – above all in education, and its dire impact on our specialised human resources. In addition, a complex taxation system and public bureaucracy burdens the private sector. Brazil has to invest heavily in logistical infrastructure, tax and labour reforms and, above all, in restructuring the educational system and the continuing reduction of income inequality.

Given a bit of luck from the international scenario the leadership qualities of President Lula have allowed the country to flourish. The new dynamics can easily be observed in places like busy regional airports during early morning hours or thriving locations like the fully international and highly diversified capital of the São Paulo state.

Self-confident and in good shape, it is only natural that Brazil has assumed a more conspicuous and active profile in its foreign affairs. Contrary to some analysts, rather than seeing great ruptures between the eras of Presidents Cardoso and Lula, we see changes in emphasis, partially due to the personalities of both leaders, but also partially due to change both on the domestic and external fronts.

For example, on the contentious point of US-Brazilian relations the issue is more complex than viewing each of the presidential periods as black or white. President Cardoso always held a strong position in negotiations on the Free Trade Area of the Americas, supporting views that were clearly opposed by the US. It is superficial, if not debatable, to say that President Lula's policy buried a negotiation that had indeed been made impossible previously. If Fernando Cardoso had close relations with President Bill Clinton, Lula da Silva had at least as close and as good one with President George Bush Jr. Perhaps Brazil

appears more autonomous than in the past, but a deeper analysis would show that nearly all the same ties and the same suspicions are alive and well.

However, Brazil has become more concerned with its own security. The significant discoveries of natural resources reserves, the situation in South American (which, though broadly positive, always includes areas which demand great attention such as the Amazon region) and the tectonic shifts in the distribution of world power have heightened concerns that, if already present, gained a more prominent voice. Though always a peaceful state and a peace-maker as well, Brazil has become more assertive in these and related matters. We think that many of Brazil's recent international moves – some successful, others unsuccessful until now, such as the pledge to reform the UN Security Council – can be traced back to a renewed awareness of Brazil's actual and potential role in world affairs, and its extraordinary natural resources endowments. The search for new allies, the establishment of links with regions outside the Americas – actions sometimes wrongly called a “South-South policy” – have much to do with this.

It is also within this broad framework that Brazil's trade policy should be analysed. Unfortunately, in spite of much debate and interesting opinion surveys on the matter, there is no serious quantitative evaluation of the actual effectiveness of this policy during the past ten years.

Brazil continued to be a constructive player in World Trade Organization (WTO) negotiations, and irrespective of luck, its key role in the creation and performance of an important group of agriculture producers will remain a landmark in the history of coalitions within the WTO.¹ The regional shifts in Brazil's trade profile, if surely demanding better analyses, undoubtedly acted favourably during the financial crisis, when shocks were mostly transmitted to the country via trade.

Brazil's diplomatic activism can be attested by its ability to build coalitions. For example, the nation sought an alliance with Germany, Japan and India in an effort toward the reform of the UN Charter and the enlargement of the UN Security Council. Relations among the emerging powers have deepened, both bilaterally and within regional and international institutions. There has been an unprecedented intensification of cooperation, trade and investment flows. An increasing share of global trade is now conducted among developing countries. China has become Brazil's main trading partner while traditional partners – the United States, (Brazil's primary partner for nearly

¹ The WTO G20 led by Brazil, which needs to be distinguished from G20 for financial stability, was established at the WTO Doha Round Cancun Ministerial Meeting in September 2003. The Group has been consolidated as an essential and recognized speaker in agricultural negotiations, representing almost 60 percent of the world population and 26 percent of the world's agricultural exports.

80 years) Europe and Japan – all lost relative importance as destinations for Brazilian exports.

A parallel policy of forging alliances has emerged, seen through the creation of forums such as BRIC (Brazil, Russia, India and China), IBSA² (India, Brazil, and South Africa) and BASIC (Brazil, South Africa, India and China) blocs, the latter emerging during the 2009 Copenhagen Climate Conference. Brazil has exercised its diplomacy effectively. Its capacity to take on key global governance issues, to articulate common interests with other emerging countries and give direction to the international agenda has stood out (most notably, in the G20 Financial Forum at the leaders level). All actions seem to be aligned with the new paradigms of Brazil's foreign policy: solidarity and reciprocity toward developing countries, mainly directed towards South American and African countries (particularly Portuguese speaking countries). In consonance with this, there has been a recent explosion of new embassies with 35 opened in the last seven years.

Brazil and other rising countries emerged from the recent economic and financial crisis with increased international representation, both in role and weight. It was the crisis that shook the Bretton Woods system and strengthened the perception that there existed a space for the emerging nations to coordinate efforts to reform international institutions like the World Bank or the IMF. The G20 has been transformed into a high-level economic forum, in a similar format to the G8, but with a broader scope and agenda, in order to build consensus and guide countries' positions in multilateral organisations.

The BRIC countries have had a modest track record of working together so far. However, the alliance has been institutionalised: the second BRIC Conference was held in Brasilia, Brazil, in April 2010. A collective voice added value and the countries' joint position became more influential; as can be seen in the joint statement at the G20 meeting in London pressing for reforms to the IMF's structure.

Brazil has also become more vocal and persuasive in a regional context, playing an important mediating role in crisis management; for example, in Venezuela, Bolivia and Ecuador. Perhaps its most visible and increasingly recognised role is on state building issues, as in the case of Haiti. In order to work towards a permanent seat on the UN Security Council, Brazil has

² The India, Brazil and South Africa Dialogue Forum (IBSA) is a trilateral initiative aimed at strengthening South-South cooperation, promoting themes of mutual interest in the international agenda and increasing trade and investment opportunities among the three respective regions, with the purpose of alleviating poverty. These conversations began at the G8 Evian meeting in 2003, followed by trilateral consultations, and have been formalized by the Brasilia Declaration in June 2003. The 5th IBSA Summit took place in Brasilia in April 2010. The specific areas of cooperation are agriculture, climate change, culture, defence, education, energy, health, information society, science and technology, social development, trade and investment, tourism and transport.

increased its presence through peacekeeping missions, culminating in Brazil's leadership of the United Nations Stabilization Mission in Haiti (MINUSTAH), the first U.N. peacekeeping mission formed by a majority of Latin American troops and headed by a Brazilian general.

In sum, Brazil has expanded its global and regional interests and responsibilities a great deal. Former President Cardoso and President Lula have capitalised on Brazilian 'diplomatic GDP'. Lula recently made *Time Magazine's* list of the world's top influential leaders. In Brazil's recent election for the first time, international choices have become a matter of domestic debate. Dilma Rousseff, Lula's successor and first woman to become President, has a tremendous task ahead of her.

PART 3:
GLOBAL CHALLENGES

On Global Challenges



*Ambassador Wiryono Sastrohandoyo**

The countries represented in this volume – Australia, Brazil, South Korea, Indonesia and South Africa – like all other countries, require internal peace and stability as well as freedom from external threats to their national security in order to achieve economic growth and political development.

The attainment and maintenance of internal stability is essentially the responsibility of each country. Nevertheless, to some degree the internal situation in any country is always affected by the external environment.

The external environment, however, is not something that the individual country can create by itself. Peace, security and stability within the environment require the cooperation of other countries within bilateral, regional and global frameworks.

On a multilateral basis, such cooperation is carried out through international forums, institutions and arrangements. But even within these frameworks, there are barriers to full and perfect cooperation. The 2008-2009 Wall Street meltdown has demonstrated that it is usually in a crisis situation that nations are more willing to take bold initiatives that create effective and durable international institutions and arrangements.

Gravity Shift

The world today is in a situation of crisis because of a recent global economic downturn from which nations are just beginning to recover. Apart from this, there is another reality that defines the world situation today; the fact that the global centre of gravity is shifting across the Atlantic.

It is undeniable that the two most dynamic economies in the world today are China and India; that Japan, in spite of its malaise, remains the world's second largest economy and that there is a running debate on the robustness, adaptability and durability of the United States as an economic and political power in the face of the challenge of the emerging economic and political powers. In spite of this, it is reasonable to regard the United States as still the most powerful country in the world in terms of economic strength and military reach. It can no longer resolve global problems by itself as it did right after the Second World War, but neither can global problems be solved today without the involvement of the United States.

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It was from the second half of the 1940s until recent years that the United States was the unchallenged leader of the world – economically, politically and militarily. Both Europe and Japan were devastated by the Second World War but Europe was helped by the United States through the Marshall Plan and Japan, under US tutelage, resurrected itself through trade and consumer-oriented technology.

By the 1980s, Europe and Japan were very much back on their feet and China was opening itself to foreign investments. The death of China's long-time leader, Mao Zedong, in 1976 opened the floodgates of economic reform and as a result China launched itself into an era of tremendous and consistent economic growth. Meanwhile, South Korea, riding on the vigorous support of its government for its *chaebols* had already recovered from the rigours of the Korean War and was steadily growing as a trading and manufacturing economy.

Communism failed in the Soviet Union in the late 1980s, prompting the political pundit Francis Fukuyama to declare the end of history in 1996. By the 1990s, India's democracy was beginning to deliver on its promise of development and remains to this day a major economic power in Asia. In the light of these developments, Asia today is regarded as the most dynamic region in the world.

Given this situation, it becomes relevant to ask the question: how do the countries represented in this volume position themselves in relation to the rest of the world economically, politically and strategically? Thus the theme of this chapter: how do countries, particularly emerging countries, deal with such issues as energy, food security, climate change, nuclear proliferation and human security? And are there opportunities for greater collaboration?

When one speaks of collaboration among nations, the factor of diversity is regarded as a hindrance to nations working together for a common purpose. This is especially true in the Asian region: there is just too much diversity, not only of cultures, but also of political persuasions and economic interests. And so there is the basic question of whether emerging economies can work together and, if so, what can they do by way of collaboration in their respective regions and in the framework of international organisations like the G20.

Collaborate or Perish

Nations can and do work together when they perceive that their interests are at stake, especially when those stakes are urgent and high. The United Nations was conceptualised on the eve of the Second World War and saw the light of day during the final stages of the war. The Association of Southeast Asian Nations (ASEAN) was founded when South East Asia was in political turmoil and the founding nations realised that they had become economic backwaters, capable of correction through co-operation. The Group of Twenty (G20) was

elevated to summit level and became the world's premier decision-making forum on economic matters in the wake of the Wall Street meltdown and in the midst of the global financial and economic crisis that followed.

Unlike the Asian Crisis of 1997-98, the 2008 crisis started in the United States and spread like wildfire, its contagion sparing neither developed nor developing countries. Usually in earlier crises, the United States would come rushing to the rescue, similar to the US Cavalry in cowboy movies. But since the crisis started in the United States and first affected the major industrialised countries, the question was: who would come to the rescue?

Subsequent events showed that recovery from the crisis still required the involvement of the countries that form the Group of Eight (G8), the most industrialised countries in the world, but these countries alone could not have succeeded in leading the recovery. The giant emerging economies, two of which – China and India – are in Asia, along with the five economies represented in this volume, also had to play a key role to ensure that the recovery would take place.

The recovery has been real but it was to be slow and full of uncertainty. That means the highly industrialised countries and the emerging economies that led the recovery within the framework of the G20 process need to remain engaged with one another and remain faithful to their commitment to policy co-ordination.

It was at the height of the crisis that a group of emerging nations came to be widely recognised for the role that they could play in setting the agenda of the global economy; the so-called BRIC economies – Brazil, Russia, India and China. Together they form a subgroup within the G20. This situation raises the question of whether the BRIC economies can support the agendas of the non-BRIC emerging economies in the G20. It also raises interesting questions about Indonesia's cooperative choices.

It is obvious that Indonesia has more in common with middle powers like the ones represented in this volume. It is also traditionally linked with the Non-Aligned Movement (NAM) and the Organisation of the Islamic Conference (OIC) countries. In terms of population, Indonesia is 40 percent of ASEAN and has taken initiatives toward regional political integration and regional architecture building by proposing an expanded East Asia Summit that would include the United States and Russia. To maintain its stabilising leadership role in ASEAN, however, Indonesia must succeed in addressing internal imperatives such as governance reform, social stabilisation and inclusive economic growth.

While the G20 for the moment has decided to focus on its role as the world's premier forum for economic decision making, the idea persists that its role should be expanded in order to address issues of a political and security nature attendant to the relevant economic and social issues that it is now seized with. At any rate, within the G20 lies an opportunity occasioned by the multiple global crises – food security, energy security, climate change, nuclear

proliferation – and the fact that the most powerful nation in the world today, the United States, is led by a multilateralist president. This is an opportunity for the reconstruction of the global architecture for political and economic cooperation.

One lesson that can be taken from these crises is that no country can succeed alone. There has to be policy co-ordination among nations – both within and outside the G20. And all countries should work for reform of the international financial architecture. There has to be reform in the multilateral trade regime so that it supports development.

This means that the G20 must succeed as a decision-making body, as a solver of problems and as a source of collective leadership. It must succeed as a promoter of mutual trust and a common sense of destiny among nations.

Need for Adjustment

One of the challenges that has to be addressed in the post-crisis economic environment is the huge overcapacity that has saddled manufacturing companies in Asia and other regions in the face of the fall in consumer demand in Western markets. In the trading countries of Asia, there must be an adjustment made in their export-driven models of development. Failure to adjust would threaten their dynamic economies as the engines of global economic growth.

In this regard, Indonesia is fortunate: although its economy has never ceased striving for export growth, basically it is not an export driven economy. Indonesia's economy is both resource-based and population-based.

Indonesia's vast sum of natural resources makes it a resource-based economy. It is the epicentre of the world's palm oil industry. Its economic relations with China and India are based on, among others, its strong base in the palm oil and coal industries. It has an immense wealth of geothermal resources, coal bed methane, oil and gas and various minerals including gold, copper and nickel.

It is also significant that Indonesia is the world's fourth most populous country, with a population of 235 million. Considering that the Indonesian consumer has been established to be confident, the country's domestic market can cushion its economy from any drastic loss of demand for its exports. This is exactly what happened during the economic crisis of 2008.

It helps that other nations want Indonesia to succeed as a national economy and as a player in regional and international affairs. With about 40 percent of ASEAN's population Indonesia is crucial to the stability not only of South East Asia, but of the entire Asia-Pacific. It is also an important fact that the overwhelming majority of Indonesians are Muslims, making Indonesia the country with the world's largest Muslim population. There are more Muslims in Indonesia than in the entire Middle East. In a world threatened by international terrorism that is clearly linked to Muslim extremism, it is providential

that all but a few small circles of Indonesian Muslims are moderate and serve as a counterfoil to the encroachments of terrorism. As a frontline country in the global fight against terrorism, Indonesia has achieved considerable success, which is not to say that terrorists in Indonesia or anywhere else can no longer carry out bloody carnage whenever the authorities let down their guard. Hence, to the United States and to the rest of the Western world, Indonesia is an important ally in the war against terror.

While it is true that Indonesia was the third best performing economy in East Asia during the financial and economic crisis of 2008, it is not entirely free of socio-economic problems. Poverty is a stark reality in Indonesia, and most poverty-stricken Indonesians live in rural areas and are engaged in farming. That is why despite other competing priorities – such as reducing oil subsidies, ensuring sufficient supply of energy and maximizing fiscal revenues – the government of Indonesia has made agricultural development the centrepiece of its economic program. Agricultural productivity is the main thrust of national development.

Measure of Success

The true measure of a nation's economic success, however, may well be the rate of growth of its middle class – in which case, Indonesia is performing quite well. The average income per capita for the entire population was \$2,271 in 2008.¹ This represents an increase of more than three times since 2000. Also in 2008, some 23 million Indonesians earned around \$7,000, while another 23 million earned around \$3,500.² In all, there were more than 30 million people who belonged to the middle class, more than the entire population of Malaysia. Some 30 percent of the population or 69 million people earned around \$4,180 in 2008, more than the entire population of Thailand.³

If Indonesia's middle class is to continue growing, the country must have sufficient renewable and non-renewable sources of energy. By 2030, the world is projected to consume two-thirds more energy than it is consuming today, with developing countries replacing the industrialised world as the largest

¹ Antara, 'Indonesia's Per Capita Income up 24% in 2008', *National Portal Republic of Indonesia*, 18 February 2009. Available online: http://www.indonesia.go.id/en/index.php?option=com_content&task=view&id=7796&Itemid=701 (accessed 29 March 2011).

² C. Harinowo, 'Economic Growth: The rise of the Indonesian Middle Class', *The Jakarta Post*, 16 September 2008. Available online: <http://www.thejakartapost.com/news/2008/09/16/economic-growth-the-rise-indonesian-middle-class.html> (accessed 29 March 2011).

³ Ibid.

group of energy consumers.⁴ In this regard, the main challenge is how we guarantee energy availability and affordability for the requirements of development while preserving the environment.

In this era of heightened environmental awareness, decision makers need a strategy to secure energy resources to meet future energy demand. That means a judicious energy mix that in many cases, at least in the case of Indonesia, has to include nuclear energy. International concern over climate change and domestic concerns about energy security provide opportunities for renewable energy sources to increase their market share.

In relation to food security, Indonesia today is by and large self-sufficient, thanks to the emphasis that has been given to agricultural productivity. In recent years, Indonesia has consistently produced a rice surplus and is the world's third largest rice producer. The country's production exceeds consumption by around two million metric tons; a result of farm technology which is a legacy from the Green Revolution, the planting of high-yielding rice varieties and the ready availability of fertilisers. Food security in most countries has been closely associated with rice prices in the context of the world market. But in the case of Indonesia, it is a matter of strengthening domestic stockpiles from agricultural production.

Still, Indonesia confronts two major challenges with regard to food security. First is the need to restart rapid, pro-poor growth. The second is the "supermarket revolution" which is rapidly changing Indonesia's internal food marketing system. Within a decade, more than half of Indonesia's rice consumption is likely to be sold in supermarkets, thus transferring a supply management role to the private sector, one that has historically been a public sector activity.

At least Indonesia has some food security in the face of a worrisome global reality: the United Nations has warned that 36 countries, including China, are vulnerable to food emergencies, as stockpiles of grains such as rice have dropped to a 26-year low.⁵

The Climate Challenge

Indonesia may not be as vulnerable to food shortages but it certainly is vulnerable to climate change and to the irregular weather patterns that it causes. On a regular basis, Indonesia has suffered droughts and flash floods following

⁴ International Energy Agency, 'World Energy Outlook 2008 Fact Sheet: Global Energy Trends. Available online: http://www.worldenergyoutlook.org/docs/weo2008/fact_sheets_08.pdf (accessed 29 March 2011).

⁵ Glenys Sim, 'Rice Jumps to record, Corn near High as Demand Outpaced Supply' *Bloomberg* (3 April 2008) available at: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=asR_aM91jp_1

unusually heavy rainfall, putting at risk its wealth of biodiversity. The damage inflicted on agriculture, fisheries and forestry could eventually lead to loss of livelihood and new threats to food security.

Indonesia is therefore at the forefront of the global effort to fight climate change. In this effort, Indonesia has within its territory vast resources for attaining climate stability: its tropical forests and its marine resources.

These forests help regulate the water cycle while supporting soil formation, nutrient recycling and plant pollination, as well as biodiversity. They contribute immensely to climate stability by serving as terrestrial carbon sinks. They are also an important source of timber, firewood, fodder and other non-timber forest products.

But Indonesia is losing its forest resources at an unsustainable rate because of indiscriminate logging, forest fires and the conversion of forest land into palm oil plantations. Thus through deforestation and forest degradation, Indonesia has become one of the world's top three emitters of greenhouse gases. Emissions from forest fires are five times greater than those from non-forestry emissions. Emissions from the energy and industrial sectors are still relatively small but they are growing rapidly. There has also been a rapid degradation of Indonesia's marine resources, particularly its coral reefs.

The failure accurately to assess the long-term economic and financial value of forests has undermined efforts to conserve them. Individually, the financial, energy, food and climate crises are all serious issues. In combination, their impact could be catastrophic to the global economy. In the face of the recent global economic downturn, there is a growing clamour for an accelerated transformation of contemporary economies into low carbon, sustainable ones. This will require increased efficiency, new technologies and products as well as behavioural change.

In addressing the issue of climate change, Indonesia has become an advocate of the UN-REDD program (Reducing Emissions from Deforestation and Forest Degradation) and has gone into partnership with various countries, notably Australia and Norway in conserving and enhancing its forest resources. It has organised the tropical forest countries into the Forest Eleven, a group that promotes international cooperation in preserving and enhancing tropical forests.⁶ It has also organised the Coral Triangle Initiative, a six-nation group that works for the conservation and enhancement of marine and coastal resources, especially coral reefs.⁷

⁶ 'About Forest-Eleven (F-11)', 2007. Available online: <http://www.forest-eleven.or.id/index.php?kode=1> (accessed 29 March 2011).

⁷ Coral Triangle Initiative on Coral Reefs, Fisheries and Food Security, 'About CTI', 2007. Available online: <http://www.cti-secretariat.net/about-cti/about-cti> (accessed 29 March 2011).

Avoiding a Nuclear Holocaust

While the catastrophe of climate change can be addressed with adaptation and mitigation measures over a relatively long period, the catastrophe of a nuclear holocaust is instantaneous and it has the potential to wipe out life on earth as we know it. The chief instrument for preventing such a catastrophe is the Nuclear Non-Proliferation Treaty (NPT), often referred to as the “grand bargain” between the nuclear weapon powers and non-nuclear countries. The nuclear weapon powers agreed eventually to get rid of their nuclear weapons while the non-nuclear countries agreed not to acquire such weapons but retained the right to use nuclear energy for peaceful purposes.

Of course nuclear facilities, even those for peaceful purposes, must be rendered safe and secure. Materials that could be turned into nuclear weapons must not be allowed to get into the hands of non-state actors, including terrorists who would not hesitate to detonate a dirty nuclear bomb on a soft target.

Thus the NPT was built on three pillars: non-proliferation, disarmament and the peaceful use of nuclear energy. In 1995, the NPT Review Conference decided to extend the Treaty indefinitely, with greater accountability in future review conferences about its implementation. It further adopted a set of principles and objectives for nuclear non-proliferation and disarmament and adopted a resolution on the establishment of a nuclear weapon-free zone in the Middle East.

It is perhaps one of the great ironies of history that there is today no less danger of radioactive incineration than during the height of the Cold War many years ago. And the reason is that there are still some 23,000 nuclear warheads in existence.⁸

The failure to grasp the capability of nuclear weapons for destruction led to a suicidal arms race during the Cold War resulting in the Cuban missile crisis of 1962, where the world stood on the brink of a nuclear cataclysm. The international community is today called upon to inculcate in decision-makers, national governments and relevant intergovernmental organisations the sense that they do have a responsibility to take every appropriate action to make the world safe from nuclear devastation.

Today the cause of nuclear disarmament has a better chance of moving forward largely due to a major political change that took place in the United States in 2009: Barack Hussein Obama became President. As a student activist in 1983, he had said: “[The nuclear freeze movement] is at once a warning to us that the old solution of more weapons and again more weapons will no longer be accepted in a Europe that is already a powder keg waiting to go off;

⁸ Nuclear Age Peace Foundation, ‘Disarmament’, 2008. Available online: <http://www.wagingpeace.org/menu/issues/nuclear-weapons/index.htm#disarmament> (accessed 29 March 2011).

and it is an invitation to work towards a peace that is genuine, lasting and non-nuclear.”⁹

True to these words, very soon after he assumed office, President Obama announced that he would work for a nuclear weapons-free world and for the early ratification by the US Senate of the Comprehensive Test Ban Treaty, the corollary treaty to the NPT, which would ban the testing of nuclear weapons. Then on 8 April 2010, he and his Russian counterpart, President Medvedev, signed a new Strategic Arms Reduction Treaty (START) in Prague, by virtue of which the United States and Russia agreed to reduce their deployed nuclear weapons by about a third. The cuts were spelled out in a new treaty that would reduce the number of deployed nuclear weapons for each country to 1,550.

The United States now has about 2,200 deployed weapons while Russia has about 2,600. The Treaty was ratified by the US Senate and the Russian Parliament early in 2011. According to the Treaty, the “deployed weapons” include warheads on deployed intercontinental missiles and on long-range submarine-launched missiles. Each deployed bomber designed to carry nuclear weapons is to count as one warhead. The Treaty does not reduce tactical nuclear weapons and warheads held in reserve. The United States’ nuclear arsenal includes about 9,000 weapons.

The International Commission on Nuclear Non-proliferation and Disarmament (ICNND), an initiative of Australia and Japan, has reached a consensus on what needs to be done to pursue a strategy for getting to a world of zero nuclear weapons.

