



Canada and the Indo-Pacific:
**Contributor,
bystander or
casualty?**

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Contents

Acknowledgements.....	4
Introduction	
Stephen R. Nagy.....	6
Middle Powers in the Indo-Pacific: Evolving Functional and Principle-based Alignment	
Stephen R. Nagy.....	13
Canada’s Indo-Pacific Priorities: Investing in a Free and Open Digital Economy	
Stephen R. Nagy and Hanh Nguyen.....	22
Digital Connectivity in the Indo-Pacific: The Potential for Middle Power Cooperation on 5G Technology	
Stephen R. Nagy and Hanh Nguyen	28
Cooperative Middle Power Approaches for Infrastructure and Connectivity Development	
Stephen R. Nagy and Ly Tra Hoang	34
South Asia in the Indo-Pacific: Evolving Alignment for Middle Power Security Cooperation	
Stephen R. Nagy and Chandrika Pandit.....	41
Safeguarding Peace and Stability through Economic Cooperation in the Indo-Pacific Region	
Stephen R. Nagy and Giovanni Catino	51

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Introduction

Stephen R. Nagy

In the past several years, middle powers and major powers such as Japan (2017), India (2019), France (2018), the Netherlands (2020), Germany (2020), and Australia (2020) have released statements, guidelines, or visions on the importance of the Indo-Pacific region and the policy areas that they deem to be critical to ensuring that the region is stable, rules-based, and inclusive.

These frameworks are distinct from the US's Indo-Pacific strategy released by the Department of Defence in June 2019 (United States, Department of Defense 2019) and the State Department's report, *A Free and Open Indo-Pacific: Advancing a Shared Vision* (United States, Department of State 2019), released in November 2019.

The reason is simple. While American allies support aspects of the US Indo-Pacific strategy, they remain reluctant to pursue their respective visions of the Indo-Pacific through the lens of containment or with a fiercely anti-Chinese Communist Party (CCP) perspective, as exemplified by US Secretary of State Mike Pompeo's July 23, 2019 speech, *Communist China and the Free World's Future* (United States Embassy and Consulates in China 2020). Moreover, many of the states adopting Indo-Pacific visions have China as one of their top trading partners. This is a relationship that they want to keep, though some may wish to recalibrate it so they are less vulnerable to economic and other forms of coercion but also to another shock to the China-centred global production network.

Why are states beginning to employ terminology that frames the Indo-Pacific as a region? Where is Canada in this process?

There are several reasons that states are framing the wider region as “the Indo-Pacific.” First, the region has become the centre of global economic growth, security, and development challenges. It is home to the three of the world’s most populous countries, the second, third, and fourth largest economies, six security alliances with the United States, numerous territorial disputes, and five declared nuclear powers.

It is also home to the two biggest trading agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). The former includes Canada as a founding member and the latter is an ASEAN-centred economic agreement that includes all the ASEAN Plus Six members¹ save India.

Trading agreements aside, the rapidly emerging middle classes throughout the region represent a quickly expanding consumer market for goods, natural and energy resources, and agricultural products, as well as offering a key opportunity for Canada to diversify its export destinations.

The most critical sea lines of communication are located in the South and East China Seas (SCS and ECS) and the Indian Ocean; the potential for a major disruption in the import and export of goods and energy resources due to accidental or intentional conflict, a natural disaster, climate change, or other non-traditional security challenges means that the region requires multilateral institutions to stabilize and contribute to its development.

Simply, what happens in the region has spillover effects in the rest of the world, including Canada. The most salient and contemporary example of this is the COVID-19 pandemic, which emerged out of Wuhan, China, and severely disrupted global supply chains. The impact of the COVID-related shutdown in China affected supplies of personal protective equipment (PPE), car parts, electronics, and many other goods.

Still today, international travel for business is limited. Vaccines have not proven to be a panacea for the movement of people, goods, and capital; that will only happen when a reliable, inexpensive, and sustainable policy is adopted to prevent the transmission of COVID-19.

Second, the existing regional order is being contested and the outcome of that competition will have deleterious effects on both direct regional stake-

¹ The ASEAN Plus Six members include ASEAN member states along with China, Japan, and South Korea, Australia, New Zealand, and India

holders and extra-regional stakeholders like Canada, the EU member states, Japan, South Korea, Southeast Asian states, etc.

That contest is the second reason for turning towards the whole Indo-Pacific as a region. China's re-emergence as the largest economy in the region as well as its behaviour both internally and externally are drawing concern from regional and extra-regional stakeholders. Internationally, countries are concerned about China's increasingly assertive behaviour along the Himalayan plateau, its refusal to recognize the Permanent Court of Arbitration's July 2016 decision rejecting China's claims in the SCS, its building of and militarizing artificial islands in the SCS, and its grey zone operations in the SCS vis-à-vis the Philippines and in the ECS vis-à-vis Japan's Senkaku Islands.

“ *Internationally, countries are concerned about China's increasingly assertive behaviour.* ”

This assertive behaviour has come hand-in-hand with a growing track record of economic coercion, hostage diplomacy,² and initiatives that are clearly aimed at revising the regional order in favour of China and its one-party system. Signature projects such as the Belt and Road Initiative aim to reconfigure its decades-long integration project on terms favourable to Beijing by creating dependent economic relationships. Closed digital systems, as embodied in China's approach to Internet governance, aim to foster standards and regulations that will enable Beijing to transform itself from being a rule-taker to a rule-maker.