The ICNND suggests a first Minimization Phase with a Short-term Action Agenda until 2012; followed by a Medium-term Agenda until the end of the Minimization Phase by 2025. After that, an Elimination Phase would be launched, with no specific target year.¹⁰ The goal is simply to reduce the number of nuclear weapons to zero – no matter how long it takes.

It is anticipated that in the decades ahead there will be a rapid expansion of activities involving civilian nuclear energy, as one way to respond to climate change concerns. These will present some additional proliferation and security risks, particularly if accompanied by the construction of new national facilities for enrichment at the front end of the fuel cycle and reprocessing at the back end. This could result in a great deal more fissile materials becoming available for destructive purposes. In view of these risks, what the world needs today

⁹ Page van der Liden, ‘Winning the Nuclear PR War’, *Daily Kos*, 28 February 2010. Available online: <http://www.dailykos.com/story/2010/02/28/841552/-Winning-the-Nuclear-PR-War> (accessed 29 March 2011).

¹⁰ ‘Disarmament: A Two-Phase Strategy for Getting to Zero’, *Eliminating Nuclear Threats – Practical Agenda for Global Policymakers*, available at: <http://www.icnnd.org/reference/reports/ent/part-iii-7.html> (accessed 31 March 2011).

is a nuclear power industry that cannot be converted into a weapon-making enterprise.

The United Arab Emirates (UAE) is the first country to pledge that it won't exercise its right under the NPT to enrich uranium or reprocess plutonium to make its fuel. Surprisingly, the UAE pledge won the support of the US nuclear power industry, which stands to gain billions of dollars from selling nuclear technology and materials worldwide. It also merited the endorsement of non-proliferation experts, including former United Nations Chief Weapons Inspector, Hans Blix, who is now chairman of the Stockholm-based Weapons of Mass Destruction Commission.

The Trilogy

As to the issue of human security, Indonesians know only too well that it cannot be discussed in isolation. Indonesia's experience affirms that there is an undeniable interrelation between human rights, security and prosperity.

Indonesia may have the largest Muslim population in the world but it also has immense cultural diversity. It has also become in recent years a fully-fledged democracy and continues to fine-tune its political institutions. The government has adopted an economic strategy of inclusive economic growth that creates jobs and lifts people out of poverty. It has committed to not violating human rights in its fight against terrorism. The government continues to reform the military establishment while promoting freedom of the press and association and striving to overcome disintegrative forces through dialogue, reform and redress of legitimate grievances. On top of that Indonesia has to cope with natural disasters like earthquakes, tsunamis and the rigours of climate change. It is an enormous balancing act.

A state that does not respect human rights and does not uphold the rule of law cannot feel secure. Its legitimacy can be challenged by its own people, its programs are vulnerable to sabotage and it will be the target of criticism and scrutiny by the international community. In such a country the business community will not have the confidence to invest in the enterprises that support development and create jobs. People languishing under the poverty line will find life brutish and short and human rights will not mean much to them. Even without an authoritarian regime, a person can be deprived of the enjoyment of human rights by sheer poverty.

So a human rights agenda cannot wait until prosperity is achieved; the economy cannot wait upon a robust defence budget. Similarly, we cannot let human rights wait on strengthening the nation's security.

By giving priority to one aspect only, others are sacrificed. Hence, every government must have an integrated policy that covers all three aspects – human rights, security and prosperity – in a balanced and mutually reinforcing manner.

Balance is therefore the key to successful development and to the realisation of human potential at the personal, national, regional and global levels. And in this increasingly interconnected global economy, our countries need to work together. Through the G20 process, it is necessary to develop worldwide rules to govern international financial and economic interactions and to design a global architecture that will bring about a more balanced global pattern of growth: one that avoids the trap of unsustainable borrowing and is free from the threat of nuclear incineration.

Towards Strengthening the NPT Regime



*Soon-chun Lee**

It is widely recognised that we are now living in a globalised world. Global networks of transportation and communication enable dialogue and many other benefits.

That being said, globalisation is not always a blessing. In 2010 the Northern Hemisphere experienced a historic cold spell and unpredictable spring weather presumably due to climate change. Investors in Jakarta, Johannesburg, Seoul, Sao Paulo and Sydney are sighing over their losses in the stock markets due to an ever-spreading European financial crisis. Global challenges are various indeed and, range from political to economic to social issues, including such issues as energy, terrorism, piracy, refugees and nuclear proliferation.

This raises two important questions: first, is the international community dealing with these global challenges in an effective and collective manner; and second, how these issues can be addressed better, in particular, through co-operation among *so called* ‘middle powers’?

Action for Global Challenges: The Role of International Order and States

In modern history, the international community has developed a set of norms to govern global issues. This is usually called the ‘international order’ or ‘global regime’ in international relations. International order plays a role to prevent and minimise unnecessary disorder in the international community by presenting states with a guideline of behaviour on certain issues.

In this sense, it could be said that disorder in the international community is a by-product of an ineffective and malfunctioning international order. Disorder sometimes can transform into global challenges, depending on its seriousness and scale. From this perspective, the 2010 financial crisis hitting Southern European countries resulted from defects in the Washington Consensus governing international trade and finance, while a lack of international order is relevant to the poor management of climate change at present.

Certainly, international order is a contributing factor for the emergence of global challenges but is not the sole factor. The will and perception of states is

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no less important than international order in addressing global challenges. Two factors are important: remedies and readiness.

Comparing two global challenges – the financial crisis and climate change – it can be seen that remedies and readiness may not always align.

Elements of Global Actions: Readiness and Remedies

Global challenges	Financial Crisis	Climate Change
Remedies (Tools)	YES	YES
Readiness (Perception and Will)	YES	NO

Remedies have been found dealing with the financial crisis within the framework of the existing order. The core remedies have been the reform of the ‘Washington Consensus’ and management through a new mechanism called the ‘G20’. This was made possible due to the global consensus that the crisis was so pressing and imminent that states were willing to adopt these remedies.

However, this has not been the case for climate change. Certainly, the ‘Copenhagen Accord’ appeared to be a realistic remedy. Nevertheless, there are still a lack of global efforts and actions to adopt and follow this agreement. Economic and political considerations have prevented states from forming a sense of urgency and demonstrating collective willingness to respond to climate change.

There are many other global challenges that draw the attention of states. This chapter will focus on the issue of nuclear disarmament and non-proliferation, a topic that has received ever growing global attention. In 2010 there have been a series of important events worldwide, including the 2010 Non-Proliferation Treaty Review Conference in May.

Nuclear Disarmament and Non-Proliferation

Present Situation

During the past ten years, which is regarded as the ‘Lost Decade’, a sense of pessimism has prevailed. The United States failed to ratify the Comprehensive Nuclear Test-Ban Treaty (CTBT) in 1998. Subsequently, the UN disarmament machinery (CD, UN Disarmament Commission, the First Committee) was paralysed. Nuclear proliferation issues in Iran and North Korea remain unresolved. On top of those failures, the 2005 NPT Review Conference ended without a Final Document. The world faced a new sense of crisis.

However, it was ironic that the deadlock was also the beginning of a turnaround. Spurred by that sense of crisis, people around the world started

to feel a sense of ‘challenge’ and recognised the necessity of shifting the trend from division and inaction to unity and action. New initiatives emerged. To name a few, there was *Wall Street Journal* article, “A World Free of Nuclear Weapons”, by four eminent persons in January 2007,¹ the UN Secretary-General Ban Ki-moon’s ‘Five-point Proposal’ in August 2008² and US President Obama’s ‘Prague Speech’ in April 2009.³

There are now some positive signs and concrete results. In April 2010 a new Strategic Arms Reduction Treaty (START) was signed last April between Russia and the US while forty-seven world leaders gathered at the Nuclear Security Summit in Washington D.C. to reaffirm their support for nuclear security against terrorism. The 2010 NPT Review Conference took place in New York with the expectation of achieving a breakthrough.

Challenges

In spite of these encouraging signs and measures, complacency should not diminish focus on the long-term mission towards nuclear disarmament and non-proliferation. There are still several challenges in this area.

First, there is a lack of a clear, long term action plan towards ‘a world free of nuclear weapons and proliferation’. There are perceivable short-term steps such as the early entry-into-force of the CTBT and the negotiations on a FMCT (Fissile Material Cut-off Treaty). However, there is a lack of clear guidance as to how and when global zero will be achieved. President Obama ambitiously unveiled his vision for global zero in his Prague Speech in 2009, but he closed his remarks by stating that this vision may not be reached in his lifetime.

Likewise, more specific measures have not been developed to universalise the Comprehensive Safeguards Agreement (CSA) and Additional Protocol (AP) for nuclear non-proliferation. The task will be how to persuade non-nuclear weapon states refusing to accept the CSA and the AP on account of their voluntary nature other than by simply stressing the importance of those legal documents.

Second, there is a lack of mutual confidence and understanding between nuclear weapon states (NWS) and non-nuclear weapon states (NNWS). There is a wide perception gap between NWS and NNWS on the implementation of

¹ George P. Shultz, William J. Perry, Henry A. Kissinger and Sam Nunn, “A World Free of Nuclear Weapons”, *Wall Street Journal*, 4 January 2007.

² UN Secretary-General Ban Ki-moon, Address to the East-West Institute: “The United Nations and Security in a Nuclear-Weapon-Free World”, New York, 24 October 2008. Available online: <http://www.un.org/News/Press/docs/2008/sgsm11881.doc.htm> (accessed 25 March 2011).

³ Remarks by President Barack Obama, Prague, 5 April 2009. Available online: http://www.whitehouse.gov/the_press_office/Remarks-By-President-Barack-Obama-In-Prague-As-Delivered/ (accessed 25 March 2011).

their own obligations under the NPT, which are nuclear disarmament for the former and nuclear non-proliferation for the latter.

Third, as a corollary, there is a lack of collective effort among states in trying to bridge the gap between NWS and NNWS and encouraged states to take action. It seems that countries are generally interested in raising their voices rather than contributing action to more disarmament machinery.

As already mentioned, nowadays, there is a new sense of urgency and willingness among many states in this area. In spite of some disagreements, no country denies the legitimacy and necessity of strengthening the NPT. In this sense, I would say that the international community is at least moving in the right direction in searching for remedies. However it is still a great challenge to find specific means given that the NPT is based on an intricate balance between three pillars: nuclear disarmament, nuclear non-proliferation and peaceful use of nuclear energy. Thus, the main goal will be how to stabilise and strengthen this balance.

Nuclear Disarmament and Non-Proliferation

Global Challenge	Nuclear Disarmament and Non-proliferation	
Readiness (Perception and Will)	NO → YES	
Remedies (Tools)	Direction	YES (strengthening the NPT)
	Specific Means	PERHAPS (but complicated)

Areas of Co-operation to Strengthen the NPT Regime

The five states represented in this volume have done a great deal to strengthen the NPT individually as well as on behalf of their regional and political groups such as the Non-Aligned Movement, Western Group. However, in spite of some track II activities such as the Middle Power Initiative (MPI), there has not been enough collective action among governments of these states.

Often referred to as ‘middle powers’ the five states represented in this volume play a leading or significant role in their respective regions. But these states have restrained themselves from exercising influence and committing resources to address global issues. It may be time for these states to play a more instrumental role in dealing with nuclear disarmament and non-proliferation issues. To that end, the following areas of collective action should be considered:

First, these states should co-operate with each other through creative ideas. Ideas should be achievable and realistic and should develop existing visions and leadership to produce more concrete measures based on these ideas. In that regard, the Australian Government should be acknowledged for its

initiatives in the International Commission on Nuclear Non-proliferation and Disarmament (ICNND). In addition to elaborating upon existing initiatives, the ICNND proposed a package of measures which were more specific and progressive, categorised into short-, mid-, and long-term steps to achieve global zero.

Second, these states should co-operate to foster a favourable international atmosphere for nuclear disarmament and non-proliferation. Considering that insecurity, real or perceived, can be an incentive for developing nuclear weapons, these states should also strive to create a safer and more secure world. This can co-operate in exercising influence over each geographical region and expanding activities to reduce sources of insecurity in international affairs such as internal war, poverty, cultural and religious conflict. These overall efforts will ultimately contribute to laying the foundation for nuclear disarmament and non-proliferation.

Third, these countries should all co-operate to 'go global' as a like-minded group; for example, by coordinating external policies to strengthen the NPT regime. It is a good example that Australia has adhered to its policy of making the AP as a condition for uranium sales. Co-operate as like-minded states in international affairs will boost multilateralism in the areas of disarmament and non-proliferation.

As food for thought, these states can potentially depend on other related mechanisms to the extent possible. For example, the G20 may become a broader forum which also deals with security and non-proliferation issues.

Towards a New Washington Consensus

In conclusion, the international community has learned that it was damaging to have spent the past ten years in the doldrums of disarmament and non-proliferation. Failure without learning a lesson constitutes an actual 'failure'. Failure with a lesson learned is mere 'trial and error'. The recent progress made in disarmament and non-proliferation is an outcome of this past meaningful experience.

However, progress still remains at the initial stage and is driven mostly by a sense of urgency and synergy of leadership. There is still a long way to go. Progress must be built upon a more solid basis that is also driven by substance. To this end, the following areas of co-operation should be pursued: developing actionable ideas to achieve the goal of strengthening the NPT regime; fostering a favourable international atmosphere for disarmament and non-proliferation, since a safer and more secure world will help in eliminating the root causes of proliferation and facilitating nuclear disarmament; and tuning states' policies to strengthen the NPT and take more corresponding actions.

Working together is always better than working alone. This is actually the essence of middle power diplomacy. States should strive to build our partnership and coalition in this area.

We observed the success of the Washington Summit in April 2010 where forty seven countries achieved consensus in the field of nuclear security. However, I believe there was also global support for strengthening the NPT regime.

UN Secretary General Ban Ki-moon stated in the 2010 NPT Review Conference that the nuclear threat remains real and the world's people look to us for action.⁴ I hope that the five states represented in this volume will 'go global' together towards strengthening the NPT regime and achieving a world free of nuclear weapons.

⁴ Secretary-General Ban Ki-moon, Address to the 2010 Review Conference of the States Parties to the Treaty on the Non-Proliferation of Nuclear Weapons, General Assembly, 3 May 2010. Available online: http://www.un.org/apps/news/infocus/sgspeeches/statments_full.asp?statID=802 (accessed 25 March 2011).

Challenges and Opportunities: Energy Security



*Professor Xu Yi-chong**

No issue is more global than climate change. Africans as a whole have contributed about 3 percent to global climate change problems, yet they are among the most vulnerable to climate change threats created by energy produced and consumed, by and large, in rich countries. Few issues are as controversial as energy-related climate change. As the International Energy Agency has pointed out, the burning of fossil fuels – coal, gas and oil – to produce energy is responsible for over 60 percent of total global greenhouse gas emissions, and 80 percent among OECD countries and economies in transition.¹ Energy-related climate change is a global challenge.

There is a positive correlation between energy consumption and development: the richer the country is, the higher its energy consumption per capita, the more energy a country consumes and the more greenhouse gas it emits. The other side of the story is that people in poor countries have limited access to modern energy – electricity in particular. Given that their main source of energy is biomass, the poor contribute far less global greenhouse gas emissions, yet they are much more vulnerable to climate change than the rich due to their lack of capacity to deal with the negative impacts of climate change. If climate change is “a threat multiplier, a destructive force that will exacerbate existing social, environmental, economic, and humanitarian stresses,”² it cannot be addressed without dealing with this interdependent relationship between energy security, climate change and development.

Addressing these three issues – energy security, climate change and development – presents serious challenges to governments, businesses, individuals and the international community. It also creates opportunities for those wishing to take the lead in the next four or five decades. There is a serious division among people talking about energy security and climate change – some emphasise the costs from switching from fossil fuels to renewable sources while others see the opportunities in leading this change. Some see the rising energy consumption of the poor as a cause for concern in terms of energy security

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¹ International Energy Agency, *Energy Security and Climate Change*, (Paris: OECD, 2007), p. 28.

² Carlos Pascual and Jonathan Elkind (eds.), *Energy Security: Economics, Politics, Strategies, and Implications* (Washington, DC: The Brookings Institution Press 2010), p. 5.

and climate change, while others see a future that lies with fuel switching, technology transfer and fast development of the poor.

Energy security contains four key elements: availability, reliability, affordability and sustainability. Each is interpreted quite differently by politicians, businesses and ordinary people in their specific environment. In general, there are two stories about energy, two narratives about each energy source, two sets of players who dominate the development of these stories and two directions predicted by scholars and policy analysts. How each energy story is told and evolves will shape our policy on climate change and affect development of the poor, as individuals and as countries.

The Two Energy Stories: Transportation and Electricity

When energy security is discussed, availability is the first and foremost element people emphasise. That is, “energy security stems from the availability of energy goods and services – consumer’s ability to secure the energy that they need.”³ Energy use in rich and poor countries is quite different. While in rich countries, modern energy – electricity and heat – is taken for granted, in poor countries, biomass from firewood, crop residues and animal dung meet most energy demands. Differences in energy consumption raise two different concerns. For many in rich countries, the issue is how to secure oil supplies at an ‘affordable’ price. Discussion and debate are around this single source of energy and the implication of rising oil consumption in some developing countries. For many poor countries, the question is how to make modern energy available for their people: that is, how to build sufficient electricity generation capacity to provide minimum access to electricity. Oil consumption accounts for between 35-50 percent of total primary energy consumption in OECD countries, but less than 10 percent in most developing countries. In 2009, 32 OECD countries with less than 18 percent of the world’s population consumed 53.4 percent of the world’s oil while the remaining 82 percent of the population consumed 46.6 percent.⁴ Concerns in rich countries therefore are about the oligarchic structure of global oil markets: heavy dependence on Gulf oil means that a large amount of money flows into some Gulf states each year. It is not difficult to see why the emphasis in rich countries is on securing oil supplies.

By contrast, the energy story for many poor countries is how to switch from biomass to other modern energy sources. Biomass accounted for about 14 percent of the world’s total energy consumption in the 1990s and has since

³ Jonathan Elkind, ‘Energy Security: Call for a Broader Agenda’, in Pascual and Elkind, op. cit. (2010) p. 121.

⁴ BP, *BP Statistical Review of World Energy*, (June 2010), p. 11.

declined to about 10 percent.⁵ Almost all biomass is used in developing countries as a non-commercial cooking fuel in rural areas. When biomass is in short supply as a source of energy, this usually indicates other developmental and environmental problems. Biomass use may be considered a good thing by many in rich countries because it emits no net carbon dioxide. However, for those who rely on it, there are serious social, economic and health consequences. Direct burning of biomass has very low efficiency level (about 10 percent) and is a major contributor to health problems for the poor, according to the World Health Organisation. This means that the “over-use and undersupply of biomass often has serious environmental and social consequences.”⁶ If countries want to develop a modern economy, they have to provide people with access to modern energy. Currently, over 22 percent of the world’s population do not have access to electricity and South Asia and Sub-Sahara Africa face the most serious challenges in providing electricity to their people. Even in South Africa, where the electrification rate is over 75 percent, only 55 percent of rural population have access to electricity. China may have an electricity rate of over 99 percent but about 20 million people in remote areas have no access to electricity. In India, over 400 million people (similar to the total population of the euro area) have no access to electricity; to provide it in a sustainable way presents unprecedented challenges to the Indian government that at the same time has to respond to the people’s democratic demands. Energy security for developing countries is very much a story about providing people with access to stable and reliable electricity supplies.

Each energy story involves its own issues, generates its own concerns and calls for different solutions. When oil is the energy story, concerns are about issues such as geopolitics, the oligopolistic structure of the global market and shipping routes. When access to electricity is the story, the concerns are sources of finances, sources of production, electricity market structures and pricing decisions. Discussions and policies on energy security consequently contain all four basic aspects: availability, reliability, affordability and sustainability – all meaning quite different things when the energy stories are different.

The Two Narratives: Domestic and International

For each energy story, there are two narratives: those that focus on the domestic policy and politics of energy production and consumption, and those that focus on the international aspects of energy demand and supply. For most governments, domestic concerns dominate their narratives – that is, issues such as the

⁵ David Hall, ‘Biomass’, World Bank Policy Research Working Paper, 1992, WPS968, p. 1, available online: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1992/08/01/000009265_3961003073819/Rendered/PDF/multi_page.pdf (accessed 29 March 2011).

⁶ *Ibid.* p. 2.

cost of securing reliable energy supplies, competition for resources with other demands, balancing energy production and consumption with environmental concerns and issues of public goods versus market structure. Each of these issues involves different players; interests and policies are shaped consequently.

The international narrative is about issues such as the global energy market structure, competition over resources, energy trade, investment or lack of investment in oil and other energy resources, protection of shipping routes and navy build-ups. The international narrative is often dominated by oil rather than other energy sources partly because it is the rich countries' key concern and partly because oil is argued that since many oil producing countries are non-Western and non-democratic they do not play the 'game' the way Western countries want them to. Increasingly, this international narrative covers other energy sectors too, such as uranium supplies or the transfer of renewable technology, and some traditionally considered only as domestic issues such as coal and hydro. This is partly because few countries in the world have sufficient energy resources to support their economies. Even resource rich countries such as Australia have to import certain amounts of energy or different kinds of energy. Energy trade is the reality. Further, in an integrated world international non-government organisations can draw attention to controversial issues far beyond the border of states, such as human settlement and environmental protection involved in building dams, or proliferation concerns caused by building nuclear power plants. Energy is global also because most energy players are global players.

The Two Sets of Players: Multinational and State-Owned Companies

Increasingly, the energy sector, no matter what sub-sector is concerned, is dominated by two types of players: traditional multinational corporations (MNCs) and newly emerged state-owned enterprises (SOE). The growing size and extending influence of the latter category of player is creating international concern, yet the energy sector has always been dominated by a few players with strong support of their governments. The oil industry used to be dominated by the 'seven sisters' and has now been replaced by a combination of oil companies that are owned by states with 100 percent stakes, majority stakes or as the largest stake-holders (30 out of the world's 50 largest oil companies). Indeed, four of the five largest oil companies are SOEs: owned by the states of Saudi Arabia, Iran, Venezuela and China.⁷ In 2008, Energy Intelligence, an American consulting firm, ranked the China National Petroleum Corporation higher than BP and Shell and moved Russian Rosneft from 24th to 16th in its

⁷ Energy Intelligence Top 100: Ranking the World's Oil Companies 2009, available online: <http://www.energyintel.com>.

ranking of the world's top 50 oil companies.⁸ A flood of analyses followed, showing how dangerous this trend would be to the stability of world oil markets and oil supplies in rich countries because four from the top five were not from the West, and none were from democratic societies. They therefore were seen as an arm of governments' economic and strategic policies.

Concentration of energy production in a few global conglomerates is also the trend in other energy sectors, for example Rio Tinto, BHP, Peabody and Anglo Coal are among the largest coal mining, production and trade companies; while Areva, Westinghouse, General Electric-Hitachi and Atomic Energy of Canada Limited dominate the nuclear industry, from nuclear fuel service and management to nuclear power plant design, construction and operation. The electricity industry has had a long history of monopoly or oligopoly control within each state and, increasingly, large power companies spread their investment in other countries too, as Enron did in the 1990s in some developing countries before its collapse in 2001, or ASE in China and India, and EDF across the globe.

The oligopolistic nature of large energy companies, state-owned or otherwise means that they are politically influential, no matter what sub-energy sectors they might be in. Studies have already shown how powerfully MNCs influence policies and shape development in developing countries. The impact of SOEs, not just in oil but in all energy sectors, remains under-researched. There is a general assumption that SOE from non-democratic countries must behave differently from MNC because they are owned by the state. Little is known about how they behave; it is subject that begs for further research. Without evidence we just assume that they do what they are told by their governments. Yet if this is the case, how could they compete with other MNCs in getting to the top of the Fortune 500?

State-owned energy companies may be largely an emerging economies' phenomenon, yet they have had a long history. Some of them have existed and operated in developed countries for decades, such as EDF in France and AECL in Canada. These new state-owned energy companies along with their counterparts in other fields are described by *The Economist* as:

... peculiar hybrids that have never been seen before; the closest relatives are the European trading companies of the 16th-19th centuries, such as Britain's East Indian Company. They are not old fashioned nationalised companies, run by government and designed to control chunks of national economy; but nor are they classic private-sector companies that sink or swim. Instead they are amphibious creatures that flit between sea and land, borrowing money from governments

⁸ Carolyn O'Hara, 'Ranking the World's Top Oil Companies', *Foreign Policy* (5 December 2008) available at: <http://passport.foreignpolicy.com/category/topic/oil> (accessed 29 March 2011).

as subsidised rates one moment, plunging into the global market the next.⁹

Increasingly, they behave like private companies with maximising profits as their highest priority, yet they have convoluted ties to governments. SOEs from developing countries have raised concerns, especially in rich countries where traditional multinational energy companies have existed for a long time. They are feared not only because they compete fiercely with MNCs in trying to get control over energy resources, but also because of their entangled umbilical cords with governments. SOEs are driven by a combination of ambition and fear: ambition to join Fortune 500 and fear in that they have to compete with old MNCs as well as stay alert so that they are not surpassed by their counterparts from other developing countries.

The existence and expansion of SOEs has triggered a debate over the future of energy security in the world. Some predict inevitable conflicts over energy resources while others argue that SOEs are creating an environment which facilitates co-operation. For those who predict conflicts, the energy story is a zero-sum game: when energy demands go up in China and India, this must take energy away from the rich countries and conflicts are inevitable given the place of energy in the economy. This view suggest that the players involved in energy competition are consequently states rather than companies: former US Vice President Dick Cheney suggested the only way to ensure energy security was to engage in production in the US as well as in the world and that the government had an obligation to support US companies in this competition.¹⁰ The result is that energy issues are ‘securitised’ with the emphasis on changing the vulnerability of import dependence to securing ‘independent’ supplies: – autarchy is therefore seen as a virtue in energy policy.

Energy security and energy-related climate change, however, could be examined from the point of view of late comers. For many developing countries, large and small, middle-income or poor, ensuring energy security is not only a challenge but also an opportunity for them to leap-frog the ‘Kuznets curve’ by adopting and expanding low-carbon energy development. In so doing, they would be able to expand energy resources from a fixed to an expanding pie, especially for those who do not currently have them. Developing low-carbon energy will not only allow them to deal with their energy and climate change challenges, but to take a lead in the new economy in the coming decades. Indeed, given the low energy consumption per capita in developing countries and their rising energy demands, what they are doing today will shape the world’s energy and environment future in the next 40-60 years. It will also

⁹ ‘The World Turned Upside Down,’ *The Economist* (17 April 2010), p. 11.

¹⁰ National Energy Policy Development Group, ‘National Energy Policy’ (May 2001) available at: www.whitehouse.gov/energy/National_Energy_Policy.pdf (accessed 29 March 2011).

define their global geopolitical position in the next 20-40 years in no small way, as industrialisation and the development of auto industry or information technology did for the British and US economy.

This is a better opportunity for developing countries than the developed ones because it will be much more difficult to break the current dependence on fossil fuels by switching from dirty to clean energy sources than to build new low-carbon energy capacity. This is indeed what many developing countries are doing, as the United Nations Environmental Program (UNEP) has called the 'Global Green New Deal'¹¹ and what International Energy Agency has called the 'Energy Technology Revolution'.¹²

Actions Being Taken

To address energy-related climate change issues, developed countries have been encouraged to place a price on carbon emissions. This proposal has met much resistance, especially at a time of economic difficulties. For many developing countries, meanwhile, the challenge is to meet rising demands for modern energy: that is, instead of adopting 'punitive' measures against existing energy consumption they have promoted low-carbon energy development. One indication is the stimulus packages government put in place for the global financial crisis in 2008-09. According to a HSBC report South Korea allocated 80.5 percent of its stimulus package for 2009-12 to environmental themes. The total amounted to more than \$30 billion, allocated to renewable energies (\$1.8 billion), energy efficient buildings (\$6.9 billion), low carbon vehicles (\$1.8 billion), rail transport (\$7.0 billion) and water and waste management (\$13.89 billion).¹³ In addition, the joint efforts of government and industry in South Korea to reverse its energy dependence on imports by building up its nuclear energy capacity has successfully reduced the country's dependence on imported oil for electricity generation from over 56 percent in 1980 to 6 percent in 2009 while the share of nuclear generation capacity increased from 5.8 percent in 1980 to 24 percent in terms of total generation capacity. The share of

¹¹ For example, see UNEP, 'Global Green New Deal: an Update for the G20 Pittsburgh Summit' (September 2009) available online: <http://www.unep.org/GreenEconomy/InformationMaterials/Publications/Publication/tabid/4613/language/en-US/Default.aspx?ID=4063> (accessed 29 March 2011).

¹² For example, see International Energy Agency, *Energy Technology Perspective 2010* (Paris: OECD 2010) available online: http://www.oecd-ilibrary.org/energy/energy-technology-perspectives-2010_energy_tech-2010-en (accessed 29 March 2011).

¹³ HSBC Global Research, 'Building a green recovery' (May 2009) available online: http://www.hsbc.com/1/PA_1_1_S5/content/assets/sustainability/090522_green_recovery.pdf (accessed 29 March 2011).

electricity generated from nuclear power plants increased from 9.3 percent in 1980 to 34 percent in 2009.

China adopted a stimulus package for 2009-2010 of \$586 billion, the largest behind the US, and devoted 34.3 percent of the package, \$200 billion, to 'climate change investment'. This included \$1.5 billion for low carbon vehicles, \$96.65 billion for rail, \$70 billion for grid and \$30.69 billion for water and waste. In addition, China allocated another 25.4 percent of its 2009 budget towards climate change investment: \$4.95 billion for rail and \$19.63 billion for water and waste. Its investments in rail transport and electricity grids are designed not only to achieve low-carbon development but, more importantly, to drive the future. For example, given its uneven allocation of energy resources and job opportunities, bridging distance by constructing fast train systems and ultra-high transmission grids is one way to create a low-carbon economy. In building the world's first 100kv transmission grid, China is hoping not only to allow electricity to be generated where resources are (that is, coal in the West and Northwest, hydro in the South and Southwest and wind in the West and North), but also to allow Chinese industry to set the rules and regulations for the rest of the world.

While it is true that "innovation and R&D have not been traditional strengths of Chinese industry, which is better known for its ruthless efficiency in cost cutting and manufacturing productivity",¹⁴ this is changing in several sectors that are dominated by powerful state-owned corporations, such as nuclear and grid. Backed by government policies and financial support, these corporations are aiming to compete in the international arena. What they are doing is not unnoticed by many Americans: for example Senator John Kerry in 2009 told the Senate Foreign Affairs Committee that:

Earlier this year, while America spent \$80 billion in green stimulus measures, the largest such investment in our history, China invested \$200 billion. In the past few years, China has tripled its wind energy-usage targets and quintupled its solar energy-use targets for 2020 ... we have the chance to commercialize some of the most promising technologies – clean energy advances that can be truly transformational.¹⁵

Who starts early may lead in the new energy economy. Brazil is a good example. It launched its fuel alcohol program in the 1970s and by 1984, 17

¹⁴ Kate Gordon, Julian L. Wong and J.T. McLain, 'Out of the Running?' (Centre for American Progress, March 2010), p. 26.

¹⁵ U.S. Senate Committee on Foreign Relations, Chairman John F. Kerry Opening Statement At Hearing On U.S.-China Co-operation on Climate Change (4 June 2009) available online: <http://foreign.senate.gov/imo/media/doc/KerryStatement090604a.pdf> (accessed 29 March 2011).

percent of the country's cars were running on hydrated alcohol. Now it has the largest commercial application of biomass for energy production and use in the world. It also produces the cheapest vehicle ethanol fuel in the world. Smart grid systems are active in countries such as China, Japan and South Korea for similar objectives: energy efficiency and leadership in the future. Another area is transportation. Currently, transport generates 60 percent of the world's oil demand while the share is over 75 percent among 32 OECD countries. Much of this oil consumption goes to passenger cars. To avoid the heavy reliance on oil for transportation, several countries in the world are expanding their rail system. China and India are examples. According to the HSBC's calculation, "China is aiming to spend RMB1 trillion on expanding inter-province trunk railway lines ... to complete the construction of 16,000km of lines, covering mainly passenger services" by the end of 2010.¹⁶

China is only one of the countries engaging in this new form of economy. The Philippines has the largest share of geothermal in the world and Indonesia is developing geothermal, natural gas and biomass to provide its people with access to modern energy by adopting and developing new technologies. The technological innovation in many developing countries is unlike the traditional way of doing things in OECD countries: that is, seeking big breakthroughs or revolutionary innovation, which requires high capital investment and time. The new technological innovation is incremental and frugal; often the strategy is 'import, assimilate, re-innovate', which means heavy reliance on foreign technology in its initial stage.

Low-carbon energy will not come soon, easily or cheap. The perception of the current challenges shapes what countries are doing now. In some Asian countries, the saying is that we have not inherited this planet from our ancestors; we are borrowing it from our future generation. This has set the broader environment for 'new policies'. It is not easy for developing countries to leap-frog the curve, partly because they do not have the technology to do so and partly because the pressure to meet rising demand is immediate and great. If it is difficult to rally 21 million people behind an emissions trading scheme in Australia, just multiply the complexity by ten times the difficulty for China or India or Indonesia, and square them with the issues of poverty, inequality, education and health care. The point is, some developing countries are actually moving ahead in energy-related climate change. Who takes the opportunity will shape the global politics.

Challenges are real but they also create opportunities. To echo Churchill's phrase, developing countries see 'opportunities in every difficulty rather than difficulties in every opportunity'. For many Asian countries, there is no choice but to adopt aggressive measures in promoting low-carbon economies if they

¹⁶ HSBC Global Research, op. cit. (2009) p. 17.

want to secure adequate energy supplies in a sustainable way. Yet, given the long life-span of most energy infrastructure, what countries are doing today will decide their global position in the next 40-50 years. Competition for global advantage is underway and needs to be understood by weaving a complex analytical framework that includes different energy stories, different narratives, players and positions of players.

A Brazilian Perspective on Climate Change



*Mariana Luz**

Brazil has a relatively comfortable position in dealing with global challenges, since it has a large agricultural sector and is well-prepared for food security problems. In fact, Brazil is already playing an important role in supplying and defining the prices of commodities. In regards to energy security, Brazil has a clean energy matrix, based on hydroelectricity and is increasing its potential of producing energy from renewable sources. With climate change, which is the focus of this article, the main problem Brazil faces is deforestation, but its clean energy resources and its prominent role in international negotiations are leading the country to a more responsible stage.

Climate change refers to modifications occurring in the environment that may be directly linked to human actions. The most important aspect of analysing climate change involves technical and scientific data. Consequently, debates on the topic are completely dominated by specialists who discuss its causes and effects in terms that are difficult for the general public to comprehend. However, awareness of the risks that will follow the rise of carbon diociden (CO²) emissions has infiltrated various sectors of society, leading communities to strive to minimise these emissions.

Carbon emission sources in Brazil have a differentiated constitution to those of other emerging countries and also in most of the industrialised world. Brazil has a vast territory and a producer of disproportionate carbon emissions for the region due to the deforestation of the Amazon, which produces majority of Brazil's carbon emissions. This is a growing concern, particularly due to the fact that it is a fragile ecosystem with great biodiversity that is threatened by deforestation.

In the last few years the fragility and limits of the planet's resources become the centre of global attention. Public opinion has become aware that climate change is a global challenge, but that solving the problem begins in the local arena. Consequently, policies should be tailored accordingly, from local to global. This can be seen in the 2010 Copenhagen the approaching of COP-16 in Mexico. Public manifestations of both civil society and the productive sectors in Brazil are growing and becoming more and more organised.

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Deforestation in Amazonia

Colonisation in the Amazon Region started during the eighteenth century and was based on the cultivation of sugar cane. In later periods, colonisation concentrated on other goods with higher commercial value such as wood, rubber and derived products from hunting and fishing. The water, forest and mineral resources of the Amazon are natural resources that can be exploited in many different ways. The ideal form of exploitation takes into account the physical reality and environmental balance of the Amazon. Society's role here is essential for the maintenance (or non-maintenance) of this balance, since the search for national interest in environmental issues can either contribute to nature's preservation or its destruction.

Over the past few centuries, Europe and the United States have destroyed their forests in irreparable ways. It has been that since other regions had destroyed their flora, it was imperative to protect the Amazon and maintain the 'Lungs of the Earth'. This misunderstanding was eliminated by the scientist, Jean Jacques Cousteau, who has said that the Amazon is not the Earth's lungs. Instead it is the plankton, phytoplankton, and microorganisms in of the ocean that absorb the atmospheric carbon dioxide. This is a function more important than the one performed by Brazilian forests. These micro-organisms are destroyed by ultra-violets that penetrate the weakened ozone layer.

With this myth debunked, the real wealth of the Amazon was revealed to be its biodiversity. According to Thomas Lovejoy, in a speech held at the Brazilian Centre for International Relations in June 2007, the importance of the Amazon rainforest is its genetic bank, working as a big pharmaceutical and biochemical products factory and containing 30 percent of the world's genetic stock. Thus, deforestation of the Amazon, besides contributing to global warming, also eliminates vegetal and animal species that are unique and irreplaceable and could be used to improve human well-being.

Today, the Amazon represents the biggest rainforest block still existing in the world, occupying around 5.5 million square kilometres of continuous jungle. Of this total, 80 percent is preserved and 60 percent is located in Brazilian territory. Estimates suggest that 50 percent of Brazil's emission of greenhouse gases (GHG) contributing to global warming come from the deforestation process, and the Intergovernmental Panel on Climate Change (IPCC) has stated that tropical deforestation must be reduced drastically. Rainforests have a great capacity to store carbon and one of the best ways to minimise the impacts of global warming is to maintain them.¹

¹ Sir Nicholas Stern, *Stern Review Report on the Economics of Climate Change* (London: HM Treasury, 2006) available online: http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/stern_review_report.htm (accessed 31 March 2011).

Deforestation first occurs to obtain hardwood, which has a high market value, however, later deforestation continues with the burning of commercially worthless wood. Aside from the fact that the carbon is no longer captured, the smoke from burning the forest increases the carbon in the atmosphere. According to former Minister Israel Vargas, there is no sustainable exploitation option in the Amazon, since the hardwood is the only resource with market value; after being taken down, the rest of the forest loses its value and there is pressure to clear the land for pasture and plantations. Even though it is possible to replant forests, in the case of hardwood the process takes from 200 to 400 years. Israel Vargas believes that the way to preserve the Amazon is keeping it untouched and studying it systematically. Its future depends on scientific knowledge of what the rainforest keeps hidden. The true potential of the Amazon in phytochemicals, pharmaceutical products and genetic engineering of flowers and fruits has not yet been catalogued and this will take time and research. Besides deforestation, two other problems in the Amazon are prospecting and intervention in native cultures and land.

Deforestation mapping of the Amazon is conducted by different institutions using different methods. In the 80s and 90s, deforestation was, on average, 20,000 square kilometres per year. During this period, 1995 had the highest rate of deforestation with 29,059 square kilometres of land cleared. In the last decade, with awareness campaigns and society's and government pressure for more control there has been a decrease in the average area of forest being cleared from a peak of 27,400 square kilometres in 2004 to 11,532 square kilometres in 2007 and 12,911 square kilometres in 2008. The estimate for 2009 is that the clearing will remain at 10,000 square kilometres. This last decade is divided between a negative first period (2000-2004), in which the average annual rate of clearing was 20,000 square kilometres; and a second more positive period (2005-2009), in which the average annual rate of clearing has been around 13,000 square kilometres. However, even if the data points to a positive reduction, Tollefson stresses a new preoccupation with the current deforestation that is occurring in more dense areas of the rainforest thus producing a superior volume of carbon emissions per hectare cleared.

The table below from the National Institute of Space Research (INPE) shows that the year of 2009 exceeded expectations and decreased to around 7,000 square kilometres for the year.² For environmentalists, real progress will only happen when Brazil reaches zero-deforestation, but one cannot deny that significant progress has been made. There is consensus that combating deforestation is the best way for Brazil to reduce the effects of climate change. Government policies of control and inspection are necessary, but society as a whole can also take measures that often are more effective than public policies,

² See <http://www.inpe.br/ingles/index.php> (accessed 31 March 2011).

such as establishing consumption patterns that demand products that do not contribute to deforestation.

Annual Rate of Deforestation in the Legal Amazon (km²/year)

States/ year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Acre	547	419	883	1078	728	592	398	184	254	211
Amazonas	612	634	885	1558	1232	775	788	610	604	406
Amapá	0	7	0	25	46	33	30	39	100	0
Maranhão	1065	958	1014	993	755	922	651	613	1272	980
MatGrosso	6369	7703	7892	10405	11814	7145	4333	2678	3258	1047
Pará	6671	5237	7324	6996	8521	5731	5505	5425	5606	3687
Rondônia	2465	2673	3099	3597	3858	3244	2049	1611	1136	505
Roraima	253	345	84	439	311	133	231	309	574	116
Tocantins	244	189	212	156	158	271	124	63	107	56
Legal Amazon	18,226	18,165	21,394	25,247	27,423	18,846	14,109	11,532	12,911	7,008

Source: National Institute of Space Research, 2009

Deforestation generates a negative effect on Brazilian society that can be categorised into three areas. The first and most obvious is the destruction of natural resources, through the invasion of the rainforest and its debilitation. The second is the proportional increase of the informal sector among extractors, sellers and buyers of these illegal goods. Third, the increase in the informal sector leads to the demoralisation of public authority that opens the door for the proliferation of other illegal activities such as corruption and trafficking.

Experts point to the need to increase the value of the existing forest as the best mechanism to prevent the Amazon's deforestation. Besides the clearing of trees to use the land for pasture or plantation, there is also the clearing of the rainforest to extract wood, as even if it is not as valuable as hardwood, there still is a market for it, and therefore continues to be extracted. Increasing the value of the existing forest means finding an interest or economic compensation to preserve it, emulating the mechanism of the Reduction of Emission of Deforestations and Degradation of Forests (REDD), in which the landowners receive a payment equal to the sum they would obtain by deforestation of their property.

Brazilian Position on Climate Change

Brazilian environmental legislation is one of the most complete existing today; it precedes and was consolidated after the establishment of the Republic. However, the argument that environmental degradation is tolerable in favour of socioeconomic interests has been present throughout history, defying and

infringing the current legislation. There is inefficient public administration of this legislation. If Brazil were capable of validating its legal instruments such as the Brazilian Forestry Code,³ little would need to be done to fight deforestation. Consequently, the majority of greenhouse gas emissions in Brazil, and therefore its main contribution to climate change, does not correspond to legal activities, but to illegal ones.

Even though the Brazilian government is engaged in finding an international solution to climate change, the country still possesses a natural and historic advantage in relation to carbon dioxide (CO²) emissions. The Amazon is the main issue for Brazil. On the one hand, it represents one of the biggest natural reserves on the planet with the richest biodiversity in the world, holding an important role in the carbon cycle. On the other hand, it places Brazil under a great challenge regarding the emissions caused by deforestation.

For Ambassador Luis Felipe Lampreia, the lack of control regarding deforestation in the Amazon is one of the biggest problems Brazil faces today. Consequently, a reevaluation of the instruments and control of regulation is necessary. In September 2009, at a last meeting of the General Assembly of the United Nations, Secretary General Ban Ki-Moon criticised Brazil for not having clear policies to fight deforestation. Ban Ki-Moon claimed that Brazil can no longer argue to be a sovereign state and prevent external help regarding the Amazon.

One of the mechanisms that has advanced the monitoring of the Amazon's deforestation is live footage brought by satellite. The first Brazilian satellite was launched in 1993 with the purpose of obtaining environmental data, according to the Ministry of Science and Technology. Today Brazil's space program is far more advanced. If these tools and control measures are used correctly it will be possible to reduce human activities that put pressure on the Amazon and cause deforestation. However, according to Israel Vargas, Brazil and other developing countries should not insist only on technology transfer, which would be naïve, as it is common sense that technology is expensive and, therefore, it is sold.

As a global contributor to climate change, Brazil is currently in seventh position (see table below), if one considers the European Union and not countries in Europe separately. Although the table below refers to current emissions, ongoing international negotiations are also guided by the historic responsibility of countries involved. Hence, Brazil and other emerging countries like China and India do not have the responsibility, by the United Nation Convention on Climate Change, to take mandatory action to combat climate change.

³ Brazilian Forestry Code is a prevention code that, among other purposes, preserves the forests that are at the side of the river in natural reserves.

Contributions to Climate Change		
Country	Emissions	Annual Growth
China	22 percent	5 percent
USA	20 percent	1 percent
European Union	15 percent	0.3 percent
India	6 percent	5 percent
Russia	5.5 percent	5 percent
Indonesia	5 percent	6 percent
Brazil	4.5 percent	4 percent

Source: Netherlands Environmental Assessment Agency, 2008

During the Copenhagen Climate Change Conference in December 2009, there were strong expectations towards creating a new solution or revising the Kyoto Protocol. In that sense Copenhagen was a failure, but there are other aspects of the Conference that should also be taken into consideration. Copenhagen gathered, for the first time, a number of head of states that had never before attended climate negotiations. This, of course, on one hand raised the political level and prospects of a positive resolution, but on the other hand, the technical work of the delegations was not advanced because like the rest of the world, delegations counted on political action.

The emerging countries negotiated in Copenhagen through the BASIC group (which comprises Brazil, South Africa, India and China). This was a shift in the position of these countries in deciding to play a more central role in new climate change policy structures. More specifically Brazil voluntarily proposed a number of measures to reduce deforestation by 80 percent and total carbon emissions by 36-39 percent by 2020.

Even though there was no progress with the Kyoto Protocol, one of the most important legally binding agreements in operation, the final document of Copenhagen was noted by the Secretariat – since it was not fully accepted by the parties – and consisted of an interesting consensus, such as limiting the temperature increase to 2° Celsius; and developed countries donating US\$ 100 billion to finance actions to combat climate change. In sum, Copenhagen mobilised different actors from society (government, private sector, civil, media and academics), thus opening up a new window for a change in the foreign agendas of developing countries.

Conclusion

The emergence of climate change as a current global challenge was consolidated through a scientific consensus that increasingly asserted that the role of human activities as the cause of the problem. To avoid dangerous climate change it is necessary to cut emissions by 50 percent of their 1990 level before

2050. This achievement will only be possible with the involvement of multi-disciplinary players (government and non-government) to create sustainable production and consumption.

The argument of historic responsibility has faced counterarguments that if having an agreement on climate is the biggest global challenge today, the conflict between developed and developing countries should in no longer be the major element of negotiation. Countries have to look at their vulnerability and their capacity to act, in order to propose complementary and voluntary actions. This can drive countries to lessen the focus of traditional economic interests, thus opening space for innovative forces promoting a profitable low carbon economy.

As was seen though this chapter, deforestation of the Amazon represents the largest share of Brazil's carbon emissions and contribution to the greenhouse effect. On the other hand, Brazil's energy matrix has particular characteristics that put the country in an exceptionally favourable position. In that sense, a better understanding of those two extremely important themes is considered a priority of national policy in Brazil for the mitigation of global warming.

After Copenhagen it is possible to be optimistic with the Brazil's commitment to fight deforestation of the Amazon and decrease general emissions until 2020. It was a domestic push from society and NGOs that led the Government to assume this position and consider that this is not only correct, but also the best contribution Brazil can offer to combat climate change.

Facing the Challenges of Climate Change: The Case of South Africa and its Potential Collaboration with Other Southern Economies



*Romy Chevallier**

As a result of important changes in the global geo-political landscape, there is a need to explore new areas of engagement between traditional actors and new partners on issues of international concern. The challenge of climate change is well beyond the capacity of any one country or region to tackle alone. It is a common challenge that requires the promotion of mutual trust and a sense of a common destiny.

South Africa has become an increasingly significant global actor and a key promoter of equitable global environmental governance structures. South Africa is looking for partners, both traditional and emerging, that share similar challenges of dealing simultaneously with energy security, climate change and socio-economic development. These common foreign policy issues have become key pillars around which the South African government has sought to find potential allies and appropriate forums for dialogue with key Southern partners, or with allies that offer support in dealing with national concerns.

Looking at the level of national scenarios and mitigation pledges it is clear that there are stark differences in each country's approach and level of ambition. Some see themselves as being more responsible for addressing global challenges and take the lead; others are happier to follow. South Africa, for example, is by far the largest emitter of greenhouse gases in Africa with the majority of its emissions originating from the energy sector, a key facet of its economic structure. South Africa's climate question simultaneously involves energy (carbon and development). Its national response is motivated by the strategic dilemma of how to balance factors such as development and poverty alleviation goals, energy access and security and international competition against pressures to curb greenhouse gas emissions. Because of South Africa's energy dependence on fossil fuels it needs to participate in co-operative

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alliances both for political support in pushing its agenda but also co-operate for alternatives to coal, namely renewable energy technologies.