Meanwhile, neighbouring states are witnessing China's hard turn towards techno-authoritarianism (Blanchette 2020), its adoption of the controversial National Security Law (NSL) in Hong Kong, and its establishment of “re-education” (Australian Strategic Policy Institute 2021) camps interning more than one million ethnic Uyghurs. It is natural for China to be striving to be a rule-maker while also dealing with lingering issues associated with the founding of modern China (Wang 2020), but regional revisionism at the expense of others is not. The same is true in dealing with internal threats.

² The arrest of Michael Kovrig and Michael Spavor in December 2018 following the arrest of Huawei Executive Meng Wanzhou follows a pattern of hostage diplomacy. Citizens from Australia, Japan, the US, Sweden, and the UK have also been detained in a similar manner.

A transparent, rules-based approach to dealing with China's domestic challenges would not raise the same concerns as its current hard-line approaches. States like the UK, which has signed substantive agreements with the People's Republic of China (PRC), see Hong Kong's NSL as a clear abrogation of a bilateral agreement, and view the forced detainment of the Uyghurs as a cultural genocide reminiscent of how Canada, Australia, and the US approached their First Nations people in the past.

In this sense, the motivation for states, including Canada, to adopt frameworks for the Indo-Pacific is driven by a concern of what an Indo-Pacific region dominated by a Chinese state would mean for trade, human rights, security, sovereignty, and regional and global governance. These concerns are based on a track record.

It is proactive for states to ensure that China's development does not reshape the Indo-Pacific region in a manner that erodes the existing rules-based order or marginalizes their national interests.

Concurrently, if countries hope to take full advantage of the region's potential and ensure that they are not bystanders or casualties to what happens here, they will need to develop a vision for the Indo-Pacific that is based on their national interests and material and diplomatic resources.

On May 3rd, 2021, Canada took its first steps to contributing to a free and open Indo-Pacific region when Marc Garneau, Canada's minister of foreign affairs, and Motegi Toshimitsu, Japan's minister of foreign affairs, met on the sidelines of the G7 Foreign and Development Ministers' meeting, in London, England, to announce a *Shared Canada-Japan Priorities Contributing to a Free and Open Indo-Pacific Region* (Global Affairs Canada 2021).

The shared statement focused on these six areas (Global Affairs Canada 2021):

1. Rule of law

Enhance political, security, and defence cooperation to maintain and promote the rule of law in the Indo-Pacific region, including by working together to address unilateral actions that undermine regional stability and the rules-based international maritime order based on international law, consistent with the UN Convention on the Law of the Sea (UNCLOS), and cooperation on the multinational initiative to address activities that violate the UN Security Council resolutions on North Korea, such as ship-to-ship transfers.

2. Peacekeeping operations, peacebuilding, humanitarian assistance, and disaster relief

Explore opportunities for further cooperation between Canada and Japan in the area of UN peacekeeping operations, including peacekeeping capacity building in the region, as well as in the areas of peacebuilding and humanitarian assistance and disaster relief, making the most of the Canada-Japan Acquisition and Cross-Servicing Agreement.

3. Health security and responding to COVID-19

Coordinate to tackle COVID-19, improve health outcomes, and strengthen health security around the world and in the region, including by supporting R&D and equitable access to vaccines, therapeutics, and diagnostics, and reinforcing the health systems of each country by advancing universal health coverage and collaborating to mitigate biological threats.

4. Energy security

Promote the stable supply of sustainable resources to support energy security in the Indo-Pacific region, including energy projects between Canada and Japan, such as the LNG Canada project.

5. Free trade promotion and trade agreement implementation

Welcoming the success of the CPTPP, continue to steadily implement and work to expand the CPTPP. Continue to support the rules-based multilateral trading system and advance WTO reform. Share best practices on the promotion of micro-, small-, and medium-sized enterprises (MSMEs) and inclusive trade, including women entrepreneurship, capacity building of developing countries and supply chain resilience.

6. Environment and climate change

Promote cooperation on climate change and the environment in the region, with special attention to the Pacific Island countries to help improve their economic development, promote food security and ocean sustainability, and implement climate change mitigation and adaptation efforts, including by enhancing access to finance.

These six pillars of shared cooperation are important for Canada to focus on as it seeks to inculcate itself into the Indo-Pacific region as a sustainable, meaningful, middle-power stakeholder. Importantly, Canada is building its role alongside Japan, one of its closest partners in the Indo-Pacific region, a country that prioritizes rule of law, international institutions, and multilateralism to bring peace and stability to the region.

To contribute to the development of concrete initiatives that will further engage Canada in the Indo-Pacific region, this collection is structured as six short, digestible, policy briefs meant to highlight the challenges and opportunities that exist in the region for Canada and other middle powers. The views expressed are the views of the authors and are not meant to be exhaustive; they are meant to be constructive.

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Middle Powers in the Indo-Pacific: Evolving Functional and Principle-based Alignment

Stephen R. Nagy

The future of the open, US-led, rules-based order in the Indo-Pacific is in question for a number of reasons:

China has re-emerged as the dominant economy in the region and is not playing by the rules. It's economically coercing its trading partners (Nagy 2021) and claiming sovereignty over features in the South China Sea in breach of international law (Permanent Court of Arbitration 2016).

The United States is acting unilaterally and unpredictably. The Trump administration firmly rejected America's traditional leadership approach. Questions linger as to whether the Biden administration's tilt back to multilateralism, alliances, and consultation is sustainable and enduring (Strangio 2020).

The United States' future in the region is unclear. There are questions about whether the US presence in the Indo-Pacific is sustainable and enduring. The turn inward under the Trump administration and the COVID-19 induced economic downturn have magnified these concerns (Suzuki 2020).

The deepening US-China competition is threatening to split the regional trading system into two: This risk is most acute in the digital economy.

The middle powers of the region – especially US allies like Canada, Japan, South Korea, India, and Australia – are particularly vulnerable to these dynamics. This vulnerability has become more pronounced as their comprehensive power position vis-à-vis the US and China continues to decline (Lowy Institute 2020).

In lieu of these dynamics, a new middle power diplomacy is rising to meet the challenges. The four facets of their response include: buttressing the rules-based maritime order; insulating themselves against Chinese economic coercion; embarking on new infrastructure initiatives; functional participation in the Quadrilateral Security Dialogue (the Quad) on a case-by-case basis. Each will be examined in turn.

Supporting a rules-based maritime order to hedge against China's assertiveness

A rules-based maritime order is particularly essential for middle powers because they rely upon agreed-upon rules to ensure that a Machiavellian “might is right” approach to foreign affairs does not become standard practice. A rules-based order preserves their territorial integrity, ensures open sea lanes for the trade on which they rely, and decreases the chance of accidental incidents that could spiral into regionwide conflict.

However, China is threatening that order through:

- Unilateral seizure and militarization of contested territory, particularly in the South China Sea.
- Flagrant disregard for rulings from international institutions, such as that from the Permanent Court of Arbitration, which ruled against China in 2016 over its claims in the South China Sea.
- The use of so-called “grey zone” operations (Morris et al. 2019, 27-42, 91-122) in both the East China Sea and the South China Sea that threaten, seize, or erode the sovereignty claims of other countries and the adoption of lawfare tactics (e.g., using legal weapons to go after critics abroad) in the maritime domain (US-China Perception Monitor 2016).

China's behaviour is of particular concern to middle powers like Canada, which question the future of a rules-based order when the rising state flagrantly disregards existing institutions and breaks promises made to other country's leaders.

In response, middle powers are now collaborating on ways to strengthen that maritime order. Germany, France, the Netherlands, the US, and the EU have also adopted an Indo-Pacific framework in part with this strategy in mind.

Canada is still in the process of formulating its policy. However, during the visit of former Japanese Prime Minister Shinzo Abe to Ottawa in 2019, Canadian Prime Minister Justin Trudeau noted that both have a “shared vision for maintaining a free and open Indo-Pacific region based on the rule of law” (Canada, Prime Minister of Canada 2019).

One key collaboration here, under Japan’s de facto leadership, is the vision of a Free and Open Indo-Pacific (FOIP) (Japan, Ministry of Foreign Affairs 2021). Key facets of the FOIP vision are relevant here:

- **A focus on the rules-based maritime order.** This entails a renewed focus on ensuring that all disputes are settled peacefully and in accordance with international law, and ensuring that illegal activities like piracy, terrorism, and smuggling are stamped out.
- **A central role for ASEAN in upholding that order.** Countries like Indonesia, Vietnam, Malaysia, and Singapore must play a key role in the vision.
- **Promoting an open and inclusive concept.** A rules-based order requires buy-in from all parties, and Japan’s approach has contributed to the promotion of a shared vision for the region.

Some of the main initiatives undertaken under the FOIP vision include:

- **Maintaining open sea lines of communication (SLOCs)** involves naval patrols through key maritime trade routes to ensure they remain free and open. It also includes anti-piracy activities in certain areas.
- **Monitoring and surveillance** includes using aircraft to spot illegal activities like the smuggling of goods (especially oil) into North Korea in breach of UN sanctions.
- **Enhancing the capacities of stakeholders** is something Japan aims to do through enhanced governance, interoperability training, and the provision of equipment such as coast guard vessels (Nagy 2018).

These activities are clearly much broader than what is required to meet the challenges from China. The vision is broad in part because Japan is eager to ensure that its FOIP vision is not conflated with a “China containment strategy” or the security-focused Indo-Pacific strategy put forth by the Trump administration. The reason is simple: middle powers like Canada, Australia, Japan, and other neighbours of China cannot afford to prosecute a zero-sum approach to China because of its size, trading relationships, and critical role in dealing with regional and global challenges.

Further, in addition to participating in the FOIP vision, middle powers are also deepening and diversifying their security partnerships in the region. This includes:

- **Enhancing security partnerships with the US and other middle powers** through institutions such as the Quad (a security partnership comprising the US, India, Japan, and Australia). Recent examples include the *Sea Dragon 21* joint exercises in which Canada joined Quad countries in exercises around Guam in January 2021 (CTF 72 Public Affairs 2021) and the April 2021 *La Pérouse* naval exercise in the Bay of Bengal in which France participated alongside Quad members (Kashish and Dubey 2021).
- **Increasing the quality and quantity of bilateral, trilateral, and multilateral military training** with a view to enhancing interoperability, capacity, and presence.