Thus far South Africa has formed alliances with similar emerging economies that share some of its development priorities. These shared economic, developmental and security implications have generated a perceptible shift in the way that decision-makers in the South are talking about climate change, as well as the way they are beginning to co-operate at a myriad of levels. This includes co-operation: to develop comprehensive international strategies to manage mitigation through common but differentiated responsibilities; to share the most innovative approaches for adaptation; to administer shared resources and technologies; and to cope with insecurity and climate-related development challenges.

South Africa increasingly projects its power in the international scene through multilateral institutions by building multilateral or bilateral alliances with countries that share similar international interests and objectives. In particular (in classic ‘middle power’ fashion) South Africa is increasing its voice and visibility through institutions which have been traditionally dominated by the ‘great powers’ – like the United Nations and the World Trade Organization – and newer grouping such as the India-Brazil-South Africa Dialogue Forum (IBSA)¹, the BASIC group comprising Brazil, South Africa, India and China (BASIC) and the G8+5 group invited to attend G8 talks. All offer platforms for alliances, provide opportunities for grandstanding and enable as well as devising positions based on shared interests, values and capabilities. For a more detailed list of partnerships, please see Appendix 1.

Despite being a vocal negotiator at the international climate talks, South Africa is often reluctant to speak on behalf of the continent – especially given the stark disparities between itself and its neighbourhood. In this regard, South Africa is more likely to form partnerships and co-operative alliances to push an agenda, rather than pursue a self-interested agenda with unilateral ownership of a process.

While a global deal is far from being concluded, there are issue items and thematic agreements that are non-politicised and can be addressed by informal coalitions and alliances. In the absence of a binding agreement, other practical and technical measures are still possible, including the exchange of climate data and information, comparison of practices and capacity building. After all, BASIC countries are sites of innovation in key areas of energy alternatives and agricultural development, and have valuable best practices methods to share.

In order better to understand the feasibility and likelihood of these alliances, it is necessary to explore the national climate scenarios and experiences of individual member states. This chapter will interrogate the scope and nature of South Africa’s emissions profile and analyse the challenges it faces in

¹ See <http://www.ibsa-trilateral.org/> (accessed 31 March 2011).

adopting a more stringent carbon reduction targets. It is interesting to analyse what South Africa's approach is to curbing climate change at the national level and what role it pursues at the regional and international level in climate negotiations – for example: whether South Africa plays a leadership role in the developing-country alliances; whether it is a key player in the international debate on climate change; who are South Africa's natural partners in this debate and why?; and what concrete areas exist for the potential collaboration in technology transfer, best practice in adaptation schemes, pre-emptive disaster mechanisms and information sharing.

Given South Africa's ambitious foreign policy, there is also an expectation that it will play an important role at the multilateral level and that it will use its capabilities and capacity to represent the region's interests and the developing countries more broadly. In order to pursue South Africa's aspirations for international status it will have to act responsibly and make pledges at the global level.

South Africa as a Global Carbon Dioxide Emitter

South Africa is the largest emitter of greenhouse gases in Africa, primarily because of the relative size of its economy, its large manufacturing and industrial base, and its dependence on coal for energy. It is responsible for 39 percent of emissions on the continent,² and is one of the greatest sources of pollution on a per capita basis in the developing world.³ In 2004, South Africa emitted 436.8 million tonnes of carbon dioxide (CO₂), equalling 9.8 tonnes per capita.⁴ South African parastatal electricity producer, Eskom, alone generates about 350 million tonnes of CO₂ per annum.⁵

While South Africa's progress towards energy sustainability does not fare well on indicators such as per capita carbon emissions, particulate concentrations, clean energy investment, energy intensity and the use of renewable energy sources; South Africa, like most developing countries, faces particularly acute challenges given the internal disparities in income and sustainable living and the make-up of its industrial and energy complex. In order to reduce its emissions significantly, South Africa would have to seriously reconsider its

² UN Economic Commission for Africa, *Harnessing Technologies for Sustainable Development* (Addis Ababa: UNECA, 2002), p. 33, available online: <http://www.uneca.org/harnessing> (accessed 31 March 2011).

³ UN Development Program, 'Indicators: CO₂ emissions, total (Mt CO₂)', available online: <http://hdrstats.undp.org/indicators/232.html> and 'Indicators: CO₂ emissions per capita', available online: <http://hdrstats.undp.org/indicators/237.html>.

⁴ Ibid.

⁵ B. Unmüßig and S. Cramer, 'Climate change in Africa', *GIGA Focus*, Vol. 2 (2008).

current energy and industrial trajectories as carbon dioxide from the supply and use of energy is the biggest contributor to emissions in South Africa. The economic structure is energy intensive because of heavy industries like mining, an inefficient fossil fuel electricity supply system and sprawling urban areas. South Africa's mineral-energy complex, for example, comprises large scale primary extraction, minerals processing and linked industries based on mining and beneficiation, underpinned by some of the cheapest electricity in the world.⁶ In its growing big cities, transport emissions have increased substantially over the past few decades.

It is also important to realise the importance of the South African economy to the region. South Africa is an economic hegemon, generating two-thirds of the gross domestic product of the Southern African Development Community (SADC) and 60 percent of all intra-SADC trade in sectors like mining, electricity, oil and gas. South Africa's economic success has major implications for the entire region and until recently South African electricity was inexpensive by international standards, making other energy sources less competitive. Against that, cheap electricity has been an important incentive for attracting international investors to the region.

For a country like South Africa, which has poverty alleviation and job creation as its top priorities, the challenge of reducing emissions while retaining competitiveness remains daunting. However, South Africa recognises an unwillingness to commit to mitigation responsibilities will have negative reputational and competition risks for its economy. Its carbon-intensive exports will also be negatively affected by international border-tax adjustments. Of South Africa's greenhouse gas emissions, 40 percent originate from export-related goods, predominately precious minerals and resources.⁷

Coal provides 72 percent of South Africa's total energy mix⁸ and, in 2008, more than 90 percent of electricity. Eskom produces almost all its electricity through coal-fired power stations, including the production of 45 percent of the continent's electricity,⁹ including supplies to the neighbouring countries of Swaziland, Mozambique, Zimbabwe, Botswana and Namibia.¹⁰

⁶ Fine and Rustomjee, *South Africa's Political Economy: From Minerals-Energy Complex to Industrialisation*, (London: Hurst, and University of Wits Press, 1997).

⁷ Developed countries are generally net importers of CO₂ emissions, as emissions associated with production are lower than emissions associated with consumption. For developing countries, more greenhouse gases are emitted in production than in consumption.

⁸ Imported oil accounts for only 20% of primary energy used, mainly for transport .

⁹ Eskom, *Together, rising to the challenge. Annual Report 2008*. (2008) Available online: http://financialresults.co.za/eskom_ar2008/ar_2008/downloads/eskom_ar2008.pdf (accessed 31 March 2011).

¹⁰ Eskom generates 5% of its electricity for use outside South Africa.

In industry, coal is also used, among other things, to produce coke for the steel industry, steam and synthetic liquids. According to statistics from the International Energy Agency (IEA), South Africa's two commercial-sized coal-to-liquids plants (Sasol II and Sasol III) can produce 150,000 barrels of fuel a day, supplying 36 percent of the country's total petroleum fuel requirements.¹¹

It is therefore evident that the South African economy is highly dependent on income from producing, processing, exporting and consuming coal. According to Keaton Energy, South Africa is the fifth-largest producer in the world and the fourth-largest exporter.¹² In 2007, South Africa had proven coal reserves of 48 000 million tonnes.¹³

Emissions relating to coal, considered a dirty energy source, make up more than 40 percent of South Africa's total emissions.¹⁴ Sasols' Secunda plant is the world's second-largest single emitter of CO₂, having emitted approximately 73 million tonnes of greenhouse gas in 2008.

Climate Change Challenges Facing South Africa: Present and Future

While the energy sector generates a massive percentage of the South Africa's greenhouse gas emissions, a huge number of households are still without electricity: approximately 30 percent). More challenging still is that alternatives to coal-based electricity are expensive. South Africa has little or no hydroelectricity potential, and for security reasons the country cannot depend solely on countries in the region with an abundance of hydro power. Solar and wind power are only viable in areas remote from the national grid.. Alternatively, fossil-fuelled thermal power stations can be easily renewed or built more quickly than nuclear ones, and South Africa's export potential is being boosted by increased international demand for low-grade coal.

South Africa has been looking to the region for alternatives to coal: hydroelectricity from Cahora-Bassa in Mozambique and the Great Inga

¹¹ International Energy Agency, 'IEA energy statistics: Energy indicators for South Africa', (2009), available online: <http://www.iea.org> (accessed 31 March 2011) and International Energy Agency, 'Investment in coal supply and use' (November 2005).

¹² Keaton Energy, available online: http://www.keatonenergy.com/cm/why_coap.asp (accessed 19 September 2008). The current level of proven coal reserves world-wide stands at roughly 850 billion tonnes, of which about 50 billion tonnes occur in Africa. Coal is much more widely distributed geographically than any other fossil fuel.

¹³ Renewable Energy and Energy Efficiency Partnership, 'The Republic of South Africa' (Imbewu Sustainability Legal Specialists (Pty) Ltd, 2009).

¹⁴ Department of Environment and Trade (Republic of South Africa, 2004).

Dam project in the Democratic Republic of the Congo. Mozambique is also providing natural gas to Sasol in Secunda.

However, despite the myriad opportunities and abundance of natural resources indicated above, regional co-operation is limited and the Southern African Power Pool has produced delayed results. The region does not produce clean technologies, relying on expensive imports. It lacks expertise and governance is still a challenge. Instability and civil war have stalled progress. The Inga megaproject centralises much of Africa's electricity sources and requires transmission lines through politically unstable regions. Dams, power plants and transmission lines are often targeted in political conflicts.

In South Africa's pursuit to find a cost-effective solution towards a global transition to a low-carbon economy, there is much scope for co-operation with international partners.

The country is also looking to a variety of international partners to provide it with nuclear facilities (such as France, China and Germany), coal efficiency technology and storage (such as Australia and Norway) and renewable energy technologies and components (such as China, Israel, Germany and Spain).

Assessing Future Mitigation Options for South Africa

In 2006 South Africa's then Department of Environmental Affairs and Tourism initiated an ambitious exercise to determine an appropriate national climate change response. It created long-term mitigation scenarios aimed at identifying South Africa's main carbon mitigation options. This showed that these conclusively lie in the energy sector, particularly in shifting away from coal.¹⁵ The country, with some of the best natural resources in the world, has committed to a target of 10,000 GWh of electricity from renewable energy resources by 2013 – essentially 5 percent of the electricity mix. Critics charge that government has achieved only a small portion of its initial target after six years – and that the goal was less than ambitious anyway. If the target were achieved by 2013 it is estimated that it will generate more than 35,000 jobs, add R5 billion to GDP and R687 million to the income of poor households.¹⁶

At a national renewable energy summit from 19-20 March 2009 in Pretoria, the Energy Minister indicated that more ambitious targets for 2013–18 should be set, starting at 6–9 percent and rising to 9–15 percent of South

¹⁵ Winkler (ed), 'Long Term Mitigation Scenarios: Technical Report', (Pretoria: Energy Research Centre for Department of Environment Affairs and Tourism, October 2007), available online: <http://www.erc.uct.ac.za/Research/publications/07-Winkler LTMS Technical% 20Report.pdf>.

¹⁶ G. Prasad and E. Visagie, 'Renewable Energy Technologies for Poverty Alleviation: Initial Assessment Report: South Africa' (Cape Town: Renewable Energy Technology Working Group, Global Network on Energy for Sustainable Development and Energy Research Centre, University of Cape Town, June 2005).

Africa's energy mix.¹⁷ By pursuing a higher target, most likely dominated by large-scale rollout of concentrating solar power, South Africa's greenhouse gas emissions may (if other mitigation action is pursued) peak and then stabilise by 2025.

South Africa's long-term mitigation scenarios process provides a basis for a broadly supported, robust policy. A South African climate change summit in Midrand in March 2009 also saw the adoption of an ambitious National Climate Framework. This framework – named 'Draft Zero' – incorporated: the government's vision, individual responsibilities of key ministries, a strategic framework and a timetable for action. –Draft Zero will underpin future policy decisions and will be used to inform its international negotiating position.¹⁸ By 2012 it is hoped that policy will be translated into national law.

South Africa in International Climate Change Negotiations

These key developments in climate policy at the national level must align and reinforce South Africa's international position and commitments.

In current climate change negotiations there is increasing pressure on non-Annex I¹⁹ polluters to initiate their own mitigation strategies and to participate more actively in climate change regimes. While South Africa agrees that developing countries have a substantial role to play in greenhouse gas emission reductions (especially because future emissions are likely to be dominated by the growth in developing countries), it also highlights the development challenges faced by all developing countries and recognises that any additional constraint on growth creates a further burden. In this regard South Africa has been playing a significant role at the United Nations Framework Convention on Climate Change (UNFCCC) negotiations. It was the first country openly to contemplate international commitments on mitigation and subsequently initiated the concept of nationally appropriate mitigation actions that are measurable, reportable and verifiable.²⁰ In January 2010, South Africa

¹⁷ Speech by Ms Buyelwa Sonjica MP, Minister of Minerals and Energy at the Renewable Energy Summit (Centurion, Gauteng: 19 March 2009), available online: www.dme.gov.za/pdfs/speeches/2009%20RENEWABLE%20ENERGY%20SPEECH.pdf.

¹⁸ Ministries are currently conducting greenhouse gas inventories of various sectors, including agricultural and transport, to facilitate the adoption of the second national climate change response.

¹⁹ 'Non-Annex I' countries refer to developing countries that do not have legal obligations to reduce greenhouse gas emissions in the Kyoto period 2008–12 for developmental reasons. This is a UNFCCC classification.

²⁰ R., Worthington. WWF 'Cheaper electricity with renewable energy: Costing a 15% target for 2020 for South Africa', published by WWF Living Planet unit (1986) available online: http://assets.wwfza.panda.org/downloads/cheaper_electricity_with_renewable_energy.pdf (accessed 31 March 2011).

signed the Copenhagen Accord and pledged to cut its emissions by 34 percent below business as usual emissions by 2020 and by 42 percent by 2025 conditional on financial and technical assistance, as well as on technology transfer.²¹

South Africa plays a leading role in the Africa Group at the UNFCCC negotiations, insisting on more funding for adapting to climate-related impacts for those least responsible for climate change yet those most vulnerable to its effects. South Africa insists that contributions to the Adaptation Fund should be in addition to existing development assistance and that the fund should be transparently governed with equal board representation of developed and developing countries. South Africa's negotiating team is also vocal on building capacity, transferring technology and increasing funding for cleaner technologies.

South Africa is a vocal member of the G77+China Group, pushing for 'climate equity' and 'climate justice'.²² It believes that countries responsible for historical emissions should bear the brunt of obligations to reduce emissions; in addition emission reductions should be based on the most ambitious scenarios of the Intergovernmental Panel on Climate Change (IPCC). South Africa suggested that Annex I countries reduce 1990 emissions by at least 40 percent by 2020 and by at least 80 percent by 2050. South Africa's former Environment Minister Marthinus van Schalkwyk also spoke about a post-Kyoto regime with comparable targets and binding compliance, recognising the importance of incentives. He emphasised that developing countries should accept their share of responsibility, albeit in a differentiated way, taking their current level of development, economic growth, population or industrialisation into account.²³ South Africa, for example, contributed only 1 percent of global greenhouse gas from 1950 to 2000 and currently contributes 1.5 percent.²⁴ This is a small contribution compared to other developing nations. Africa on the other hand, in its entirety only contributes 3 percent of global emissions.

²¹ A list of Copenhagen Accord pledges are available online at: <http://unfccc.int/home/items/5265.php> (accessed 31 March 2011).

²² 'Climate equity' or 'climate justice' refers to a just division of responsibilities by historical polluters. It is important that the Southern group places pressure on Northern emitters to adhere to stricter commitments.

²³ See for example: 'Speech delivered by Marthinus van Schalkwyk, Minister of Environmental Affairs and Tourism, at the National Climate Change Summit' (3 March 2009) available online: <http://www.info.gov.za/speeches/2009/09030316451001.htm> (accessed 31 March 2011).

²⁴ 2005 data from the World Resources Institute, available online: http://earthtrends.wri.org/pdf_library/data_tables/cli1_2005.pdf (accessed 31 March 2011).

South Africa was president of the Bureau of the African Ministerial Conference on the Environment from June 2008 to June 2009.²⁵ At its conference in Johannesburg in June 2009, Minister Van Schalkwyk called for ‘an African Road Map for climate negotiations’ and for serious commitment to the Bali Strategic Plan for technology support and capacity building. Although other countries in the region do not face the same political pressure for mitigation reductions, South Africa identifies with their adaptation needs and places regional concerns as an important foreign policy priority. South Africa is very aware of its regional image and therefore acts as an advocate for the region and for the continent. It brings a well-qualified negotiating team to push developed countries for more financial and technical commitments.

Developing country alliances seems a functional way for South Africa to achieve national goals. South Africa believes that developing countries should forge a common position to resolve key problems such as ensuring that a greater financial burden is born by industrialised countries that have historically high emissions, as well as to place heightened political pressure on countries like the US, Canada, Japan and Australia to make further mitigation commitments. The BASIC alliance emerged as a powerful negotiating force in the Copenhagen talks. South Africa, along with its partners China, Brazil and India, sought to protect the interests of fast-developing nations responsible for a growing percentage of the world’s emissions. The group helped broker an agreement that has come to be known as the Copenhagen Accord, though South Africa did express disappointment in the deal. This Accord shows the commitment of countries voluntarily to reduce emissions and to make their reduction efforts subject to international review.²⁶

Besides its role in BASIC and the African Group, South Africa is also an important member of the IBSA forum on energy and climate change and the G5/Outreach grouping.²⁷ It also plays an active role in the Major Economies Forum on Energy and Climate and within the G20.

As South Africa is by far the largest emitter of greenhouse gas in Africa with the majority of its emissions originating from the energy sector, South Africa’s cheap but dirty electricity gives it a competitive advantage with energy-intensive sectors.

²⁵ The African Ministerial Conference on the Environment was established in December 1985, after an environment meeting in Egypt. Its mandate is to advocate for environmental protection in Africa; to ensure that basic human needs are met adequately and sustainably; to ensure that social and economic development is realised; and to ensure that agricultural practices meet the food security needs of the continent.

²⁶ L. Friedman, ‘South Africa wants to cut emissions, but lacks policies to match its rhetoric’, *The New York Times*, (5 January 2010).

²⁷ The ‘Group of 5’ is an alliance consisting of China, India, Brazil, Mexico and South Africa. BASIC has the same membership with the exclusion of Mexico.

However, the country's large carbon footprint, particularly per capita, means that the international community calls on it to demonstrate responsible behaviour for the common good. As a large developing country, it will no longer be exempt from compulsory mitigation commitments under a post-Kyoto regime. Approaching future negotiations, it needs to consider innovative ways to retain economic growth and competitive advantage without jeopardising the environment that this development is based on. This can be done by taking advantage of its natural resources (particularly solar and wind) and investing in the research and dissemination of these green technologies. This can be enhanced through partnerships with like-minded states from the North and South.

South Africa is playing a positive role in climate change negotiations internationally and has clearly committed itself to a binding multilateral agreement that honours the principles and intent of the UNFCCC. At the same time it also remains dedicated to the developing world, pushing for climate equity and mobilising additional resources for climate change adaptation.

South Africa's approach to the climate challenge at the international level is driven by important domestic realities, political and economic. Thus, its participation at the UNFCCC is informed by the possibilities and limitations revealed in the long-term mitigation scenarios process which identified the compromises that may be required and the mitigation commitments it might undertake in sectors like energy and power generation. With its emphasis on national concerns and priorities – and a range of political and economic realities on the ground – a lack of commitments at the international level from the big polluters could provide South Africa with the excuse it needs to renege on greenhouse gas reduction commitments.

At national level, however, existing policies on areas such as renewable energy technology and energy efficiency have not been implemented sufficiently. There seems a large gap between written policy and wide-spread implementation; in addition there is an absence of indicators to measure progress. South Africa's international negotiating position must be consistent in complementing domestic initiatives. It lacks a national policy that accelerates the demonstration, development and deployment of low-emission energy technologies, including renewable energy sources, smart-grid systems and energy storage. It needs to refurbish power-generating facilities and co-generation, improve sustainable mobility and the use of low-emission transport vehicles and advance the demonstration of carbon capture and storage and nuclear energy.

Reconciling energy-climate challenges with global climate responsibilities will not be an easy task for South Africa. The transition to a new energy mix requires a combination of approaches from government. These include policy instruments and legal tools to: encourage investment in renewable energy technology; facilitate their deployment into the market; and coordinate approaches in other domains to drive this transition. For South Africa to

achieve this goal all key stakeholders need to be fully involved and the government needs to play a strict role to ensure coordination and encourage a shift in the public mindset.

Co-operation with Partners to Addressing Climate Change: Mitigation and Adaptation

Tackling the challenges of climate change will require creating a consensus around these issues if emerging powers are to be drawn into actively participating in any international agenda. Part of that process will involve bringing leading developing countries together to share common experiences and concerns, providing an opportunity for them to assess the impact of climate change on their development prospects as well as the opportunities that alternative energy might afford them. It is important that leading economies in the developing regions of the world create their own initiatives to support a just and development-led agenda of the global South.

At the same time, while the conditions for co-operation among these emerging powers clearly exist, the form that such co-operation will take is not obvious. Constructive positions on climate change which reflect developing country interests but, nonetheless, contribute to the reduction of carbon emissions and are not a foregone conclusion. The internal debates and external positions on the subject of climate change differ greatly depending on their particular national interests. For co-operation between emerging countries to provide a platform that recognises the centrality of climate change in their respective development strategies and at the same time produces concrete constructive action aimed at alleviating carbon emissions, active engagement with policy relevant data and analysis is crucial.

According to Dr Chris Alden from the London School of Economics, it is for this reason any research on the politics of climate change and the prospects of policy co-operation between states in similar positions in the international power hierarchy will have to go beyond the analysis of rhetorical positions on multilateral gatherings to understand how they coincide with the actual domestic interests of actors involved on this debate.

Through exposure to the comparative data on emissions and its sources, the concomitant policy responses by each state, public and private sector initiatives on climate change and the host of domestic interests in each state that influence this process, the policy making communities in the broader emerging economies will be in a better position to produce a viable contribution to alleviating climate change that nonetheless conforms to their overriding development imperatives. With a more cohesive and ultimately constructive approach to the twin dilemmas of development and climate change formulated amongst the world's leading developing countries, the basis for a responsible – and truly global – policy reaction to this immense challenge is more possible.

To understand whether co-operation is indeed feasible it is important that there is in-depth research on the level of consensus on various issues such as: the approach and priority given development and poverty concerns; the role and reliance of natural resources within national economic and industrial structures; the main source of emissions; the level of ambition within response measures and policies; domestic stakeholders (both public and private) and their influence of public opinion; level of education and outreach; and access to climate-related information. Exchanging data in informal coalition and ad hoc arrangements assists in understanding emerging countries' development aspirations and providing a platform for interaction between policy making elites within these countries.

Developing country co-operation on mitigation

Many of these countries coalesce with other developing countries around carbon emissions and articulate a multilateral arrangement on 'restricting' emissions rather than 'reducing' emissions. The Kyoto Protocol will remain in force as the international climate change regime until 2012. The second phase of the Protocol is currently being negotiated, with the most high profile round of talks having taken place in Copenhagen in December 2009. The next phase will entail penalties for the non-compliance of mitigation actions by big emitters. In this regard, developing economies such as South Africa, China, India, Brazil, Indonesia and Korea are faced with significant mitigation and development challenges. It is thus important and particularly timely to strengthen and extend the dialogue and partnership among fossil-fuel producing and consuming countries (such as Australia).

The mitigation of greenhouse gas presents a common challenge to all emerging economies whose energy profiles are predominantly made up of cheap coal-based energy. According to Professor Winkler from South Africa's Energy Research Centre: "developing countries have a substantial role to play in GHG emission reductions, as future emissions are likely to be dominated by the growth in developing countries".²⁸ In the current round of climate change negotiations there is increasing pressure on developing country polluters to initiate their own mitigation strategies and to participate actively and responsibly in the post 2012 climate change regime. However, considering the immediate development challenges that all developing countries face, constrained economic growth due to reduced dependence on cheap coal will present an additional burden on these countries. South Africa in this regard is a vocal voice that challenges the fairness and equitability of the current system and demands improved governance in climate institutions and decision-making bodies.

²⁸ L. Tyrer, 'Rough Road: South Africa's path on the steep and rocky road to Copenhagen', *Engineering News*, (20-26 February 2009), p. 16.