Insulating themselves against Chinese economic coercion by diversifying their economic relationships and strengthening trade ties amongst themselves.

China has not been shy about weaponizing access to its market, upon which many middle powers are heavily dependent. Examples include:

- Stemming the flow of tourists to South Korea after South Korea installed the Terminal High Altitude Area Defense (THAAD) system, a US missile defence system.
- Vandalizing and destroying Japanese businesses in mainland China after Japan nationalized the Senkaku Islands.
- Curbing its imports from Canada, particularly canola and meat, following Canada's arrest of Huawei's Chief Financial Officer Meng Wanzhou at the request of the United States.
- Banning imports of Australian barley, wine, and beef following Australia's call for an international investigation concerning the origins of the COVID-19 pandemic.

Episodes like these have put Canada and other middle powers in the difficult position of choosing between their security and values and their economic prosperity.

In response, middle powers are:

- **Selectively diversifying away from China** and decreasing their economic dependency on the Chinese economy. This accelerated during the COVID-19 pandemic (Nomura 2020; Runda and Ramanujan 2020).
- **Enmeshing themselves in multilateral trade agreements**, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Japan-EU Economic Partnership Agreement, and the Regional Comprehensive Economic Part-

nership (RCEP). These agreements enable the middle powers to receive the benefits of free trade but also ensure that their respective trade portfolios are diverse enough to protect them against economic coercion by larger states.

- **Engaging in middle power diplomacy** to push back against hostage diplomacy and economic coercion. One such example is the *Declaration of Arbitrary Detention in State-to-State Relations* (Global Affairs Canada 2021).

These free trade and diplomatic initiatives have the added benefit of inculcating stability into the region by developing thicker economic ties and promoting more rapid economic development.

Multilateral middle power cooperation against states that engage in arbitrary detention and economic coercion raises the costs for offenders.



China has not been shy about weaponizing access to its market, upon which many middle powers are heavily dependent.

Embarking on new infrastructure and connectivity initiatives to provide high quality alternatives to the BRI

China's Belt and Road Initiative (BRI) is providing much-needed infrastructure for the Indo-Pacific region. Yet middle powers are nonetheless concerned about several issues related to BRI projects, such as:

- transparency and sustainability;
- environmental impact;
- dilution of international standards and norms, and the potential to lock participants into Chinese standards and norms;
- the potential to increase dependence on the Chinese economy; and
- the potential to prop up authoritarian regimes, especially through corruption.

Middle powers are now addressing these concerns by looking for ways to shift regional integration away from China's BRI-centred model. They are working with the US and the EU to promote alternative infrastructure projects to the

BRI – ones that stress transparency and fiscal and environmental sustainability. Canada has a role in contributing to these initiatives. Several prominent examples include:

- The Partnership on Sustainable Connectivity and Quality Infrastructure between the European Union and Japan.
- The Australia-Japan-United States Trilateral Infrastructure Partnership.
- The Resilient Supply Chain Initiative.
- Pre-existing middle-power projects such as the Japan-Mekong Connectivity Initiative and Australia’s Partnerships for Recovery in ASEAN and the Southeast Asia region.

Trade and connectivity projects like these are becoming the platform by which middle powers are converging their interests. And importantly, the US and the EU are working effectively alongside them. Canada can and should carve out a role in these initiatives.

Participating in the Quad on a case-by-case basis to provide maritime and terrestrial public goods in the Indo-Pacific

The Quad is a platform through which security and other forms of maritime and territorial public goods can be provided to the Indo-Pacific region. Canada can “bolt” into Quad activities to form a Quad-plus arrangement. “Bolt-ing-in” allows for public goods to be provided in a sustainable way, where Canada has the capability to do so, in areas of concern. To provide a sustainable contribution, Canada needs to find suitable initiatives to join and leverage its comparative advantages. Key initiatives include:

- Participate regularly in Quad exercises, either actively or as an observer, to buttress maritime domain awareness and to protect SLOCs.
- Use the Quad and pre-existing partnerships in the region to contribute to humanitarian assistance and disaster relief, search and rescue, and tackle other non-traditional security challenges such as illegal fishing, piracy, and sanctions evasion.
- Carve out a role in pre-existing infrastructure and connectivity to provide public goods to the region, specifically, supply chain diversification and health infrastructure initiatives.

Some opportunities for middle powers to build on their growing success in the Indo-Pacific include:

- **Bringing more partners into their initiatives generally.** Partners with converging interests in this crucial region can be found almost

everywhere in the world. Bringing them in helps these initiatives reach critical mass, especially in an era where US involvement and leadership can no longer be counted on.

- **Bringing more partners into the CPTPP agreement specifically.** Expanding the CPTPP agreement to include South Korea, Thailand, and the UK would enhance the ability of middle powers to defend themselves against economic coercion. A serious case could even be made for Taiwanese membership – based on China’s practice of allowing “sub-state” actors to join the BRI without national governments doing so.
- **Crafting more robust responses to economic coercion.** Middle powers should reach agreements to support each other when subjected to economic coercion – and design the mechanisms to do so.
- **Continuing to support shared standards.** One facet of this is to embrace the Japanese proposed initiative of “Free Trade and Data Free Flow with Trust” (DFFT), which aims to set reliable and trustworthy rules around the flow of data.
- **Better co-ordinating positions on security issues.** There are untapped opportunities for middle powers to speak and act in concert on issues like the South China Sea, the East China Sea, Taiwan, and the Korean Peninsula.

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Canada's Indo-Pacific Priorities: Investing in a Free and Open Digital Economy

Stephen R. Nagy and Hanh Nguyen

The digital economy is developing rapidly. The digital economy refers to a wide range of economic activities that employ digitalized information and knowledge as key factors of production. Information and knowledge are collected, stored, and analysed by digital technologies such as the Internet, cloud computing, big data, fintech, and other technologies (Asian Development Bank 2018). The digital economy creates new types of jobs, accelerates innovation, and encourages economic growth, but also brings about critical socio-economic changes (Asian Development Bank 2018).

Being at the forefront of the development and regulation of the digital economy benefits Canadians. As such, Canada has an interest in investing in and securing a free and open digital economy in the Indo-Pacific and beyond.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the United States-Mexico-Canada Agreement (USMCA) and the Japan-US Trade Agreement (USJTA) have chapters that address this emerging arena of trade and innovation. Chapters on the digital economy focus include but are not limited to (United States Trade Representative 2019):

- Prohibitions on imposing customs duties on digital products transmitted electronically such as videos, music, e-books, software, and games.
- Ensuring non-discriminatory treatment of digital products, including tax measures.
- Ensuring barrier-free, cross-border data transfers in all sectors.
- Prohibiting data localization requirements, including for financial service suppliers.
- Prohibiting arbitrary access to computer source code and algorithms.
- Ensuring that firms can be flexible in their use of innovative encryption technology in their products.

Concerns about the development of the digital economy include:

- **Bifurcation of digital systems:** The development of a closed “China-net” with artificial intelligence capabilities might lead to the risk of a bifurcation of digital systems: an open system led by the US and a closed system led by China (Nagy 2019a).
- **China’s promotion of “Internet sovereignty”:** China advocates the approach of “Internet sovereignty” in global Internet governance, which prioritizes sovereign rights over freedom of information on the Internet (Economy 2018).

The bifurcation of the digital economy has complicated implications for Indo-Pacific stakeholders. Core concerns include:

- **Disrupting global supply chains due to duplicating and localizing business platforms for two systems.** A bifurcation of digital systems would put additional costs and pressures on businesses as they work to adjust their business operations and products to accommodate the two different systems, which would in turn lead to shifts in global supply chains (Nagy 2019b).
- **Rising production costs as businesses adjust to both systems.** Duplicating and localizing business operations will increase production costs for businesses, thus reducing consumption and economic growth.
- **The role of the Chinese government in the digital economy, data privacy, and intellectual property protection.** The ubiqui-

tous presence of the Chinese Communist Party (CCP) in all aspects of China's society, including the economy, blurs the line between public and private sectors (Blanchette 2019). Chinese legislation such as the 2015 National Security Law and the 2017 Cyber Security Law requires cooperation from businesses regarding national security issues, thus strengthening this concern (China Law Translate 2015; Creemers, Triolo, and Webster 2018).

Canada and like-minded countries have a deep-seated interest in investing in a free and open digital economy in the Indo-Pacific to prevent the balkanization of the digital economy. Canada also wants to ensure that Canadian businesses are not prejudiced by closed systems or systems that are not governed by rule of law. Shared interests in the digital economy include:

- **Promoting shared standards, rules, and good governance in the digital economy.** A shared regulatory framework in the digital economy would reduce the cost of integration between different systems, harmonize regulations, and stimulate innovation and economic growth.
- **Preventing the bifurcation of digital systems.** Developing and maintaining an open, rules-based digital economy at the global level is a priority for middle powers to avoid detrimental effects from a digital iron curtain.

Using pre-existing cooperation as a springboard will be critical for Canada as it works to be at the forefront of the digital economy's development and inclusive regulation. Pre-existing initiatives to add value include:

1. US-led cooperation

- Offers a comprehensive model for cooperation: crowding in funding by governments to induce private investments, rating mechanism for projects, diverse partnerships
 - Examples: *US BUILD Act*, Blue Dot Network, US-ASEAN Smart City Partnership, US-ASEAN Cyber Policy Dialogue, US-ASEAN Connect's Digital Economy Series, US-Japan Policy Cooperation Dialogue on the Internet Economy.
- Format: Cooperation between the private sector, US government agencies, and third countries, with US government agencies acting as a mediator.
- Emphasis: A market-driven, rules-based approach that supports local and American small- and medium-sized enterprises (SMEs), and promotes US technologies, solutions, and best practices.

2. Middle powers-led cooperation

- Offers a comprehensive model of cooperation at bilateral and tri-lateral levels: facilitating collaboration and investment, developing rules and practices, supporting start-ups with education, training, and capacity building.
 - Examples: Japan-India Digital Partnership; Digital Economy Partnership Agreement (DEPA) between New Zealand, Singapore and Chile; Data Free Flow with Trust (DFFT).
- Cooperation initiative in data flow: a critical but contentious area.

3. Big businesses-led cooperation

- Softbank's "smart city" proposal for Indonesia's new capital; cooperation between Mitsubishi, Nomura, and Vingroup for smart city development in Ho Chi Minh City (Vietnam).
- Initiated by big businesses without the mediating role of government agencies.