Due to the fact that many large developing countries have made recent voluntary emissions pledges under the Copenhagen Accord, it is necessary to share best practice in terms of appropriate policy reforms to encourage climate mitigation (such as fiscal and regulatory measurements, punitive measures, subsidies, taxes, public awareness and stimulating public debate on individual behavioural change).

However it is important to note that not every country has the same energy profile. Unlike most developed and many developing countries, Brazil's energy sector contributes little to the country's greenhouse gas emissions, with low emissions intensity for electricity generation due to the extensive use of hydropower. Three-quarters of its emissions result from deforestation and unsustainable land use as agricultural frontiers expand mainly in the Amazon region for large soybean plantations and cattle rearing.²⁹ Brazil's emissions from raising cattle are also substantial. Overall, energy emissions per person are relatively low (1.8 percent in 2004).³⁰ Indonesia also has a similar emissions profile to Brazil. It is among the top three greenhouse gas emitters in the world due to deforestation, peatland degradation, and forest fires.³¹ Emissions resulting from deforestation and forest fires are five times those from non-forestry emissions.³² Large tracts of Indonesian forests have been cleared for palm oil plantations. Some researchers estimate that the emissions from LULUCF, notably deforestation, account for 83 percent of the yearly emissions of greenhouse gases in Indonesia, and 34 percent of global LULUCF emissions. Indonesia's emissions from its energy and industrial sectors are relatively small, but are growing very rapidly. Current emissions from the energy sector account for 9 percent of the country's total emissions. But these emissions from industry, power generation, and the transport sector are growing very rapidly in the wake of industrialisation and economic growth.

²⁹ In climate change policy jargon this is referred to as 'land use, land use change and forestry' (LULUCF). Deforestation contributes to climate change when forests are burnt or cleared for new agricultural land (mainly for large soybean plantations and cattle rearing). Carbon that was previously held in the soil is released back into the atmosphere as carbon dioxide and methane.

³⁰ However Brazil's industrial emissions are relatively carbon intensive: its main contributing sectors are iron and steel, cement, aluminium, chemical, petrochemical, pulp and paper and transportation, all of which are heavily reliant on fossil fuels.

³¹ Trees absorb carbon dioxide as they grow. The United Nations estimates that deforestation accounts for about a fifth of all greenhouse gases from human activities.

³² Annual emissions in Indonesia from energy, agriculture and waste all together are around 451 million tons of carbon dioxide equivalent (MtCO₂e). Yet land-use change and forestry alone is estimated to release about 2,563 MtCO₂e, mostly from deforestation.

Developing country co-operation on adaptation

Adaptation refers to the various means used to address the vulnerability of developing countries to climatic changes and its associated effects, both in the present and the future. It must be noted, particularly for the least developed countries, that a country's vulnerability depends not only on climate variability itself, but also on its government's ability to increase efficiency in the usage of natural resources and energy supplies. Financial, technical and institutional support and capacity-building are often needed to assist poor nations to switch to more sustainable development pathways. While cost estimates are rudimentary and subject to uncertainty in the cases of individual countries, even the most conservative figures estimate a loss of 0–3 percent of global gross domestic product (GDP) annually by the time the temperature has risen 2–3 degrees Celsius.³³

Developing countries, particularly the least developed countries and small island developing states, are the most vulnerable to these impacts and most of them are already facing climate-related stresses, such as an increase in water scarcity and vector-borne diseases; an increase in the frequency and intensity of extreme weather conditions; unpredictability in rainfall; and a decrease in crop yields. Developing countries have been ill-prepared and slow to develop effective 'early warning' systems and response measures to the impacts of climate change. As a result, countries will need to build the capacity of their national and regional governments to address these climate risks, by among other things, ensuring better water management, promoting agricultural development and developing more effective disaster management and early warning systems. Sharing knowledge on best practice adaptation strategies can be crucial for urban planning and the construction of climate-resilient infrastructure. Early warning mechanisms are also essential. Effective adaptation of the kind required is costly and involves not only significant investment in research, awareness-raising and capacity-building, but practical measures such as the 'climate-proofing' of infrastructure projects.

Developing country co-operation to further improve projections and predictions of climate change data

Co-operation in the development of more substantial climate data and analysis capabilities is essential to project climate variability and to analyse its potential impact on vulnerable sectors such as water, agriculture and infrastructure. Data collection and analysis can be done at a national level with the assistance of international partners – for example in the construction of meteorological

³³ J. Llewellyn, *The Business of Climate Change: Challenges and Opportunities*. (Lehman Brothers, February 2007), available online: http://www.lehman.com/press/pdf_2007/TheBusinessOfClimateChange.pdf (accessed 31 March 2011).

stations and in training of human resources, or at an international level through co-operation on the provision of scientific data and climate information.

According to the Council for Scientific and Industrial Research (CSIR) South Africa, Australia is the only country in the southern hemisphere to have developed a coupled global climate model: that is, a model that can be used to predict global climate change.³⁴ Australia is therefore also country to have contributed such predictions to the Assessment Report 4 (AR4) of the IPCC and been part of the broader debate on climate variability in the southern hemisphere. All other countries in the geographical South depend on the North to provide them with global climate change predictions.

According to Dr Engelbrecht of the CSIR's atmospheric modeling unit:

Through the creation of a Southern Axis of model development, with active development initiatives in Brazil, South Africa and Australia as anchor points, various modeling groups can share progress and plans. Several other southern hemisphere countries may eventually become niche contributors. The enhanced southern hemisphere model development effort will benefit the study of southern hemisphere circulation dynamics in general, and will also induce improvements in international model codes.³⁵

The other area in which collaboration has huge potential is within the forestry sector. Brazil, home to one of the greatest ecosystems and forests of the planet, has established a multi-agency program to combat the deforestation of the Amazon using a satellite monitoring system. From 2005-2007 this resulted in a 52 percent reduction of the rate of deforestation.³⁶ Brazil has also adopted a National Plan for the Prevention and Combat of Deforestation which aims

³⁴ The study of global climate change relies heavily on the projections of coupled ocean-atmosphere global circulation models. More active involvement by southern hemisphere oceanographers, climatologists, terrestrial ecologists and modellers in coupled model development is critically needed, in order to improve the simulations of southern hemisphere circulation dynamics.

³⁵ Interview with Dr Francois Engelbrecht, Council for Scientific and Industrial Research (CSIR) South Africa, Atmospheric Modeling Unit, Natural Resources and Environment Project, 31 August 2009.

³⁶ This forms part of a speech 'Climate Change as a Global Challenge' delivered by the Director-General of the Department of the Environment and Special Themes of the Ministry of External Relation, Minister Machado, Embassy of Brazil in London (August 2007).

to reduce deforestation in the Amazon region by 70 percent by 2017.³⁷ These lessons could be useful for those, such as Indonesia and the countries of the Congo Basin, that find it challenging to monitor deforestation.

Developing country co-operation on technology transfer

Developing countries can also co-operate on technology transfer. This aims to accelerate the demonstration, development and deployment of low-emission energy technologies, including: renewable energy sources; smart grid systems and energy storage; refurbishment of power generating facilities and cogeneration; the use of high efficiency energy supply technologies (such as fuel cells); sustainable mobility and low-emission transport vehicles; carbon capture and storage; geothermal; and nuclear energy.

As an example, carbon capture and sequestration technologies have been designed to reduce emissions from coal-fired power stations by capturing CO₂ and storing it instead of releasing it into the atmosphere. This technology offers huge mitigation potential for countries that are fossil-fuel reliant (not for extending the life cycle of fossil fuels, but as a transitional step towards renewables and nuclear energy). There are leading technologies that have been produced in this regard, including in Australia, and that offer huge potential in other coal-reliant societies. However, these technologies are extremely expensive and have yet to be implemented on a large-scale as further investigation is needed to ensure their safety and efficacy, as well as to identify potential site locations and suitability, safety, costing and feasibility.

Coal efficient technology is another option for countries like South Africa and Australia, whose electricity demand is increasing annually – each having to make strategic decisions about the renewal or replacement of old or mothballed coal fired stations. While there is increasing pressure for non-fossil fuels, abundant reserves and low cost make coal the preferred source for the foreseeable future. The challenge is to enhance efficiency and environmental acceptability through clean coal technologies. According to the CSIR South Africa, a process called integrated gasification combined cycle (IGCC) could be applied. It would be more efficient, reduce water consumption and could co-produce liquid and gaseous fuels and chemicals.

There is also much scope for collaboration within the renewable energy technology sector. This sector is positioned to become the fifth largest sector in terms of job creation and investment.³⁸ For instance, German wind farms

³⁷ It must be noted that deforestation is not a priority for all other developing countries.

While forests make up 57.2% of Brazil's total land, they only make up 21.2% of China's total land, 22.8% of India's, 33.7% of Mexico's and 7.6% of South Africa's: Food and Agriculture Organization, 'Global Forest Resources Assessment 2005', (Rome, 2006) available online: <http://www.fao.org/forestry/fra/fra2005/en/> (accessed 31 March 2011).

³⁸ Tyrer, op. cit. (2009), p. 84.

are estimated to have created 40,000 jobs. It has also been estimated that if South Africa reaches 15 percent generating capacity from renewable energy, it will create 34,000 direct jobs by 2020. While generating 5,700 MW of solar photovoltaic power would create 680 full-time jobs and 8,800 construction jobs.

The world has much to learn from Brazil which has made remarkable headway on the promotion and use of renewables as a component of its energy mix with 38 percent of Brazil's energy supply now generated from renewable sources, particularly hydropower, sugarcane and wood.³⁹ In 2002, a law was passed to establish a compulsory market for renewable energy. The programme (PROINFA) helps independent power producers feed power from renewables into the national electricity grid including electricity-generating capacity based on biomass, small hydro power plants and wind power. This, coupled with President Lula's incentives to increase the attractiveness of private investment in hydropower-generation, has resulted in 80 percent of Brazil's electricity being generated from hydropower.

Brazil is also an innovator in developing bio-fuels from sugar cane waste, which it believes has great potential to grow and be transferred to others with a similar emissions profile.⁴⁰ Its National Ethanol Programme was launched in 1975, and has become the largest commercial application of biomass for producing and using energy in the world. This Programme demonstrates the feasibility of large-scale ethanol production from sugarcane and its use in producing automotive fuels. Today, flex-fuel vehicles in Brazil run on any mixture of gasoline and ethanol, based only on the decision of the consumer at the pump. Fuel-flex vehicle sales represent approximately 80 percent of total cars sold in Brazil today. Ethanol has substituted 40 percent of the petrol used in passenger cars.

Indonesia is also progressing towards expanding its biofuel production, both for domestic use in order to reduce oil consumption, but also for export to Europe. Bioethanol is currently produced using mainly sugar and cassava as feed stocks, whereas biodiesel is developed using crude-palm oil, stearin (the non-edible byproducts of crude-palm oil), *Jatropha curcas* and other sources. In 2009, biodiesel from oil palm in Indonesia is projected to reach 700 million

³⁹ E. La Rovere and A. Pereira, 'Brazil and Climate Change: a country profile', Policy Briefs, Science and Development Network, (14 February 2007), available online: <http://www.scidev.net/en/policy-briefs/brazil-climate-change-a-country-profile.html> (accessed 31 March 2011).

⁴⁰ However, it is important to note that Brazil's bio-fuel industry is not necessarily applicable to India or South Africa. Brazil, for example, can support a viable bio-fuel industry without taxpayer subsidies. In contrast, most other countries cannot. According to IISD, bio-fuels require subsidies of between 50-70 cents per litre to replace a litre of fossil fuel, almost as much as the cost of a litre of regular gasoline. Bio-fuels also are water demanding and the use of water to produce energy and not food which is not justifiable in countries like South Africa and India.

litres, or 2 percent of diesel consumption, requiring about 200,000 hectares of oil palm plantations. Demand for biodiesel is expected to increase by 2025, when it reaches 4,700 million litres, or 5 percent of total diesel consumption. This will require 1.4 million hectares of oil palm plantations – about 2.5 times the area of the island of Bali. *Jatropha curcas* can grow in degraded lands and promises a good potential to reforest degraded areas, while at the same time providing livelihoods to the poor living near degraded areas and reducing the use of petro-diesel. However, the risks of deforestation, and to some extent land use conflicts with biofuels, have not been thoroughly assessed. Historically, oil-palm production in Indonesia has been a major driver of deforestation. Given the similarities of Brazil and Indonesia, there exists large potential for best practice scenarios.

Genuine co-operative technology transfer between developing and developed countries is therefore essential: ‘Developing countries should unite efforts to build production capabilities with strategies to advance research and development’. Investments need to be targeted to areas of under-funded ICT research, in fields such as agricultural production, environmental management and public health’. One important goal of strengthening the scientific and technology policy in developing countries is the generation of new goods and services that can improve carbon reduction. Stimulating the low carbon technology industry is one way to achieve commercialisation of research and development.⁴¹

The importance of North-South partnerships cannot be ignored as the developed world’s initial experience on promoting energy efficiency can provide valuable background for countries attempting to reform their energy policies.⁴² Many technologies based on resource endowments of developing countries, for example biomass and geothermal, do not yet exist or are too expensive. Collaborative research and development between developing and developed country institutions is necessary to address this gap.⁴³

There remain substantial economic, social and political hurdles to overcome with the introduction, transfer and dissemination of technology. These include: the lack of technical capacity to utilise introduced technologies; the

⁴¹ C. Juma, C. Gitta, A. DiSenso and A. Bruce, ‘Forging New Technology Alliances: the Role of South South co-operation’ *The Co-operation South Journal* (2005), pp. 59-71, available online: <http://ssc.undp.org/uploads/media/6Technology.pdf> (accessed 31 March 2011).

⁴² *Ibid.* p. 59.

⁴³ According to Prasad and Kochher, ‘India suggests that this may be done by a Venture Capital Fund, located in a multilateral financial institution, with the resulting IPRs being held by the Fund, and worked at concessional cost in developing countries and on commercial basis in developed countries’: Prasad and Kochhner, ‘Climate change and India – Some major issues and policy implications’, Department of Economic Affairs and Ministry of Finance, Government of India, Working Paper No 2/2009-DEA, (March 2009).

lack of appropriate laws and regulations; defective administrative structures and insufficiently developed market conditions.⁴⁴ Also, those that own the technology need to be protected by appropriate intellectual property rights.

Conclusion

Climate change is a global challenge that requires the participation of all countries. South Africa faces many challenges in this regard and although it has made progress independently, its efforts can be enhanced and encouraged through collaboration with other like-minded countries.

Energy needs and climate impacts are increasingly contributing to a geopolitical realignment that will result in the new political relationships of the 21st century. A new era in climate change multilateral arrangements now exists with the creation of new coalitions and issue-based alliances. This is evident through the co-operatBASIC Group discussions leading up to Copenhagen, as well as through the Asia-Pacific Partnership for Clean Development and Climate and the Forum for Forestry.

These alliances have the potential to provide a platform for information sharing, knowledge and coalition building among policy makers in order to develop a dialogue with research institutions from industrialised countries through recognised forums.

These countries share many similarities: they are all significant contributors of greenhouse gas emissions, both globally and within their regions; they are all vulnerable to the impacts of climate change, although some more than others given their differing socio-economic performance and their ability to buffer the impacts of climate change on sensitive sectors; all have contributed to voluntary national commitments within the Copenhagen Accord (December 2010), with some promising more ambitious commitments than others; and all are political leaders in their respective regions and all are dedicated to obtaining a fair and equitable climate regime post Kyoto. All countries are also pursuing international partners to further their interests on the global stage and protect their interests in their regions.

However, it is also important to realise that despite their common interests as developing nations, countries will act and react to the negotiations primarily from a national standpoint. It would be naïve to expect emerging countries to be driven by anything less than domestic stakeholders, national interests and local realities. Different countries have differing priorities and challenges: for example, South Africa and Australia have high emissions per capita ratio, unlike China and India – while the majority of Brazil's and Indonesia's emissions

⁴⁴ S. Sudo, 'Energy efficiency, technology and climate change: The Japanese experience', in Loh, Stevenson and Tay (eds.) *Climate Change negotiations: Can Asia change the game?*, (Civic Exchange 2008).

do not originate from the energy sector but rather from deforestation, land-use change and land degradation. To understand these dynamics more clearly, it is important to interrogate what informs individual countries' negotiating positions at an international level.

In order to make progress and to advance the global climate agenda, it is perhaps practical to focus on the least contentious issues and to make progress on the 'low-hanging fruit'. This is evident for example in role that Brazil and Indonesia play in forums where they represent their forestry interests.

More contentious issues also exist that cannot be ignored. However, there is major scope for collaboration and shared information on the debate on biofuels for example within Indonesia, Brazil and South Africa. Commercial agriculture has recognised the potential that biofuels like sugar cane and jatropha offer and, as a result they are expanding cultivation in Kwazulu-Natal province and the region. Furthermore, there is scope for co-operation to improve the accuracy and availability of scientific projections and relevant data; collaboration on ways and means to reduce overall carbon emissions in an ambitious southern mitigation proposal and a common position of IBSA on an adaptation agenda for the South.

Each emerging economy should seek to lead in areas where it has competitive advantage and expertise. South Africa, for example, should take the lead on mineral processing, refineries and metal production; China on energy-efficient goods and renewable technologies; India on the services sector; and Brazil on land use and forestry. These developing countries could exchange knowledge and co-operate regarding these sectors. For example, India has adopted efficient super-critical technology in four plants under construction. This technology would be very useful to assist South Africa in moving towards energy efficiency targets in its coal-fired plants.

APPENDIX 1

Outside the formal negotiating structures of the UNFCCC, there are a number of informal negotiating forums, or so-called ‘near negotiations’, which can unblock areas of disagreement in the formal negotiations and bring developed and developing countries together to increase understanding, transparency and to build trust.

Example of these informal issue-based groupings include:

The G20 Major Economies Forum on Energy and Climate Change:

The G20 Summits focus primarily on international economic and financial issues. However, the agenda has broadened to include low-carbon/green growth, as well as wider energy and climate change issues.

The Major Economies Forum (MEF):

The MEF is a US initiative launched in 2009 that intended to enable a dialogue between developed and developing major economies in order to generate the necessary political momentum for a successful outcome at the UNFCCC in Copenhagen, as well as exploring opportunities for concrete initiatives and concerted actions that increase the supply of clean energy while reducing carbon emissions.

The G77 and China Grouping:

The G77 and China, was established in 1964 and now has approximately 136 developing and poor member nations (including the BASIC countries). This group has become a powerful lobby group in negotiation forums, including last year’s Copenhagen climate conference. This coalition is based on the principals of climate equity in the division of the remaining carbon budget, differentiated but common responsibilities, financial and technical support from the North to the South. G77 + China’s overall greenhouse gas emissions are 40.69 percent of world total, just over that of the G8 which makes up 39.63 percent of world total. In per capita terms from 1950-2000, the G77 + China produced 95.9 tons while the G8 519.5 tons. All G77 members maintain a coherent position on the following: deeper cuts in greenhouse gas emissions in the North; international support of development through additional finance, the adequate transfer of technology and capacity building; and the paying for those having to adapt to the adverse impacts of climate change. A common Southern position on these issues would give the developing world more leverage in the negotiations to encourage ‘common but differentiated responsibilities’ from that of the historical emitters in the North. An alliance and further commitments by the major emerging

economies would put further pressure on the United States, Canada, Japan, and Australia, and hold other big greenhouse gas emitters to account.

BASIC Group:

This grouping is an informal and temporary coalition of countries – namely Brazil, South Africa, India and China, all of which are members of the G77 and China grouping. BASIC countries account for approximately 30 percent of global emissions. Although joined but common responsibilities (dependant on capabilities) all countries have very different positions given their divergent national interests. There is a growing expectation that the four countries should begin to take on responsibilities commensurate with their growing capabilities. BASIC group seek to provide leadership reputation and catalyze progress in the UN negotiations. BASIC Group met before Copenhagen to discuss their common negotiating position. The group, for example, rejected the draft on the global emission cuts proposed by host country Denmark. They have met twice since Copenhagen (in Delhi and Cape Town) to discuss the way forward. They remain dedicated to their G77 agenda. In Copenhagen, China, India, Brazil and South Africa offered voluntary emissions cuts by 2020.

Indonesia currently plays a bridge-building role in international forums. Indonesia's climate change adviser Agus Purnomo recently said "Our strategy is to take the middle path to ensure all parties reach a consensus on a climate deal". It is for this reason that Indonesia remains an observer to the BASIC Group discussions and has not formally joined the Group. "The four are a group of eminent countries that need to be heard. Their voice is crucial for the success of climate talks." However, "the Indonesian government needs to find out more about the targets and agenda of BASIC", and is cautious in considering joining BASIC since it could make climate change talks even more difficult to reach consensus. The Indonesia government is considering whether the G77 platform is perhaps more appropriate to strengthen its position in climate talks. "Indonesia must be careful because it could benefit China and India in its fighting for their interests against the rich nations." Indonesia has also been actively involved in informal meetings, including the G20 major economies forum on energy and climate change and the group of forest nations known as the F-11.

Mexican Initiative:

As chair and hosts of the COP in 2010, Mexico is leading a process to support the formal UN negotiations. They have used their convening power to set up a 'Contact Group' with around 30-40 developed and developing countries. The first meeting of this 'contact group' format took place in Mexico City in March 2010.

Asia-Pacific Partnership for Clean Development and Climate (APP):

This alliance is an innovative new effort to accelerate the development and deployment of clean energy technologies. APP comprises of government, business and research communities from Australia, Canada, China, India, Japan, Korea, and the United States. These countries co-operate on eight sectors in which all countries have substantial experience. For example, in coal mining, member states generate approximately 65 percent of world primary coal production. They have committed to collectively work towards improving the efficiency of the mining and processing of coal and improving the monitoring and control of coal mine methane gas that can make a significant contribution to emissions reductions.

PART 4:
GLOBAL SYSTEM

From the G20 to the G2?: The Evolving International Order and its Implications for Australia



*Mark Beeson**

The G20 looks like an organisation whose time has come. Long-run changes in the structure and operation of the international system seem to have made alternative forums less relevant or desirable than they once were, for reasons that are not hard to discern. On the one hand the nature of the problems that international organisations are asked to deal with are often economic, arcane and ubiquitous; the need for specialist forums to deal with technically complex challenges seems increasingly urgent. On the other, the geographically limited membership of organisations like the G7 leaves them looking unrepresentative, elitist and anachronistic.¹ More pertinently, perhaps, it has become less plausible to think that any organisation that seeks to deal with the operation and management of the international economy could possibly do so without including China. After all, without China's active economic support, the US – still the dominant actor in all the extant international institutions – might find itself more constrained than might be expected of the 'hegemonic' power of the era.² Indeed, so deeply intertwined have the fates of the US and China become, and so important are they both to the stability of the contemporary economic, political and strategic order, that some observers have begun to speak of the emergence of a 'G2', without which little may be accomplished.³

It is against this evolving background of systemic transformation and institutional evolution that the following discussion is organised. The first part of this chapter provides a brief sketch of the new international order of which the G20 is a part, something which helps to explain why the G20 has become so prominent and why so much is expected of it. The second section explains the role of the United States and its increasing dependence on China, and suggests

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¹ R. Wade, 'A new global financial architecture?' *New Left Review* (2007) vol. 46, pp. 113-129; R. Peet, *Unholy Trinity: The IMF, World Bank and WTO*, (London: Zed Books, 2003).

² M. Beeson, 'Trading places? China, the United States and the evolution of the international political economy', *Review of International Political Economy*, vol. 16, no. 4 (2009), pp. 729-41.

³ Z. Brzezinski 'The Group of Two that could change the world', *Financial Times* (January 13 2009).

that ‘great powers’ may continue to determine major international issues, notwithstanding the emergence of new forums like the G20. The final section considers the implications for ‘middle powers’ like Australia, and suggests that while its ability to shape transnational issues may remain limited, it is not without influence. Indeed, while China and the United States will remain pivotally important players in the international system, both may find it difficult to dominate it, thus opening up a small, but not insignificant, political space in which politically entrepreneurial states may have an opportunity to promote alternative responses to global challenges.

The Evolving International Order

International institutions can be hard to create and even harder to kill off. Once established though, institutions can frequently take on a life of their own, reflecting an earlier set of struggles and problems that may no longer be relevant.⁴ There are some well known examples of such anachronisms, the UN Security Council being the most notorious, perhaps. It often requires a major shock to the system to either highlight the inadequacy of the existing institutional architecture, or to provide the catalyst for something new.⁵ There has been no shortage of suitably powerful shocks to the system over the last decade or so, and they continue to reverberate through the international system at the time of writing.

Significantly, the most important shocks to the international system since the end of the Cold War have arguably been economic rather than geopolitical, September 11 notwithstanding. This tells us something important about the nature of the contemporary international system and the issues that are uppermost in policymakers’ minds – or at least in those ‘developed’ economies that have both the luxury, capacity and the incentive to take the complexities of economic management seriously. It is worth emphasising at the outset that concerns about economic management and the creation of an appropriate institutional architecture with which to try and ensure the smooth functioning of an essentially liberal form of capitalism were the defining features of the international order for some fifty years or so.⁶ A number of unexpected, rapidly evolving crises, and a longer-term concern with the basic fairness of the overall system have, however, led to calls for its overhaul and transformation.

⁴ P. Pierson, ‘Increasing returns, path dependence, and the study of politics’, *American Political Science Review*, vol. 94, no. 2 (2000), pp. 251-267.

⁵ W.W. Widmaier, M. Blyth and L. Seabrooke, ‘Exogenous shocks or endogenous constructions? The meanings of wars and crises’, *International Studies Quarterly*, vol. 51, no. 4 (2007), p. 747-759.

⁶ M. Barnett, and M. Finnemore, *Rules for the World: International Organizations in Global Politics*, (Ithaca: Cornell University Press, 2004).

Before considering how effective or appropriate these have been, a couple of other features of the old order are worth highlighting.

First – and this is central to the normative critique of the old liberal order – there is a widespread concern about the values that are embodied in the Bretton Woods institutions and the economic principles that have come to be associated with the so-called ‘Washington consensus’.⁷ Not only were the liberal economic principles championed by the likes of the International Monetary Fund and the World Bank thought to reflect and promote the interests of the United States and the ‘northern’ core economies more generally, but the unrepresentative nature of the powerful international financial institutions (IFIs) meant that alternative perspectives were effectively marginalised.⁸ At the height of the Cold War, such ideological and institutional ‘mono-cropping’ was,⁹ perhaps, understandable, if unpalatable for those countries on the receiving end of the IFIs’ demanding policy interventions. But what made the IFIs’ actions especially difficult to accept was not just the intrusive, often politically destabilising nature of their policy agendas, but the fact that such initiatives were often presented as if, to paraphrase former UK Prime Minister Mrs Thatcher, there was no alternative.

Second, one of the key features of the old institutional architecture that dominated the first few decades after World War II—and this is the second point to highlight—was the appearance of a separation between politics and policy. Indeed, under the rubric of ‘good governance’, which came to be a prominent feature of the IFIs’ evolving policy agenda from the 1980s onwards, politics was largely removed from discussions about how effective economic management and development was actually going to be achieved.¹⁰ As a consequence, IFIs’ policies frequently assumed a highly technocratic character that reflected the intellectual orientation of the Western-trained economic experts who attempted to implement them on the ground.¹¹ The subsequent failure of the IFIs to transform economic outcomes in much of the ‘developing world’ was, as far as their legions of critics were concerned, eloquent confirmation of

⁷ R. Latham, *The Liberal Moment: Modernity, Security, and the Making of Postwar International Order*, (New York: Columbia University Press, 1997).

⁸ N. Woods, ‘The United States and the international financial institutions: Power and influence within the World Bank and the IMF’, in R. Foot, S.N. MacFarlane and M. Mastanduno *US Hegemony and International Organisations*. (Oxford: Oxford University Press 2003), pp. 92-114.

⁹ P. Evans, ‘Development as institutional change: The pitfalls of monocropping and the potentials of deliberation’, *Studies in Comparative International Development*, vol. 38, no. 4 (2004), pp. 30-52.

¹⁰ R.A. Higgott, ‘Contested globalisation: The changing context and normative challenges’, *Review of International Studies*, vol. 26 (2000), pp. 131-153.

¹¹ J. Chwieroth, ‘Neoliberal economists and capital account liberalisation in emerging markets’, *International Organisation*, vol.61, no. 2 (2007), pp. 443-463.

either the privileging of the interests of the developed world, the inappropriateness of this policy agenda for would-be developing economies, or both.¹²

A few final observations are worth making about the old order as they provide the context for today's debates and highlight why the question of international economic management remains complex and contested. First, the old order wasn't all bad: whatever may be said about the Bretton Woods institutions and the political-economic regime that was established under the auspices of American hegemony, it provided the basis for the remarkable and rapid recovery of capitalist economies from Europe to Asia. The second point to emphasise, however, is that for the countries of Asia in particular, their remarkable economic development may have occurred within the geopolitical shell of American strategic dominance, but their economic expansion was achieved by studiously ignoring the nostrums of the supposedly optimal liberal economic model. On the contrary, East Asia's powerful, interventionist states – of which China is but the latest and most important example – have prospered by following an altogether different path to prosperity, one that regards unfettered markets with scepticism bordering on hostility.¹³ Recent events have done little to change this underlying orientation; this helps to account for the difficulty of managing the international economy through multilateral mechanisms.

Crisis as a Catalyst

Despite the conscious or unconscious efforts of the Western-dominated IFIs to present questions of economic development and management as essentially technical and apolitical reflections of economic orthodoxy, it became increasingly clear that not only were there alternative developmental paradigms, but that they might actually be more successful than those proposed by the likes of the World Bank. Nevertheless, with little sense of irony or contradiction, the IFIs continued to exert direct political pressure for reform over countries that sought their assistance. Even though East Asian economies had generally not followed IFI advice when achieving their remarkable growth rates, they were encouraged to integrate themselves more fully into an increasingly interconnected international economy by removing trade barriers and opening up their capital accounts. While there may be much to be said for the former in certain circumstances, the inherent dangers to small economies 'prematurely' opening themselves up to massive, often short-term, speculative flows of highly

¹² H.-J.Chang and I. Grabel, 'Reclaiming development from the Washington Consensus', *Journal of Post Keynesian Economics*, vol. 27, no.,2 (2005), pp. 273-291.

¹³ R. Stubbs, *Rethinking Asia's Economic Miracle*, (Basingstoke: Palgrave, 2005).

mobile international capital became all too clear in the crisis that struck East Asia in the late 1990s.¹⁴

Much has already been written about this episode, but a few simple points are worth highlighting. First, even though the IMF in particular played a prominent role in ‘crisis management’ during the East Asian crisis, its actions were widely criticised and provided ammunition for critics who thought that its actions were inappropriate and partisan.¹⁵ Second, even those East Asian countries that were not devastated by the crisis were forced to confront the reality that, on the one hand, they were exposed to economic and political forces over which they had only limited control and, on the other, that they did not have indigenous institutional mechanisms with which to either provide regional crisis management or – more ambitiously perhaps – to provide a platform upon which to champion alternative ideas about the way the international system might be run. Significantly, the crisis provided a major catalyst for the development of both regional cooperation and institution-building, and for an on-going international conversation about the need for, and possible shape of, a ‘new international financial architecture’.¹⁶

It was, of course, from this general background that the G20 emerged. The genesis, evolution and development of the G20 reflects many of the issues discussed so far. The establishment of the G20 and the Financial Stability Forum (FSF) at the same time is an implicit reflection of the dual nature of international economic cooperation. At one level the challenge is, indeed, technical – something the increasingly arcane and complex nature of financial sector innovation necessitates: it simply requires specialist expertise to be able to understand, much less regulate, the activities of financial actors and the instruments they have created over recent years. The FSF provides a venue in which the technicalities of financial regulation can be at least ventilated, if not resolved. At another level, however, there is an equally important political question about whether policymakers want to regulate such behaviour in the first place. The G20 was originally conceived as a way of responding to the challenges posed by the growth in the scale and complexity of the financial sector as it became painfully apparent that, left to its own devices, it could threaten the stability of the wider international economy.¹⁷ The East Asian

¹⁴ P.R. Krugman, *The Return of Depression Economics*, (London: Penguin, 1999).

Best, J. (2010) ‘The limits of financial risk management: Or what we didn’t learn from the Asian crisis’, *New Political Economy* 15 (1): 29 - 49.

¹⁵ J.E. Stiglitz, *Globalization and Its Discontents*, (New York: Norton, 2002).

¹⁶ W.W. Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism*, (Ithaca: Cornell University Press, 2009).

¹⁷ J.J. Kirton, ‘From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance.’ Paper presented to Annual Convention of the International Studies Association (Hilton Hawaiian Village, Honolulu, Hawaii, 1-5 March 2005).

crisis provided the initial impetus for a serious conversation about the operation of the international financial system, the potential dangers it posed and possible ways of regulating its activities. The G20 seemed to offer precisely the right sort of venue to do this as it included many of the world's largest economies, some of its most populous nations and even some of those states – such as Indonesia and South Korea – which had been its principal victims. The fact that the world has recently worked its way through yet another, even more serious, crisis which also has its origins in a still unregulated financial sector is a telling indicator of how little progress has actually been made.

The Limits to Co-Operation

There are two interconnected issues at the heart of debates about the possible reform of international finance which help to explain why agreement on what to do has generally proved difficult and why the G20, in particular, has seemed unable to realise the hopes of some of its more enthusiastic members such as Australia. When it was inaugurated, the G20 was considered to be especially well-equipped to address the issue of financial regulation because it was in the right place at the right time. Not only was it founded in direct response to a specific crisis and the calls for regulation it had engendered, but its membership seemed to make it uniquely well qualified to address the issues of inclusivity and representativeness that had undermined the authority of institutions such as the IMF and the G7. The reputation of the IMF as an independent and credible organisation had taken a major hit, while the G7 and even the G8 struck many as hopelessly anachronistic and emblematic of an old order whose time had passed.¹⁸

The relative uniformity of opinion that was such an anathema to critics of the IMF and the G7 was also one of these organisations' strengths, of course: limited numbers and/or a broadly held ideational consensus about how the economic world worked and how it should be managed gave these organisations an effectiveness that has eluded the G20. By contrast, the G20's great potential strength and one of its principal selling points – its more extensive and representative membership – has actually been something of a problem. Diagnosing the problem has proved to be highly contentious, let alone deciding how to remedy it. Leslie Amijo distinguishes four broad orientations toward the financial sector and the way it should be managed, ranging along a spectrum from *laissez-faire* liberalisers, transparency advocates, financial stabilisers to

¹⁸ C.F. Bergsten, 'The G-20 and the World Economy', *World Economics*, vol. 5, no. 3 (2004), pp. 27-36.

outright anti-globalisers.¹⁹ The intention here is not to provide an extensive commentary on the possible merits of these positions, but to highlight both their diversity and – more importantly, perhaps – the fact that each position enjoys the support of more or less powerful advocates who have attempted to promote their particular world views and have them incorporated into any collective regulatory agenda.

At one level, none of this is especially surprising. On the contrary, different states would be expected to champion different positions based on their specific historical circumstances and their different modes of integration into the global economy or, to be slightly more accurate, the way the financial sector in what might be called their national economic space is incorporated into the wider international financial system. This is a basic principle of political-economy. Indeed, imprecise and blurred as such categories are when attempting to describe something as complex, elusive and mobile as international finance, it is clear that some parts of the global economy play different roles in the scheme of things, and that nationally-based policymakers will be aware of this and factor it into their domestic *and* international deliberations. In other words, for all the talk of borderless worlds and the stateless nature of capital, parochialism is still alive and well. For example, before the 2008 financial crisis in which Britain has been especially badly affected, Gordon Brown's reputation and career had largely depended on his claim that he had made London one of the world's most important financial sectors through a strategy of 'light touch' regulation, or essentially leaving the City to its own devices. His subsequent metamorphosis into the man who saved the global system from economic catastrophe is one of the more remarkable pieces of political rebranding in recent times and a sobering reminder of how quickly the conventional wisdom can change.

Changeable though they may be, the persistence of national perspectives is crucial in international forums. In this context, the position of the United States has been pivotal and, on occasion, a major potential obstacle to reform. Wall Street is, after all, a powerful economic and political force in the United States, and US domestic and foreign policy has generally reflected this.²⁰ The extent of 'regulatory capture' in the United States in particular is striking, and makes establishing support for, let alone effectively addressing, financial sector reform inherently problematic.²¹ Even in the aftermath of the worst

¹⁹ L.E. Armijo, 'The terms of the debate: What's democracy got to do with it?' in L.E. Armijo *Debating the Global Financial Architecture*. (Albany: State University of New York Press, 2002), pp. 2-62.

²⁰ M. Konings, 'The construction of US financial power', *Review of International Studies*, vol. 35, no. 1, (2009) pp. 69-94.

²¹ A. Baker, 'Restraining regulatory capture? Anglo-America, crisis politics and trajectories of change in global financial governance', *International Affairs*, vol. 86, no. 3 (2010), pp. 647-663.

economic crisis since the Depression and the devastation of much US industry (to say nothing of the housing sector), Wall Street insiders have had oversight of the reform process.²² While reform efforts in the United States do appear to be gaining some momentum and there may even finally be a real effort to wind-back the power of financial capital and apply real oversight of the banking sector, it is far from clear that US foreign economic policy will be anything other than driven by national impulses or that the regulators will ultimately triumph.²³ In previous crises the United States has often acted unilaterally and opportunistically in pursuit of narrow national interests, even where this has jeopardised the system as a whole.²⁴ There is no reason to expect this to change, even under the enlightened leadership of President Barack Obama.

There is no small irony in all of this because one influential school of thought, political economy, posits that the United States as the hegemonic power of the day plays a pivotal, essentially benign role in the international system, selflessly providing the vital public good of an open and stable economic order. The reality has often been rather different. In practice, the United States has, until recently at least, been an unabashed advocate of financial sector liberalisation – a position that has been markedly at odds with some of the casualties of such policies. The reasons for US support for continued capital mobility are not hard to discern: on the one hand many of the world's most important and largest financial institutions are 'American', or at least domiciled in the United States. On the other, the United States itself has become entirely dependent on massive, continuing inflows of capital from other parts of the world to underpin both its budgetary position and, until recently at least, the lifestyles and consumption patterns of many American citizens.²⁵ The fact that one of the richest countries in the world lives off the savings of some of the poorest is a noteworthy normative contradiction of the current economic order. Understandably enough, it has been the larger geopolitical consequences of this situation that has attracted the most attention.

From the G20 to the G2?

The most important question facing the G20 is whether it represents a new, genuinely representative and inclusive forum, or whether it represents a rather old fashioned geopolitical business as usual in which the powerful do what

²² S. Johnson, 'The Quiet coup', *The Atlantic Monthly* (May 2009).

²³ M Wolf, 'Volcker's axe is not enough to cut banks to size'. *Financial Times* (January 26 2010).

²⁴ M. Beeson and A. Broome, (forthcoming) 'Hegemonic instability theory and East Asia: Contradictions, crises and American foreign policy', *Globalizations*.

²⁵ R.H. Wade, 'The invisible hand of the American empire', *Ethics & International Affairs*, vol. 17, no. 2 (2003), pp. 77-88.

they can and the weak do what they must.²⁶ Given the G20's relative youth, it is difficult to be certain. Insiders claim that discussions within the G20 are comparatively free-wheeling and open to new ideas, and that the organisation really does present a forum in which new ideas and actors can play a bigger role. Sceptics fret that little fundamental has changed and that what we are seeing is the continuation of an institutionalised form of hegemony in which the most powerful states dominate the policy agenda and little of substance changes. However, there are grounds for thinking that some aspects of contemporary global governance may have changed, even if some things seem remarkably familiar.

On a positive note, the G20 has undoubtedly been in the right place at the right time, in that its inauguration of 'leaders meetings' coincided with the greatest financial crisis since the Depression. The potential usefulness of an organisation that included all the key players in the global economy was evident to all and the G20 did, indeed, provide a useful forum in which options for crisis management could be canvassed. The agreement that member governments should respond proactively and collectively to the unfolding crisis by pumping vast amounts of capital into their economies and by bailing out stricken financial institutions was widely seen as having staved off the immediate crisis.²⁷ And yet it was far from clear that the G20 was likely to be able to address what was arguably the most important long-term structural problem in the global economy: the US-China relationship.

Debates about the causes and consequences of the current crisis are complex and unresolved, but many think that the US addiction to cheap Chinese capital contributed to the inflation of asset bubbles in the United States, the sudden puncturing of which revealed other weaknesses in the operation and governance of the financial sector.²⁸ 'Re-balancing' the global economy is widely seen as necessary if greater stability is to be achieved.²⁹ The question is whether the G20 – or any other multilateral organisation for that matter – can influence the behaviour of the what are now the world's two most powerful states? The United States' record in this regard is not encouraging: despite President Obama's endorsement of the principle of multilateralism, American lawmakers are notoriously protective of domestic autonomy and unused to giving the views of others much weight. China, too, is seeking to regain its status

²⁶ M. Beeson and S. Bell, 'The G20 and international economic governance: Hegemony, collectivism or both?', *Global Governance*, vol. 15, no. 1, (2009), pp. 67-86.

²⁷ P. Stephens, 'Summit success reflects a different global landscape'. *Financial Times* April 2 (2009).

²⁸ M. Wolf, *Fixing Global Finance: How to Curb Financial Crises in the 21st Century*, (New Haven: Yale University Press, 2009); B.S. Bernanke, *The Global Saving Glut and the U.S. Current Account Deficit*. Homer Jones Lecture, St. Louis, Missouri (2005).

²⁹ C.F. Bergsten, 'The dollar and the deficits', *Foreign Affairs*, vol. 88, no. 6 (2009), pp. 20-38.

as a great power and, as the talks at Copenhagen demonstrated, quite willing to flout international public opinion and peer pressure if it judges it to be in its national interest to do so.

Whatever course international economic management takes, it is not unreasonable to suggest that not much will be achieved without the support or at least the acquiescence of not just the United States, but also an increasingly self-confident China. Indeed, so pivotal have these two states become, that it has become commonplace to talk of the emergence of a 'G2' – a bilateral relationship of such significance that not much will be achieved without it. Given the importance of the economic relationship, and the growing political tensions that are swirling around it, there is every reason to hope that it can be managed without destabilising the rest of the international economy. There is, however, no reason to suppose that the discredited liberal model that has given priority to the needs of financial capital will continue to be so dominant, given its loss of legitimacy and the presence of increasingly assertive actors like China.

Whether an institution like the G20 can influence the behaviour of its most powerful members is unclear. If not, it will be a major diplomatic disappointment for states such as Australia which has invested great hopes and no small amount of political capital in this organisation.³⁰ For states such as Australia, the G20 represents a much-coveted seat at a big table with the world's most powerful countries. And yet, despite this achievement, it is not clear that Australian policymakers will be able to influence the G20's most powerful members. This is not simply because of China's and the United States' relentless pursuit of their own national interests. Australia is further constrained by its subordinate strategic relationship with the US and its growing dependence on China as its most important export market. Australian policymakers are wary about jeopardising either of these pivotal relationships, so the idea that the G20 can provide a technocratically-oriented, neutral venue in which 'good' policy can be determined according to some apolitical, optimal criteria looks rather optimistic. Countries bring a variety of cultural, historical and ideological baggage to multilateral arenas and it is often difficult to put such issues aside. Having said this, there is a widespread recognition that many of the world's most pressing problems require international cooperation of some sort, so there is a basis for negotiation and cooperation. As Australia's history of activist middle power diplomacy reminds us, there is also some scope for policy entrepreneurs to raise new ideas, even if these don't always translate seamlessly into practice. But given that the old financial order is clearly dysfunctional and even dangerous, there is scope for new thinking. Timing is still on the G20's side; whether it can seize the moment is less clear.

³⁰ K. Rudd, 'Leaders must act together to solve the crisis'. *Financial Times* (January 7 2009).

uncertain developments in the future. The efforts so could be considered stop-gap measures and only temporary solutions. The situation needs to be watched carefully because there might not be enough support from the population for further necessary actions in the future.

In trade, the G20 has helped to prevent ‘beggar thy neighbour’ policies. While there have been whiffs of protectionism, these have not been extensive and debilitating for free trade. Still, they should be considered as a harbinger for the future. Signs of protectionism could be dangerous, as multilateral efforts at the Doha Round remain stuck, and the Obama Administration has not developed a proactive trade policy. President Obama might be inclined to support free trade, but Congress and the Democratic Party are in general opposed to it. So, US domestic politics will most likely prevent this from happening.

The challenge for the East Asian countries which are very dependent on trade is how to re-structure their economies to cater for domestic consumption and lesser on foreign trade. This is because the US and Europe – the two most important targets for exports – will not have the capabilities to import in the future as they did before.

In the end, East Asian countries have to create their own national resilience, consisting of social safety nets, education, health care and green policies – and the finances for all these measures. For this, co-operation among the East Asian countries is important because many of them, as emerging economies which have been so dependent on foreign trade, have to learn about these new challenges and how to formulate a new strategy for sustainable economic development. It will not be easy and will require much support and assistance from developed countries, especially Japan. But the G20 could also be instrumental in these efforts.

The growing significance of the Asia-Pacific economies makes it indispensable to include them in the highest forums on global economic issues, including the global imbalance and the global financial crisis. Economic shocks from a country or a region will create strong ripples in the other countries and regions. This is not surprising since the global economy has become more and more integrated, in terms of cross-border trades, financial flows and movements of people. Thus, global institutions, such as the G20, will become indispensable. Internal imbalances, such as China’s low domestic consumption and high savings rate, have created external global imbalances.

What we learn from this is that even though global imbalances need to be discussed at an international level, often domestic policy reforms must be studied internally as they require strong political will to drive them. For example, the high current account deficit in China that has created global imbalances can only be remedied by removing factor market distortions.¹ Hence, global

¹ Yiping Huang, ‘Dissecting the China Puzzle: Asymmetric Liberalization and Cost Distortions’ (China Centre for Economic Research, Working Paper, 2010).

institutions such as the G20, as well as regional institutions, must also be able to support and encourage domestic structural reforms, such as removing factor market distortions in China or financial institutional reforms in the United States and Europe. Therefore, not only must individual countries maintain healthy domestic economies to prevent global ripples due to internal economic shocks, but global institutions must also be able to provide strong support to member countries to implement necessary economic reforms.

One of the most challenging problems in resolving global issues is co-ordination. That is why in the creation of a global institution, efficiency and legitimacy must strike a balance. The role of regional institutions can be significant for a number of reasons. First, regional institutions can help global co-ordination by identifying common regional issues. Regional institutions could also be forums for outreach to non-members. This can reduce legitimacy issues. Second, regional institutions can also serve as intermediate channels where domestic issues are discussed to prepare for global discussion and necessary reforms are implemented regionally. Regional institutions range from ad hoc and informal forums that lack an organisational core to formal organisations or arrangements.

What Can Regional Institutions Contribute to G20?

As Hadi Soesastro aptly put it:

Regional or sub-regional arrangements provide an alternative as they can be used to facilitate stronger voice and sense of ownership among smaller countries ... The new global economic governance structure will need to be based on representative institutions ... an over-arching and inclusive global institution ... is likely to become rather unwieldy. The better alternative would be to have networks or regional arrangements play into the global forums. East Asia's emergency fund, namely the multilateralized CMI, for instance, would be more meaningful if it also constituted a part of a network of monetary funds. ... East Asia's strategic participation in the G20 is aimed not only at securing its role in global economic governance but also at increasing its effectiveness in projecting the region's strategic efforts towards global economic recovery.²

New East Asian Vision Group

In 2009, a track-two dialogue was initiated by three regional experts – Peter Drysdale of the Australian National University, Soogil Young of the National Strategy Institute and Korea National Committee for Pacific Economic

² Hadi Soesastro, 'East Asia, the G20 and global economic governance' (East Asia Forum, 2009).

Cooperation and the late Hadi Soesastro of the Centre for Strategic and International Studies, Indonesia. A meeting was held in Bali on 22 August 2009, and a roundtable in Korea on 5 November 2009 to prepare and propose an Asian agenda for the Seoul G20 Summit on 11–12 November 2010. The three pioneers of this ‘New East Asian Vision Group’ represent the three ‘middle-power’ G20 countries, namely Korea, Indonesia and Australia (famously labelled ‘KIA’, synonymous with the Korean car-maker). The basic question was simple: “what can we, as the ‘middle-power’ countries, contribute to the G20?” East Asian countries of the G20 have already missed an opportunity to contribute a representative voice to the discussion of global economic recovery at the sidelines of the Asia Europe Meeting in Beijing, three weeks before the first G20 Summit in Washington, D.C., by narrowly focusing on the establishment of the Chiang Mai Initiative.³ According to Hadi Soesastro:

The key issues for East Asian members of the G20 are how measures for global recovery can be crafted collectively, what role the region can play to ensure a sustained and effective recovery, and how can the G20 be mobilized to re-shape global economic governance.⁴

This group recognised the shift occurring in global economic power and the need for the G20, as the only overarching global economic institution, to promote strong, balanced and sustainable economic growth as economies began to exit their stimulus packages. From these two meetings a framework paper was produced that was sent to various Korean ministries and government institutions in preparation for the Seoul G20 Summit. The paper proposed structural reform as a central pillar in the agenda of the Seoul G20 Summit.