Solutions for achieving a free and open digital economy in the Indo-Pacific include:

- **Bringing middle powers into US-led cooperation initiatives.** Creating roles for middle powers in the development of the digital economy in ASEAN, thus strengthening the trilateral cooperation between the US, middle powers, and ASEAN.
- **Scaling up cooperation at bilateral and trilateral levels to include other countries.** An example would be expanding New Zealand-Singapore-Chile DEPA to include other members in the CPTPP (as New Zealand, Singapore, and Chile are already members of the CPTPP). DEPA's focus on digital trade and economy also complements existing rules regarding digital trade in the CPTPP.
- **Develop a detailed framework and rules for Data Free Flow with Trust.** DFFT is now just a concept, but it has the potential to bridge divisions and build trust between the US, which supports the free flow of data to initiate innovation and economic growth, and the EU, which opposes the free flow of personal data due to privacy concerns (Carter and Sukumar 2019). Implementing DFFT would require Japan to work with the US, the EU, and China to develop a shared regulatory mechanism for the digital economy.
- **Focusing on a market-driven, rules-based approach with support for local partners and SMEs.** This approach ensures sustainable and inclusive economic growth and development, which

contrasts with China's strategy of promoting state capitalism and state-owned enterprises.

Canada is well-positioned to add value to the regulation and development of a free and open digital economy in the Indo-Pacific. It has the governance tools, is part of both CPTPP and USMCA, and it is a close partner of both the US and Japan. Leveraging existing expertise, relationships, and governance tools, Canada is well placed to add value to the digital economy in the Indo-Pacific.

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Digital Connectivity in the Indo-Pacific: The Potential for Middle Power Cooperation on 5G Technology

Stephen R. Nagy and Hanh Nguyen

5G technology promises a number of benefits, including higher Internet speed, stable connections, and wider coverage than the previous generation of wireless networks (Wall 2018). It will also play a crucial role in a wide range of new areas, such as establishing smart cities by connecting smart equipment, self-driving vehicles, traffic monitoring, virtual reality, automation, and information collection.

Yet, notwithstanding the benefits, severe competition in digital connectivity and 5G technology has prompted what some observers call a *Tech Cold War* (Segal 2020). Clearly, there are growing questions as to the implications of an authoritarian state being the first mover as states vie to be artificial intelligence superpowers (Lee 2018). The main apprehensions include:

- Chinese domination in 5G technology and in particular, the role of Huawei: A global enterprise focusing on communication infrastructure and a pioneer in 5G technology, Huawei has become the centre of attention due to accusations of alleged close connections with the Chinese government.
- Pressure from China and the US regarding the adoption of 5G technology: Since the end of 2018, the US has increased pressure on Huawei, banning its equipment from government purchases,

restricting US companies from doing businesses with it, and lobbying allies and partners to drop Huawei equipment from their communication systems. China, in return, has increased pressure on other countries to adopt Huawei's 5G equipment.

- **Weaponization of digital space and 5G technology:** With 5G technology and digital connectivity being deployed domestically to monitor and control the behaviour of China's citizens, there are concerns about the export of these technologies to other nations.

States within and outside the Indo-Pacific, including Canada and like-minded middle powers, are especially vulnerable to the negative aspects of an authoritarian-dominated digital infrastructure and 5G (or 6G) technology ecosystem. Disquietude around these vulnerabilities include:

- **Security risks to critical information infrastructures:** Using software or hardware “back doors” in 5G equipment to disable or take control of vital infrastructure such as power grids, financial markets, and transport systems (Giles and Woyke 2018).
- **Interference in domestic or international politics:** The well documented interference in the US 2016 presidential election and disinformation campaigns around the Hong Kong protests and the COVID-19 pandemic have demonstrated that malevolent actors can use digital infrastructure to subvert, obstruct, and undermine open societies (United States, Senate Intelligence Committee 2019; Kurantzick 2020; Conger 2019).
- **Espionage risks:** Collecting sensitive information and data, such as private information on citizens, trade secrets, or intelligence so that it can be used for malign purposes (Giles and Woyke 2018).
- **Technology leaks:** The US is concerned that Huawei could supply American technologies to countries under US embargoes, such as Iran or North Korea (Giles and Woyke 2018).
- **Risk of bifurcation of 5G network systems:** A “digital iron curtain” between the US and China could force countries to choose one or the other system, thus increasing costs for businesses (Findlay 2019).

Considering the risks associated with a digital 5G infrastructure for open societies like Canada and its allies and partners, they have a shared interest in the following:

1. Digital Infrastructure and 5G technology innovation

- **Develop diverse networks of 5G technology and equipment providers:** Help countries avoid becoming dependent on a single provider, thus mitigating security risks and privacy concerns.

- Ensure that 5G (or 6G) technology and equipment is secure: Secure equipment helps countries mitigate risks related to infrastructure security, cyber espionage, and data leaks. This effort will need to include all of Canada's allies and partners, especially emerging states.
- Develop global standards for components of 5G and next-generation systems: A shared, rules-based standard for the components and regulations of 5G networks and next-generation systems would help accelerate the integration of different suppliers' systems and reduce costs for businesses (Findlay 2019). Those standards would also protect privacy and prevent unlawful state intervention into networks.