The Seoul G20 Summit

Prior to the November 2010 G20 Summit in Seoul, the authors of this chapter proposed that the agenda should include four dimensions: promoting macro-economic stability; encouraging financial reforms for short-term priorities; reducing the global imbalance for medium-term priority; and reforming governance in international institutions in trade and finance. The first two dimensions were items discussed at the Toronto G20 Summit in June 2010. The third dimension is important to sustain a strong, balanced and sustainable growth beyond the 2008 global financial crisis. Structural reforms have been recognised as key factors to reduce global imbalance that must be imbedded in the new growth strategy while the new growth strategy must be able to tackle a broad spectrum of regional issues.

As Yiping Huang of Peking University has argued, factor market distortions in China, some of which are inherited from the pre-reform period, have

³ Ibid.

⁴ Ibid.

resulted in a declining labour share and increasing corporate share, lowering household incomes and consumption.⁵ Repressed costs in labour, land, capital and other resources artificially increase production profits, corporate profits and China's competitiveness. This internal imbalance boosts China's current account surpluses and capital outflows in terms of foreign exchange reserves. In the labour market, the Household Registration System (Hukou), which started during the pre-reform period, prohibits many migrant workers in urban areas from benefiting from social insurances which other urban workers enjoy. This causes a downward distortion in terms of China's competitive wage. Land in urban areas is mostly owned by the state; in rural areas land is collectively owned. Until now, land transfers for industrial purposes still charge land use fees that cost on average about only 16 percent of the cost through auctions. Capital also becomes too cheap in China because of financial repression that takes the form of an undervalued currency and artificially low interest rate. This is evident from the gap between the potential growth rate of around 11 percent and the five-year government bond yield of around 3 percent. These are just some examples of factor market distortions in China that unquestionably create an external imbalance. Structural reforms and other domestic reforms need a strong political commitment. Not only is strong leadership needed, but also internal political structures must be efficient.

The fourth dimension which the authors of this chapter suggested should be included on the Seoul agenda was governance reforms at international institutions, such as the International Monetary Fund (IMF). These include implementation of the IMF quota review, completion of the Doha Round and reform of the World Trade Organization (WTO) architecture and international co-operation at other levels beyond the membership of the G20. It is important that G20 members maintain the legitimacy of the institution by engaging with other non-member countries. This can be done under the aegis of regional institutions such as ASEAN. Thus the Asian G20 member economies should broaden their constituency in the Asian and Asia-Pacific region.

The objective of this New East Asian Vision Group was clear: to promote structural reform as a main pillar in the Seoul G20 Summit agenda. However, it is important that Asian G20 members, and any other group like the BRIC countries, do not turn into a structural caucus of G20 membership. In other words, 'caucusing' that is important for co-ordination should not be misunderstood as forming a 'caucus' that can create divisive groupings within the G20 membership.

Considering the close multidimensional interdependence among the regional East Asian economies, Asian G20 members should recognise the need to co-ordinate closely with one another on their rebalancing strategies so that they are geared to a common vision of a rebalanced regional economy. The

⁵ Huang, *op. cit.* (2010).

New East Asian Vision Group is working to consolidate its vision by proposing a more collaborative study to “look further at the East Asian side of the trans-Pacific equation and draw up a vision of rebalanced regional economies on strong and sustainable growth paths” which the Group will then use to “inform the East Asian G20 governments of their optimal policy choices in approaching their common goal of rebalancing in order to assist them with their deliberations for discussion at the G20 Framework discussion.”⁶ The central focus of the study will still be on structural reforms.

According to Hadi Soesastro, East Asian strategic participation in the G20:

is aimed not only at securing its role in global economic governance but also at increasing its effectiveness in projecting the region’s strategic efforts towards global economic recovery ... Presenting these ambitions [to strengthen their financial sectors and promote regional financial and economic integration] through the G20 can also help sharpen the focus in the region in undertaking regional infrastructure development projects that could help stimulate the regional economy and recycle the region’s huge reserves as well as promote structural adjustments to redress the global financial imbalance. The region can also more effectively exert leadership on the trade front to keep global markets open, one of East Asia’s top priorities in the G20. The others are: ensuring adequate financial flows for development; and purposeful coordination of their economic stimulus packages.⁷

Institutions for Regionalism

Regional institutions can become the organs in which G20 operates. Recently, the Asian Development Bank initiated a study on Institutions on Regionalism aimed to enhance co-operation and integration in Asia and the Pacific.⁸ This study is a sequel to *Emerging Asian Regionalism* completed in 2008.⁹ Among the consultants involved in the study were the late Hadi Soesastro of the Centre for Strategic and International Studies Indonesia, Professor Barry Eichengreen of the University of California Berkeley, Professor Andrew MacIntyre of the Australian National University and Miles Kahler of the University of California San Diego. A synopsis of the study is provided below.

⁶ New East Asian Vision Group Proposal, 2010.

⁷ Soesastro, op. cit. (2009).

⁸ See <http://www.adb.org/Documents/Events/2009/manila-ift-workshop/program.pdf> (accessed 30 March 2011).

⁹ Asian Development Bank, *East Asian Regionalism: A Partnership for Shared Prosperity* (Manila: Asian Development Bank, 2008).

There have been significant efforts to institutionalise policy co-ordination and regional integration in Asia as a whole although progress towards regionalism is uneven with East Asia being the most integrated. Recent efforts include the multilateralisation of the Chiang Mai Initiative (CMIM), the establishment of ASEAN Plus Three Macroeconomic Research Office and region-wide free trade agreements (ASEAN-China, ASEAN-India). Despite an abundance of regional arrangements and institutions, there are only a few formal and explicit arrangements for co-operation:

The ADB study finds that while there is a dense web of institutions for regionalism in Asia and the Pacific, they need to receive considerably more powers, as national governments are still reluctant to transfer part of their sovereignty. Pan-Asian institutions are also needed to address specific issues, such as maintaining financial stability or tackling environmental degradation, and to ensure that existing obligations and commitments are implemented uniformly across the region.¹⁰

In early 2010 the Asian Development Bank surveyed opinion leaders in Asia and the Pacific. In nearly three fourths of the regions studied, opinion leaders believed that:

it is time for the Asia-Pacific to strengthen institutions for regionalism (by institutions here arrangements and organizations ranging from ad hoc and informal forums to formal bodies) by delegating more powers to them, increasing their financial resources, and improving their governance, and to streamline by consolidating existing arrangements into region-wide ones, defining a clearer division of labor among similar institutions and eliminating unnecessary functional duplications.¹¹

There was less support for creating new institutions than strengthening and consolidating existing institutions. Two areas were identified as the top priorities: the provision of regional public goods and the development of regional infrastructure. At the sub-regional level, creating an economic community was seen as a high priority in South East and South Asia, while creating a security zone is seen as a high priority in Central Asia. In the Pacific, free trade and investment area were seen as high priorities.

As outlined in the *Emerging Asian Regionalism* report, Asia could move towards “a strong, prosperous, outward-looking Asian economic community,

¹⁰ Asian Development Bank, ‘Asia Needs Pan-Regional Institutions for Integration, ADB Panel Says’, (1 May 2010) available online: <http://www.adb.org/Media/Articles/2010/13223-asian-regional-institutions-integrations/> (accessed 30 March 2011).

¹¹ Asian Development Bank, op. cit. (2010).

regionally integrated yet connected with global markets, and with responsibility and influence to match its economic importance".¹² The end result would be what the report calls the 'Asian Economic Community'. A stronger Asian economic community could help global institutions, such as the G20, to operate with more co-ordination, as argued above.

The first goal in a move towards the 'Asian Economic Community' is to strengthen existing regional institutions; for instance, ASEAN Plus Three, which through the Chiang Mai Initiative Multilateralisation (CMIM) is developing a regional financial safety net, should eventually establish a core secretariat. ASEAN Plus Three is moving in this direction, by establishing an ASEAN Plus Three Macroeconomic Research Office (AMRO) in Singapore in May 2011. AMRO could serve as an independent regional surveillance unit for the ASEAN Plus Three and increase members' willingness to lend. CMIM might evolve into an Asian monetary fund. More importantly, the CMIM's self-managed reserve pool should serve as a better regional financial safety net for member countries. Existing regional institutions should also establish a stronger link with one another by conducting a dialogue between over-arching sub-regional institutions such as ASEAN, the South Asian Association for Regional Cooperation and the Pacific Islands Forum.

The second goal is to develop institutions to exploit functional opportunities. The Asian Bond Fund initiative of the Executives' Meeting of East Asia-Pacific Central Banks brings together countries whose central banks are committed to mobilising East Asia-Pacific regional reserves to fund regional development. The third goal is to create an Asian legal court to ensure that international obligations can be implemented. The fourth goal is to ensure that as many Asian countries as possible are represented in regional integration, for example, in ASEAN Plus Three and the East Asia Summit.

In order to implement these goals, "institutions for regionalism need to maximize cooperation and complementarities with global institutions, such as the G20".¹³ They will need to show tangible benefits such as trade, investment and financial stability.¹⁴ They should also be lean and limited in their authority. This is consistent with the Asian governments' attachment to their sovereignty. Successful leadership will require strong leadership. They also require financial commitment. For example, the new ASEAN Plus Three Macroeconomic Research Office will have an estimated budget of \$3 million in 2010-2012.

¹² Asian Development Bank, *op. cit.* (2008).

¹³ Asian Development Bank, *op. cit.* (2010).

¹⁴ Asian Development Bank 'Perception Survey of Opinion Leaders in Asia and the Pacific on the Institutional Architecture for Regional Cooperation' (Manilla: Asian Development Bank, 2010).

What Can G20 Contribute to the Asian G20 Countries?

The first general principle for institutions for regionalism is to make the most of global institutions and conventions.¹⁵ Global institutions and conventions could provide a foundation for liberalising and harmonising arrangements, both at and behind the border. This can ensure that measures adopted are a means to regional integration and also foster harmonisation with the global economy. Among the well-established global institutions that have liberalised and harmonised regional economies include the World Trade Organization, the 1980 United Nations Convention on Contracts for the International Sale of Goods, and the Basel Committee on Banking Supervision and the Financial Stability Board.

G20 has been mandated to be a steering committee for the world economy.¹⁶ But, as proposed above, the G20 can also be an international forum for structural reforms. There could be a divided agenda between developed and developing countries, in which priorities between the two sets of countries can be different. While developed countries might want to focus on macroeconomic stability and financial reforms, developing countries might want to focus on structural reforms. However, the two agendas both must and can be co-ordinated. Macroeconomic and financial issues have been the immediate agenda and were discussed at the Toronto Summit, while structural reforms are a longer term agenda. Both are needed to correct global imbalances and maintain strong, sustainable and balanced growth. These two agendas are not exhaustive. The strategy for new growth should also be 'environmentally sustainable', that is a 'green growth' strategy.

Therefore, on the macroeconomic and financial fronts, G20 can serve as a global financial safety net, a forum to co-ordinate exit strategies and an institutional framework to ensure that member countries are consistent in their efforts to achieve strong, sustainable and balanced growth. On the non-macroeconomic and non-financial fronts, G20 can serve as a forum for structural reforms to promote well-functioning markets which can be succinctly defined as removing 'behind the border' barriers. These may include removing factor market distortions (such as in China), competition policy, public sector governance, regulatory reforms, corporate governance and economic and legal structures. Structural reforms often create weak microeconomic sectors and internal imbalances that result in external imbalances. In this case, removing these 'behind the border' barriers are part of re-balancing strategies. Sectoral issues, such as education, labour, small and medium enterprises, so-

¹⁵ Asian Development Bank, op. cit. (2010).

¹⁶ Barry Eichengreen, 'The G20 and the crisis', *VoxEU* (2 March 2009) available online: <http://www.voxeu.org/index.php?q=node/3160> (accessed 30 March 2011).

cial safety nets, infrastructure, energy and the environment could be part of sector-specific structural reforms.

G20 can be the global forum for leaders to implement structural reforms because not only are structural reforms (which include regulatory reforms) an urgent agenda in emerging and developing countries that could help to rebalance internal (and hence external) imbalances, but also because structural reforms need high political will and commitment to implement. So far, only APEC has explicitly consolidated structural reforms in their agenda. If the G20 can be a global institution to promote structural reforms to member countries, and eventually other non-member countries, then it will be an effective global institution to bring about new changes in the global economy and to set a new global growth strategy. Issues that are no less amenable to international co-operation, such as unemployment, can be discussed in other institutions, such as the International Labour Organization.

G20 and Its Relation to Other Global Institutions

It has been proposed that G20 can also serve as an over-arching international forum to solve other non-macroeconomic and non-financial issues, including structural reforms, trade, climate change and even development. In this regard, G20 must co-ordinate and operate in the context of existing institutions, such as APEC, WTO and the United Nations Framework Convention on Climate Change.

APEC's Leaders' Agenda for Structural Reform (LAISR) will expire in 2010. In the post-LAISR period, the main agenda will be continuing the five priority areas in structural reforms and focusing on sectoral issues – namely education, labour, small and medium enterprises and social safety nets – with a clear understanding of how these sectoral reforms fit into APEC growth strategy. Ideally this post-LAISR agenda would formulate another 5-year program. Although it would be incorrect to place APEC and G20 in the same landscape, it is worth thinking how G20 can play a role in structural reforms in the post-LAISR period by promoting structural reforms in its key medium- or long-term agenda. On the trade front, according to the Global Trade Alert, almost all the G20 countries are committed to protectionism despite the Standstill Declaration. This is a serious issue that has to be resolved to maintain the credibility of the G20. Another important trade item remains the Doha Development Agenda and trade financing. On the issue of climate change, the G20 can open discussions on climate change financing.

Reforming Global Economic Governance: A Strategy for Middle Powers in the G20



*Daniel D. Bradlow**

In this chapter I argue that middle powers that are members of the G20 can extract substantial benefit from their participation in the G20 if they have both a clear long term vision of global economic governance and a plan of action that is based on obtainable short term objectives.

To establish this proposition, I will address four issues. The first is that the institutional arrangements for global economic governance will remain unstable until the current process of changes in the balance of global political and economic power plays itself out. The second is that, given the changing international power dynamics, the current “manager” of the global economy, the G20, is unlikely to be a stable entity. Consequently, it can only be effective if it focuses on the relatively narrow range of economic issues of common interest to all G20 members. Third, middle-size countries need a long term vision of global financial governance to guide their conduct in the G20 and other forums of global governance. Fourth, the middle powers will only be able to capitalise on whatever short term opportunities may arise from their participation in the G20 if they identify a set of achievable short term objectives and devise a strategy for reaching them.

State of Transition in Geo-Political Power

The recent financial crisis demonstrated that the G7¹ countries are no longer able to function as the pre-eminent forum for global economic governance. These countries have been forced to recognise that they need the other G20 countries to effectively manage the global economic and financial system. Consequently, the G20, which had previously been only a gathering of finance ministers and central bankers, was elevated to the level of a meeting of heads of state. This had two important consequences. First, it is resulting in pressure

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¹ While Russia’s participation in recent meetings of the G7 has converted the group into the G8, the G7 is still the meaningful grouping for economic purposes.

to expand the agenda of the G20 beyond its prior relatively narrow focus on financial and monetary affairs, which could undermine its effectiveness. Second, it is converting the G20 into potentially the most important international forum for the management of the global economy, even though it lacks stable membership,² a permanent secretariat, and a formal legal existence.

The shift in power away from the G7 countries should not be over-stated. While these countries have accepted the G20's pre-eminence in economic matters, they have not surrendered their control over the global economic agenda, which is dominated by the regulatory and governance issues of most interest to them. The shifting balance of power merely means that the rising powers in the G20 can participate in the discussions on these agenda items and can influence their prioritisation. However they do not appear able to persuade the G20 to take decisions that the G7 oppose.³

The current situation, therefore, must be seen as being a time of transition in which the leading states in the G7 seem to be losing power relative to some of the larger and more influential developing countries in the G20. This shift in the balance of relative power has only advanced far enough to deprive the G7 countries of their previous dominance. The rising powers, however, have not yet gained sufficient power to have either the will or the ability to take over leadership of the global economic system. The result is an unstable situation in which the institutional arrangements for global governance are likely to remain provisional until the process of rebalancing global power has played itself out and the relative positions of the new and old powers are clarified.

There are some inevitable consequences that follow from the current position in the rebalancing process. First, we can only be confident that the G20, as currently constituted, will remain the primary manager of global economic governance in the short-to-medium term. It is already possible to see pressure to change its composition, as evidenced by the facts that additional invitees, such as Spain and the Netherlands, have been included on an *ad hoc* basis in the G20 summits and that there is pressure to expand its agenda beyond financial and economic issues to include such issues as climate change and development.

Second, efforts to reform the current institutional arrangements for global economic governance are likely to be partial, unsatisfactory, and unsustainable. This suggests that, while limited reforms are possible, there can be no definitive resolution of the debates about the mandates and the governance of

² In addition to the original G20, Spain and the Netherlands have participated in G20 summits and there was an expectation that additional participants (primarily the current chairs of such regional groupings as the African Union (AU), the Association of Southeast Asian Nations (ASEAN) and the New Partnership for Africa's Development (NEPAD) would be invited to G20 summits .

³ Leonardo Martinez-Diaz, "The G20 After Eight Years: How Effective A Vehicle for Developing Country Influence?" Global Working Papers No. 11 (Brookings Institution, 2007).

the existing international financial institutions. Similarly, there is unlikely to be a final determination about whether the Financial Stability Board should be merely a forum of discussion and co-ordination among regulators or whether it should play a more active role in global economic governance using tools such as its proposed peer review mechanism. Also unlikely to be resolved is the appropriate role, procedures and power of bodies like the Basel Committee of Banking Supervisors (BCBS), the International Organizations of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS).

Third, the institutional relationships between the G20 global institutions (such as the International Monetary Fund and the World Bank Group) and sub-global groupings of states (whether based on regional or other criteria) cannot be effectively resolved until over-arching global power relations are clarified. However, it is important to note that the resulting uncertainty can create opportunities for these sub-global groups to help shape the future global order into one that is more open to effective participation by all participants.

Short Term Agenda

During the current process of power rebalancing the range of issues on which meaningful and sustainable results are obtainable is likely to be narrow and limited to tinkering with existing arrangements. This can be seen, for example, in the limited agreements reached on reforming the governance of the IMF and the World Bank, despite the general agreement on the need for change in their decision making procedures and mandates. The changes that have been agreed upon and, in some cases actually implemented, have not substantially altered the real power arrangements in these institutions. For example, the agreed change in World Bank voting merely increased the vote for developing and transitional countries from about 44 percent to 47 percent of the total; it will not affect either the US veto or the ability of the EU member states to block decisions that they strongly oppose. Similarly, the promised change in the procedures for selecting the leader of the World Bank and the IMF is unlikely significantly to change the functioning of these organisations. As the example of the United Nations shows, those states with vetoes are able to dominate an institution even if its head is not one of their nationals.

The current international efforts to reform global financial regulation are similarly constrained. The items at the top of the global regulatory reform agenda – capital adequacy, liquidity, hedge funds, derivatives, executive bonuses and bank taxes to recoup the costs of earlier bank bailouts – are all items of most interest to G7 countries. There appears to be little space on the international agenda for such issues as expanding access to the financial system (an important issue for African countries and others in the developing world), reinvestment of capital flight back into the developing countries, using

regulatory incentives to encourage greater attention to development issues, or broadening participation in the decision making procedures of the BCBS, IOSCO and the IAIS.

A Long Term Vision of Global Governance

As discussed above, middle powers can only effectively exploit the limited opportunities arising from their participation in the G20 if they base their actions in the G20 on a long term vision of global economic governance. This vision should be based on the following five factors.

A Holistic Vision of Development

All states are developing states in the sense that they are striving to create better lives for their citizens. While states may differ in defining their responsibilities in this regard and on which aspects of the development process they wish to prioritise, they all agree that the well-being of both individuals and societies can be positively or negatively affected by a range of economic and non-economic factors. Thus they all see development as a comprehensive and holistic process in which the economic aspects cannot be separated from the social, political, environmental and cultural aspects, all of which are integrated into one dynamic process.⁴

The extent to which global governance arrangements incorporate this holistic vision of development will influence how effectively they help all states achieve their developmental objectives.

Comprehensive Coverage

Comprehensive coverage means that the mechanisms and institutions of international economic governance should be applicable to all stakeholders in the international economy. For example, the mechanisms of international financial governance must be incorporated into the activities and operations of financial intermediaries that engage in sophisticated national and cross border financial transactions. These mechanisms must also extend to their clients, savers and investors who wish to base their financial transactions on religious principles, as well as small financial institutions that operate only in local markets and micro-financial institutions.

⁴ See, for example, UNDP, *Human Development Report 1990* (Oxford: Oxford University Press, 1990); Amartya Sen, *Development as Freedom*, (Oxford: Oxford University Press, 1999); see also, Daniel D. Bradlow, "Differing Conceptions of Development and the Content of International Development Law", Vol. 21, No. 1, *South African Journal on Human Rights* 47 (2005), available online: <http://ssrn.com/abstract=788070>.

There are three important corollaries that follow from the principle of comprehensive coverage. First, the mechanisms of international economic governance must be sufficiently flexible and dynamic that they can adapt to the changing needs and activities of their diverse stakeholders.

Second, the totality of international economic governance arrangements must ensure that the international community receives all the services it requires from a well functioning global economic system. The third corollary, which is intended to ensure that the governance arrangements are flexible, efficient and not unduly centralised, is the principle of subsidiarity.⁵ This principle holds that all decisions should be taken at the lowest level in the system compatible with effective decision making. It is a complicated principle to implement because it must apply both in standard operating conditions and in crisis situations, which may require that decisions are made at a different level than is the case during standard conditions. In addition, it needs to be linked to a conflict resolution mechanism that is capable of resolving disputes between regulators at different levels determining which level is the most appropriate for resolving a particular issue.

Respect for Applicable International Law

The institutional arrangements for international economic governance should comply with applicable international legal principles, either because they are formal international organisations created by treaty or because they involve decision making by sovereign states. In particular, this means that the decision-making bodies and institutions engaged in international economic governance should conform to universally applicable customary and treaty-based international legal principles. There are four sets of principles that are applicable in this regard.

The first is the principle of respect for national sovereignty. It is clear that by participating in a global governance arrangement, states are agreeing to forego some level of sovereignty in order to reap the benefits of a well-functioning international system. Given the different power and wealth characteristics of the participating states, it follows that the amount of independence they give

⁵ “The principle of subsidiarity is defined in Article 5 of the Treaty establishing the European Community. It is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether action at Community level is justified in the light of the possibilities available at national, regional or local level. Specifically, it is the principle whereby the Union does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. It is closely bound up with the principles of proportionality and necessity, which require that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty”: *Europa Glossary*, available online: http://europa.eu/scadplus/glossary/subsidiarity_en.htm (accessed: 7 July 2009).

up will be positively related to their power and wealth. However, the principle of national sovereignty should still provide states with the means for preserving as much independence and policy space as is practicable and consistent with the demands of effective global financial governance.

The second is the general principle of non-discrimination. This means that the institutions of international economic governance should treat all similarly-situated states and individuals in the same way. This inevitably means that there will be disparate treatment for differently situated states and individuals. The key question thus becomes what standards can be used to ensure that all stakeholders receive treatment that is fair and reasonable.

In the case of sovereign states, this means that, while the institutions of global governance should base their treatment of all states on the same principles, they should apply these principles in a way that is responsive to the different situation of each member state. One way of implementing this approach could be to apply the general principle of special and differential treatment that is applicable in a number of international legal contexts – for example international environmental and international trade law – to international economic governance. This could result in special consideration being given to weak and poor states so that they are able to enjoy a meaningful level of participation in international economic decision making structures, even when these structures are based on principles like weighted voting. A consequence of this may be that the organisation offers some mechanism of accountability to these states and their citizens to compensate for any participation deficit.

In the case of non-state stakeholders in global economic governance, the relevant principles should be derived from documents like the Universal Declaration of Human Rights, which many now consider to be part of customary international law.⁶ Thus, one indicator of good economic governance could be the level of respect that the institutions of international financial governance show for human rights in their member countries.