2. Building on existing cooperation

Several declarations and statements among various partners already exist and Canada and its middle power allies could build upon them. They include:

- *EU-Japan 5G Joint Declaration* (May 2015) (European Commission 2015/2021)
- *EU-China 5G Joint Declaration* (September 2015) (European Commission 2015)
- *EU-South Korea 5G Joint Declaration* (June 2014) (European Commission 2014/2021)
- *Osaka Declaration including Data Free Flow with Trust* (DFFT) (June 2019) (G20 Osaka Summit 2019)
- *ASEAN-US Cyber Policy Dialogue* (October 2019) (United States, Department of State 2019).

3. Shaping digital connectivity and the development of a rules-based, free, and open 5G technological ecosystem using sustainable, middle power solutions that include:

- Joint bidding between corporations from the US and middle powers: Huawei has an advantage in supplying all components related to 5G technology, from base stations to chipsets to antennas. In a bidding process, a comprehensive provider like Huawei would have more chance at winning a bid than providers supplying individual components. Joint bidding between different corporations in the US and other middle powers, in which each would provide a specific component, would strengthen their chances in a bidding process.
- Better funding coordination among the US and middle powers: The US and middle powers can't compete with China's funding

of and state support for digital technologies. To counter China's strength, they could consider coordinating their funding processes such that each country would prioritize funding for a specific aspect or component of 5G technology.

- Developing a shared standard among the US and middle powers for 5G technology to prevent security risks: A shared standard would create transparency, provide a framework for 5G operations, and reduce costs for business while also putting pressure on Huawei to comply with shared rules in many important markets.
- Restricting Huawei's participation to non-sensitive aspects of 5G systems: Since Huawei is a pioneer in 5G technology, excluding the company from the deployment of the technology is not only unattainable, but costly for many countries. Restricting Huawei's participation to non-sensitive aspects of 5G systems and subjecting its equipment to vigorous security tests (such as are offered by, for example, the Huawei cybersecurity evaluation centre in the UK) provide a temporary solution to avoid security risks and pressures from both China and the US.
- Cooperating with Huawei through joint partnerships: Alleged links to the Chinese state subject Chinese digital companies, including Huawei, to increased suspicion abroad, thus hurting China's efforts to become a top player in technology. By cooperating with Huawei in the deployment of 5G technology through joint partnerships, the middle powers would have oversight of Huawei's technology and equipment and help Huawei improve its reputation.
- Promoting stakeholder buy-in: For many countries deciding whether or not to use a technology from country A or B, cost is the determining factor. Middle powers like Canada, working in concert with the US, must solve the financial hurdles that emerging states face when adopting a new technology such as 5G. Canada and its partners must adopt grants, fiscally responsible subsidies, market access, and other creative solutions to help shape a country's decisions about which technology it will embrace.
- Incorporating a connectivity and technology pillar into the Indo-Pacific vision: Technology and regulatory adoption by Indo-Pacific stakeholders requires a long-term strategic vision of the region, a clear articulation of the role each has, and clear areas in which cooperation between Canada and like-minded partners can provide value to the region's connectivity and technology. Promoting a rules-based, free and open connectivity and technology ecosystem should be part of that vision as it is consistent with Canada's commitment to the rule of law, development, and its middle power identity.

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Cooperative Middle Power Approaches for Infrastructure and Connectivity Development

Stephen R. Nagy and Ly Tra Hoang

The Indo-Pacific has been emerging as a region of critical importance to international security and economic development. To reach its full potential, it requires a massive investment in infrastructure and connectivity. Investment should be based on the following facts:

- **The region is home to the fastest growing markets in the world.** Prior to the COVID-19 pandemic, states and regions centred in the Indo-Pacific such as China, India, and Southeast Asia more generally were among the fastest growing economies in the world. Rich in natural resources, a large young population, and a burgeoning middle class, the region is the engine of the world's economic growth.
- **The region hosts at least three dynamic maritime trading routes (known as sea lanes of communication or SLOCs).** The Indian Ocean, the South China Sea, and the East China Sea serve as major arteries for the flow of energy and goods. They are also zones of instability as China continues to challenge international law through so-called “grey zone” operations and lawfare tactics.

- **Rapid economic growth and enhanced trade cooperation in the region require a massive expansion of infrastructure.** There have been huge demands in the region for constructing and upgrading not only hard infrastructure like roads, bridges, ports, railways, airports, and irrigation, but also soft infrastructure like digital connectivity and health infrastructure.
- **There are huge infrastructure gaps among countries in the region.** While some countries in the Indo-Pacific enjoy advanced infrastructure, others lack the infrastructure necessary for economic and social development.

“China’s widespread investment in infrastructure and connectivity development has raised several concerns.”

China is expanding its economic and strategic influence through Belt and Road Initiative (BRI) agreements, which invest in regional infrastructure and connectivity projects with partnering countries, provinces, and cities. China’s widespread investment in infrastructure and connectivity development has raised several concerns, specifically:

- Questionable transparency and limited governance practices of projects managed by state-owned enterprises using Chinese funds (Hillman 2019).
- The quality, sustainability, and social and environmental impacts of Chinese infrastructure investment (Balding 2018).
- The potential debt trap in which host countries find themselves when they are unable to pay the debt brought on by loans for big projects (Rana and Xianbai 2020).
- Security and strategic concerns that stem from infrastructure projects funded by Chinese contractors.
- The fracturing of the cohesiveness of regional institutions when infrastructure and connectivity projects are used as rewards for deference on issues deemed important to Beijing (Chirathivat and Langhammer 2020).
- The potential of a “lock-in” effect in which recipients of BRI aid will be locked into a developmental trajectory dependent on technology, materials, and aid from China.