The third set of international legal principles applicable to international economic governance deals with the responsibility of states for the functioning of the global economic system. Based on general principles of state responsibility,⁷ they have an obligation to provide foreign legal persons which

⁶ United Nations, *Universal Declaration of Human Rights*, (New York: 1948) available online: <http://www.un.org/en/documents/udhr/> (accessed: 7 July 2009); The Special Representative of the Secretary-General, Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises, U.N. Doc. A/HRC/4/35.

⁷ G.A. Res. 62/61, U.N. Doc. A/RES/62/61 (Jan. 8, 2008); Responsibility of States for Internationally Wrongful Acts, Report of the ILC on the Work of its Fifty-Third Session, UN GAOR, 56th ses, Supp No 10, p. 43 UN Doc A/56/10 (2001).

are present in the state – either through an investment or an individual transaction – with fair and non-discriminatory treatment. This means that these foreign entities should receive comparable treatment to similarly-situated domestic institutions.

A fourth set of applicable international legal principles are derived from international environmental law.⁸ At a minimum these principles would impose on regulators an obligation to insist that all financial institutions and other economic actors fully understand the environmental and social impacts of their practices and of individual transactions.

Co-ordinated Specialisation

The principle of co-ordinated specialisation acknowledges that, even though development is holistic and all aspects of international governance are interconnected, international economic governance cannot function efficiently without a limited and specialised mandate. Thus, the principle of co-ordinated specialisation has two requirements. First, the mandate of the mechanisms and institutions of international economic governance must be clearly defined and limited to international economic affairs. Second, these institutions cannot ignore the other important aspects of the development process. Consequently, there is a need to ensure some form of co-ordination between the institutions and mechanisms of international economic governance and other organisations and arrangements for global governance. The co-ordinating mechanism, if it is to effectively resolve tensions between the different aspects of international governance, needs to be transparent and predictable. It may also require some dispute settlement mechanism.

Good Administrative Practice

The basic principles of good administrative practice in global governance are the same as those applicable to any public institution. These principles are transparency, predictability, participation, reasoned decision making and accountability. This means that all the institutions involved in international economic governance must conduct their operations in a manner that is sufficiently open that their procedures, decisions and actions are predictable and understandable to all stakeholders. They must also offer these stakeholders some meaningful way of raising their concerns and having them addressed by the institutions. The institutions should also be required to explain their decisions and operations to all interested stakeholders. Finally, the stakeholders should be able to hold the institutions accountable for their decisions and actions.

⁸ See David Hunter, James Salzman, and Durwood Zaelke, *International Environmental Law and Policy* (New York: Foundation Press 2006).

Tactical Issues

It is clear that there is neither general consensus on this long term vision nor on how to implement it. Moreover, it is clear that in the current phase of the transition in global power, it is not possible to implement this vision. This suggests that during the current phase, middle powers should adopt a pragmatic approach to global economic governance reform. In brief they should concentrate on developing shortterm tactics that both result in real benefits for their countries and their citizens and that open up further opportunities for achieving global economic governance reforms that are consistent with their long term objectives.

Implementing this strategy requires both setting priorities for the short term and developing a plan of action for achieving these objectives. For example, given that South Africa's and Africa's concerns in the global financial arena are focused on questions of poverty and inequality, the type of issues that South Africa should prioritise in the G20 are those that can enhance the ability of Africa to address these issues. Given this general orientation, there are a number of issues in the financial area that offer suitable short term objectives. For example, in financial regulation South Africa can call for broadening the scope of the banking regulatory reform agenda. In particular, South Africa can point out that for many African countries a key issue is the fact that many of their citizens and small companies do not have effective access to financial services. They can add that regulation can help address this issue by encouraging banks to develop new products that are specifically targeted at this problem. It can also remind the rich countries of Paul Volcker's contention that the most important financial innovation of recent years is the ATM because of its impact on enhancing convenience and access to financial services. Africa could also remind the world that the next innovation of this sort might be cell phone banking, in which Africa is a leader. Another regulatory issue that should be addressed is the problem of how to get international banks to recycle at least a small proportion of the capital flight that they attract from African and other developing countries back into these countries. A further regulatory issue is incentivising the banks to extend some of their more impressive social responsibility initiatives to other aspects of their business. A good example of such an initiative is the promotion of the Equator Principles⁹ which deal with the management of the social and environmental risks in large project financings.

The second issue that South Africa and other that middle powers can prioritise is reform of the governance arrangements of the IMF. It is becoming increasingly clear that, regardless of the rhetoric about the need for substantial reform of the IMF's governance, substantial reform is unlikely to take place

9 For more information on the Equator Principles, see <http://www.equator-principles.com>

in the short-term. Consequently, the most realistic reforms are those that are possible within the existing legal framework. One reform that can easily be achieved within this constraint is increasing the IMF's public accountability. Unlike the World Bank and all the other multilateral development banks, it does not have an independent accountability mechanism. These mechanisms allow non-state actors who claim that they have been harmed by the failure of these organisations to comply with their own policies and procedures to have their claims investigated and reported to the Boards of these organisations. Their benefit to the organisation is that they increase the efficacy of the operations of these entities by both enhancing compliance with their policies and procedures and by enabling the institution to gain more detailed empirical knowledge about the actual impact of its operations. This improves institutions' ability to learn from their operations and to improve them. Another action that would improve global financial governance and is relatively easy to implement is increased participation by developing countries in the appropriate decision making bodies of the international regulatory authorities like the BCBS, IOSCO and the IAIS. This increased participation should result in these bodies developing principles and policies that are more sensitive to the needs of these countries and increasing the impact of financial regulation on poverty and inequality.

Finally, South Africa should combine this short term substantive vision with a plan of action that seeks allies from other middle powers, such as Australia, Brazil, Indonesia and South Korea, as well as other G20 members including, if appropriate, the G7 countries.

Conclusion

In this chapter, I have argued that participation in the G20 offers middle powers like South Africa an opportunity to influence the global economic agenda and the institutional arrangements for global governance. However, given the current configuration of geo-political forces and the process of change underway, this opportunity is limited both in terms of the scope of issues that can be addressed and the benefits that can be obtained on each issue. Moreover, in order to maximise the benefits that the middle powers can gain from this opportunity, they need to have a long term vision of the forms of international economic governance that they are seeking and to derive their short term objectives and implementation strategy from this vision.

Middle Powers in Global Governance: A Korean Perspective



*Seonjou Kang**

One of the changes in the wake of the financial crisis originating in the United States in 2008 was the reconfiguration of global governance. Global governance is defined as a system of managing international relations with principles and rules agreed upon by states. The central pillar of the current global governance system has been formal intergovernmental organisations, most of which were established under the leadership of the United States after World War II. These formal intergovernmental organisations have served both as forums in which states gather to discuss solutions to global problems and as agents for implementing agreed solutions on behalf of states. Following this tradition, the International Monetary Fund (IMF) should have been the organisation in charge of resolving the recent crisis. However, the IMF was by and large passive in this crisis and instead the G20, a new informal consultation forum that includes multiple emerging countries, orchestrated the resolution of the crisis. This hints at a change in global governance and begs a bigger question: where is global governance heading and what roles will middle powers like Australia, Brazil, Indonesia, South Korea, and South Africa be able to play in the process of shaping global governance?

The State of Global Governance

After years of evolution, the current global governance system is characterised by a dual structure or a hybrid institutional arrangement where the formal intergovernmental organisations established after World War II – including the UN, the IMF, the World Trade Organization (WTO) and many others – coexist with various informal consultation arrangements. For the three decades following the end of World War II, when security issues dominated international relations and the volume of economic exchange was relatively low, the formal intergovernmental organisations were sufficient for global governance. However, over time, formal intergovernmental organisations became rigid and bureaucratic and started to falter in the face of new global issues such as interdependence among states and disagreement between developed and

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developing countries in the 1970s. Terrorism, climate change, and pandemics are just the latest global challenges that have revealed the ineffectiveness of these organisations.

Alternatively, informal consultation arrangements – for example the G7/8, G20, and G33, have emerged with the aim of overcoming the ineffectiveness of the formal intergovernmental organisations as a result of dissatisfaction with these bodies. Informal consultation arrangements are *ad hoc* meetings of a small number of like-minded and/or systemically important countries that are able to make decisions with global implications. Compared with the formal intergovernmental organisations, informal consultation arrangements lack legitimacy and accountability as fewer states participate in the decision-making process. However, informal consultation arrangements are agile, flexible and adaptive so as to keep up with new developments in the world. Due to such advantages, states have increasingly opted to act through informal consultation arrangements and eventually recognised them as the second pillar of the global governance architecture.

A consequence of the dual structure of global governance is the added complexity it brings to international relations. The time has passed when the formal intergovernmental organisations exclusively control their respective issue areas. The number of forums where global issues can be discussed has increased; furthermore, different solutions will be devised for global issues depending on where they are discussed given that each forum, with different membership, has unique internal dynamics. This gives states an incentive to choose carefully between global governance bodies for the proper venue in which they will discuss global issues. Such an incentive will be particularly strong for major countries as choosing the right forums for issues will allow them not only to achieve national interests with relative ease, but also to shape the international order in their favour.

States' willingness to choose between formal and informal governance bodies can be dubbed a 'forum shopping' strategy. States will not be predisposed toward particular forums for global decision-making but remain flexible. States will compare, issue by issue, the formal intergovernmental organisations with informal consultation arrangements in terms of ease of consensus-building and implementation. Employing this strategy could lead to a division of labour in which informal consultation arrangements set agenda and coordinate policies regarding global issues (minilateralism), whereas the formal intergovernmental organisations are used to legitimise and implement the decisions made by informal consultation arrangements.

The strategy of 'forum shopping' will potentially have significant effects on global governance. First, states' willingness to pick and choose forums will lead to competition among global governance bodies for relevancy in world affairs. That is, concerned that multiple governance bodies can deal with similar issues, states participating in those governance bodies will be more inclined to produce effective agreements in order to prove the usefulness of

the governance bodies they belong to. Second, the ‘forum shopping’ strategy toward global governance bodies will also have the effect of making global governance more fluid as global governance will go through the making and breaking of ‘G-Xs’ whenever necessary across issue areas. Where existing forums are judged to be inappropriate to deal with global issues, states may opt to create new G-Xs with new members. By working closely with relevant states only, states will be able to increase chances to find effective solutions to global issues. Since newly formed G-Xs will have different numbers of participants, this is also called variable geometry.

One caveat to the ‘forum shopping’ strategy is that this strategy will be neither cheap nor free from controversy about legitimacy. The transaction costs incurred in forming and maintaining multiple G-Xs will be also high. And because only selected countries participate in decision-making, decisions made by G-Xs will always be questioned for the representativeness of the interests concerned.

G20 within Global Governance

Without a doubt, the rise of the G20 symbolises a change in global governance. The fact that about half of its membership is filled by newly emerging states reflects a shift in global power. The G20 also indicates the relative superiority of informal consultation bodies to the formal intergovernmental organisations within the dual structured global governance. The G20, rather than the IMF, has been credited for co-operation that has saved the world from the worst crisis since the Great Depression, thereby achieving the status of the premier forum on the world economy. Currently the G20 is undergoing consolidation after agreeing to annualise its meetings. The G20 is streamlining its membership (addressing the over-representation of Europe and the under-representation of Africa), its communication with about 170 non-G20 countries and procedures for selecting agenda items and a chair-state. A consolidated G20 will function as a forum for building consensus and political momentum for global economic issues while supplementing formal intergovernmental organisations.

Despite all this, however, the G20 still stands on shaky ground. The G20 is less likely to be insulated from the competitive pressure to establish its superior usefulness to others in world affairs. Fundamentally, the G20 is an *ad hoc* organisation formed with a single mandate of overcoming the global crisis and therefore faces an inherent possibility of being dissolved upon the end of the crisis. Thus, the future of the G20, whether it outlives the financial crisis, will depend on how its member states perceive its value. Major states such as the United States, Europe (EU) and China, which are either individually or jointly capable of forming new G-Xs in line with their foreign policy goals, need to view the G20 as a useful venue for international co-operation if the G20 is to survive beyond the crisis. So far the stances of the United States and

EU states toward the G20 are fluid in that they have not yet let the G20 replace the G-8 completely. These countries appear to give priority to the G-8 over the G20 and wait further for the G20 to prove its ability as a steering committee to address other global issues beyond the financial crisis. Seen in that light, the sustainability of the G20 then may depend more on the non-G-8 states within the G20 than the G-8 states. By creatively making use of the G20's flexible and adaptive characteristics, the non-G-8 states will need to co-operate with, but not confront, the G-8 states in finding effective solutions to global issues. Whether or not the G20 will emerge as a vehicle for reshaping the international order will depend on how emerging states exercise their newly acquired influence in global affairs.

The Five Middle Powers and the Future of Global Governance

Despite some conceptual ambiguity, Australia, Brazil, Indonesia, South Korea and South Africa can be classified as middle powers which can exert moderate influence in their regions. From these countries' viewpoints, one positive development arising from the recent crisis is that they were invited to the G20 as rule-makers rather than rule-takers. Now the five countries face a further challenge in securing their places in global governance. For the aforementioned reasons, the sustainability of the G20 is not something to be taken for granted, and the five countries should consider both the current G20 and the possible post-G20 environment. Given their respective weights in the world, the five countries will be able to exert more influence if they work as a group. While capitalising on their positions within the G20, the five countries will need to figure out how they can influence the process and outcome of international policy making to their advantages.

In doing so, the first step for the five countries is to ask how realistic it is for middle powers to influence current and future world affairs. The effectiveness of middle powers' influence in world affairs largely depends on the international environment. The current international environment seems to be more favourable to middle powers than in the past due to a global power shift. The traditional major powers are limited in maintaining the global order alone. More than ever, these major powers need burden-sharing and normative support from other countries, and middle powers can be their partners in that regard. Middle powers can provide regional, if not global, public goods and mobilise international constituencies to support normative issues.

Second, if major powers use the 'forum shopping strategy', the most important factor for success will be to select the right members for G-Xs. That is, the success of G-Xs hinges on gathering an appropriate number of like-minded countries. A sufficiently large membership is critical for G-Xs to mobilise resources as well. Nonetheless, the 'forum shopping' strategy has an additional element to consider for its success, namely communication with non-G-X

members. Given that the roles of G-Xs usually do not go beyond agenda-setting and creating political momentum for global issues, these groups need to communicate with a broader world for effective implementation. Communication between G-X participants and non-participants will facilitate legitimacy and broad acceptance of G-Xs decisions. To that effect, G-Xs will need to have a group of countries to play a bridging role between G-X participants and non-participants; middle powers appear to be well suited for this mission. In a dual-structured and thus fluid global governance, middle powers' bridging role will have greater significance.

Third, middle powers will be more effective because the world is in transition. It is too early to tell exactly what the world will look like at the end of this crisis. Nonetheless, what we can say is that the world is less likely to return to the unipolar order that we've been familiar with for the past two decades. The United States will remain strong but will not be dominant and may even face challenge and competition for leadership. If that is the case, middle powers may be able to act as a buffer between the United States and a challenging power or powers so that power transition takes place peacefully while avoiding a zero sum game.

To the general capacity of middle powers in a changing world, how should these five countries as a group be calibrated? Are they ready to play the role of middle powers individually and collectively? Under what conditions will they be interested in working together? In a nutshell, the answer for now is less affirmative. The five countries have more differences than commonalities. These countries differ in terms of country size, level of economic development and industrial structure: only South Korea heavily depends on manufacturing exports while the others are more dependent on agriculture and/or mining commodity exports. The five countries also have very distinctive foreign policies, for example in terms of the centrality of security in foreign policy, regional orientations and policy affinity with the United States. Since the mid-1980s Australia has asserted its regional leadership and a vision for a desirable regional order in Asia and the Pacific. Brazil holds an outstanding position in South America while aspiring, at the same time, to exert greater influence on the global process. Post-apartheid South Africa has, since 1994, presented itself as a spokesperson for Africa. Indonesia has been an active member and an informal leader of ASEAN. South Korea is the only country among them that faces clear and ongoing security threats from its neighbour. It is also hard to consider South Korea as the regional power as it is surrounded by four major powers. And Australia and South Korea are allied with the United States while Brazil, Indonesia and South Africa are seeking so-called independent foreign policy vis-à-vis the United States.

Compared with those differences, there is a paucity of similarities among the five countries. Probably the only similarity among them is the sharing of the label of 'middle power' (even this label can be questioned depending on how middle power is defined) and their aspiration for international recognition

and status. Given this, it doesn't seem natural for these five countries to form a coalition; the limits to what they can achieve as a group are rather obvious. Coalition-building among the five countries might even require external thrust. In other words, the five countries will have to make deliberate choices if they are to co-operate as a group. For them, it would be a matter of opting for a more efficient choice between exercising influence individually with certain limitations, and exercising influence collectively while incurring high costs for co-operation.

Assuming that the latter is the more desirable option for the five countries, the next question to ask is what ability and means should they bring together in order to be effective as a group in global governance. Since the policy experiences and material resources available to the five countries are limited, they will have to figure out what should be done in the short term and what could be done in the longer term. This will make a significant difference to outcomes.

First, the five countries will have to share the sense of camaraderie. The sense of camaraderie is similar to the chicken-or-egg question in that it is hard to tell which comes first. The sense of camaraderie can facilitate co-operation among the five countries whereas co-operation will engender the sense of camaraderie among them. Given the absence of natural affinity, the path for the five countries to go down is obvious; they should intentionally build a sense of camaraderie through co-operation. Through strategic exercises, they will need to identify and prioritise areas for co-operation. To that effect, the five countries would benefit from establishing an institutional mechanism such as an annual senior officials meeting as a possible starting point.

Second, the five countries will need to make collective efforts to fulfil their bridging role at various forums. This boils down to strengthening their reputation and ability as fair and principled mediators between developed and developing countries. The five countries need to perform the bridging role in a proactive manner; their bridging role should not be reactive – that is, that they (appear to) bridge because they are situated between developed and developing countries. The five countries should be able to persuade both developed and developing countries with their pre-developed, coherent positions on global issues.

Third, in order to carry out a significant role in global governance, the five countries will need to build soft power. Their hard power is limited, so their lack of soft power will make their bridging role appear reactive and ineffective. When the five countries have soft power, their bridging role is likely to be perceived as sincere and persuasive. For the five countries to gather soft power, they will have to further accommodate universal values. They will have to adjust their own value systems to universal values, namely democracy, good governance, human rights and social justice. They should accept that these values are valid not only at the national level but at the global level as well, although each country can take a different path rooted in its own culture in pursuing those values.

Lastly, the five countries should prepare themselves to share not only roles as stake-holders but also to share responsibilities. They will need to support and co-operate on matters of global significance, such as poverty and climate change. These five countries should provide public goods in proportion to their ability through methods such as official development assistance and peace-keeping operations. Combined with soft power, provision of public goods will contribute to building greater credibility to the five countries' bridging role.

All in all, the five countries face formidable challenges in working as a group. However, it is heartening to learn that the international environment is more favourable to middle powers and that the benefits of co-operation among the five countries can potentially offset the initial high costs. Thus, it remains to be seen whether or not the five countries will capitalise on this opportunity with creativity.

Event Programme

Going Global: Australia, Brazil, Indonesia, Korea and South Africa in International Affairs

Jakarta

Tuesday 25 May - Wednesday 26 May 2010

Participants

This event is a partnership between the five participating institutes of international affairs with funding from the Konrad Adenauer Stiftung (KAS) and Australian Department of Foreign Affairs and Trade:

AIIA - Australian Institute of International Affairs, Australia
CEBRI - Centro Brasileiro de Relações Internacionais, Brazil

CSIS - Centre for Strategic and International Studies, Indonesia

IFANS - Institute of Foreign Affairs and National Security, Republic of Korea

SAIIA - South African Institute of International Affairs, South Africa

Program Aims

This event will provide a forum to discuss and review how Australia, Brazil, Indonesia, South Africa and South Korea deal with their respective places in the world and in their regions. There are a number of similarities between the countries, including significant responsibilities at the regional level. All five countries are important cornerstones of their regions and the influence yielded through their foreign policies and membership of multilateral institutions is substantial.

Discussion will centre around four major topics:

1. **Regional Powers, Regional Responsibilities** - How do our countries manage issues in their regions - such as neighbouring states, economic integration and development assistance?
2. **Dealing with Global Powers** - How do our countries deal with global powers and their impact on each region, such as relations with the US and China?
3. **Global Challenges** - How do our countries deal with issues such as energy, food, climate change, nuclear proliferation and human security and are there opportunities for greater collaboration?
4. **Global System** - How do our countries contribute to the development of a global system that is accommodating of our countries' needs and priorities, especially G20?

Programme**Monday 24 May****Welcome Reception 18.30-20.00**

Australian Embassy Function hosted by Deputy Head of Mission Paul Robilliard *Early arrivals have been advised of function details. Please meet at hotel reception at 6.10 pm for transport.*

Tuesday 25 May

Bromo Room, The Grand Hyatt Jakarta
Jalan M.H. Thamrin, Kav 28-30, Jakarta 10350, Indonesia

Arrival and Registration 8.30-9.00**Welcome to Participants 9.00-9.30**

Chair: Ms Melissa Conley Tyler, National Executive Director, AIIA

Opening comments and welcoming of delegations:

- Dr Wilhelm Hofmeister, Director, Regional Programme, Political Dialogue Asia, Konrad Adenauer Foundation
- Mr Geoffrey Miller AO, National Vice-President, AIIA
- Ambassador Soon-Chun Lee, Chancellor, IFANS
- Ms Neuma Grobbelaar, Director of Studies, SAIIA
- Ambassador Marcos Castrioto de Azambuja, Vice-President, Board of Trustees, CEBRI
- Dr Rizal Sukma, Executive Director, CSIS

Session 1: Regional Powers, Regional Responsibilities 9.30-12.30
(including morning tea)

Chair: Mr Georges Landau, Member of Board of Trustees, CEBRI

- Dr Nomfundo Ngwenya, Head, South African Foreign Policy and African Drivers Programme, SAIIA
- Ambassador Marcos Castrioto de Azambuja, Vice-President, Board of Trustees, CEBRI
- Mr Graeme Dobell, ABC Radio Australia (AIIA)
- Professor Heung-Kyu Kim, IFANS
- Dr Raymond Atje, Head of Department of Economics, CSIS

Lunch: **12.30 -13.30**

Session 2: Dealing with Global Powers **13.30-16.30**
(including afternoon tea)

Chair: Ms Neuma Grobbelaar, Director of Studies, SAIIA

- Ms Denise Gregory, Executive Director, CEBRI
- Dr Mzukisi Qobo, Head, Emerging Powers Programme, SAIIA
- Dr Rizal Sukma, Executive Director, CSIS
- Professor Hyun-Wook Kim, IFANS
- Associate Professor Nick Bisley, La Trobe University (AIIA)

Concluding Remarks, Day 1: **16.30-17.00**

Ms Melissa Conley Tyler, National Executive Director, AIIA

Hosted Dinner **from 19.30**

Dapur Babah Restaurant, Jalan Veteran I no. 18-19, Jakarta Pusat
Please meet at hotel reception at 6.30 pm for transport.

Wednesday 26 May

Bromo Room, The Grand Hyatt Jakarta
Jalan M.H. Thamrin, Kav 28-30, Jakarta 10350, Indonesia

Session 3: Global Challenges **9.00-12.00**
(including morning tea)

Chair: Ms Lina Alexandra, Researcher, Department of International Relations, CSIS

- Ambassador Wiryono Sastrohandoyo, Senior Fellow, CSIS
- Ambassador Soon-Chun Lee, Chancellor, IFANS
- Professor Yi-Chong Xu, Griffith Asia Institute (AIIA)
- Ms Mariana Luz, Academic Coordinator, CEBRI
- Ms Romy Chevallier, Project Co-ordinator, EU-Africa Programme, SAIIA

Lunch: **12.00 -13.00**

Session 4: Global System
(including afternoon tea)**13.00-16.00**

Chair: Ambassador Soon-Chun Lee, Chancellor, IFANS

- Professor Seon-Jou Kang, IFANS
- Professor Mark Beeson, University of Western Australia (AIIA)
- Mr Jusuf Wanandi, Senior Fellow, CSIS
- Mr Georges Landau, Member of Board of Trustees, CEBRI
- Professor Danny Bradlow, University of Pretoria (SAIIA)

Concluding Remarks:**16.00-17.00**

Ms Melissa Conley Tyler, National Executive Director, AIIA

Dr Wilhelm Hofmeister, Director, Regional Programme, Political Dialogue Asia, Konrad Adenauer Foundation