Based on these concerns, key players such as Australia, Japan, India, the EU, and the US are bolstering their cooperation with each other and regional partners to provide alternatives to China's BRI. Canada has yet to carve out a role in the burgeoning infrastructure and connectivity activities that are currently evolving.

Through well-chosen initiatives, regional countries can meet their need for infrastructure and connectivity while challenging the expansion of Beijing's influence. Current infrastructure and connectivity projects in the Indo-Pacific are diversified by degrees of cooperation among regional middle powers. Through consultative diplomacy, Canada could find opportunities to contribute materially, financially, or through the provision of expertise in some of the projects below:

1. Regional middle powers working unilaterally on infrastructure projects, including:

- **Japan:** Developing roads and bridges along the Southern Economic Corridor and the East-West Economic Corridor; connecting Mumbai and Ahmedabad with a high speed railway project; developing roads, bridges, and a port connecting inland states to the Indian Ocean; and enhancing Mekong connectivity through the Japan-Mekong Connectivity Forum.
- **South Korea:** Promoting the New Southern Policy, which includes developing ports and a rail system in Vietnam, the Philippines, and Indonesia as well as mega-bridge construction projects in Brunei and Malaysia.
- **Australia:** Currently concentrating on ASEAN countries and India, the Australian Infrastructure Financing Facility for the Pacific was launched in 2019 with US\$1.39 billion in funding.

2. Regional middle powers engaging with each other and with other world partners:

- **Japan and Australia:** Signing the 2018 Memorandum of Understanding (MOU) that enables information to be shared between the two in order to identify suitable infrastructure projects in the Indo-Pacific and facilitates cooperation between Japanese and Australian companies.
- **Japan and the US:** Affirming their shared vision and cooperation on joint projects in third countries; fostering investments of high standard in the energy sector; creating a framework for co-financing; enhancing cooperation on concrete projects such as the Jawa-1 Gas-to-Power Project in Indonesia and the liquefied natural gas-to-power project in Bangladesh.

- **Japan and the EU:** Signing an MOU in September 2019 that allows more fiscally sustainable loans for infrastructure projects in the Indo-Pacific countries.

3. Trilateral cooperation:

- The Trilateral Infrastructure Partnership between Australia, the US, and Japan was established in 2018. Following from it, the liquefied natural gas project in Papua New Guinea launched in June 2019 is the first joint financing project in the Indo-Pacific region. The three countries are currently identifying more joint projects in ASEAN countries.
- The Resilient Supply Chain Initiative (RSCI) between India, Japan, and Australia aims to link development and the diversification of supply chains in the three countries.

The infrastructure and connectivity strategies of middle powers in the Indo-Pacific should adhere to a rules-based order that focuses on fiscal transparency, sustainability, and an environmentally friendly approach that is free of geopolitics. These efforts should be the gold standard for infrastructure and connectivity projects, but should also lead by example to encourage BRI initiatives to implement similar standards (Nagy 2021). Key facets should include:

- **Emphasis on quality and affordability.** Japan, Australia, South Korea, and the US prioritize high quality as their competitive offerings. But in tandem with quality, affordability must be front and centre in infrastructure and connectivity projects.
- **Ensuring transparency and avoiding adverse social and environmental impacts.** Bilateral and trilateral cooperation frameworks (among regional middle powers as well as between them and the US and the EU) help to promote the transparency of any infrastructure projects. The goal of those projects is to provide consultancy and technical support rather than direct involvement, and to use local construction labour and adhere to world-class environmental standards. Managing the projects this way helps governments in the host countries to develop and manage their own investments.
- **Avoiding debt burdens.** Regional middle powers should commit to providing infrastructure and connectivity projects with fiscal and financial sustainability while respecting the host country's sovereignty. This will create user buy-in from Indo-Pacific stakeholders, especially those who are fiscally challenged or harbour lingering suspicions about Western powers.

The comparative advantages of middle powers in the Indo-Pacific, which includes their experience and ability to boost infrastructure investment in emerging states, is well known. Their commitment and growing convergence of interests in developing both hard and soft infrastructure in the region underscores the value of cooperation. Additionally, the involvement of other partners like the US and the EU provides the region with more opportunities to construct high-quality infrastructure.

There are several obstacles that regional mid-size powers need to address for better results. They include:

- **Shortage of financing.** It is estimated that the region needs US\$1.7 trillion per year to upgrade its infrastructure through 2030 (Asian Development Bank 2017). However, currently, the annual investment is US\$881 billion.

The COVID-19 pandemic caused an economic downturn among middle powers. That fact, and the US's more inward-looking inclination, will both place great demands on policy-makers to articulate the need for and importance of infrastructure and connectivity spending in the Indo-Pacific when voters are prioritizing investment at home.

- **Lack of competitiveness on cost and approval times.** China assists countries that want to work with them on infrastructure projects by providing them with low cost offers, and they offer a faster response time and less binding requirements than middle powers do. Meanwhile, the high project standards of regional middle powers are often understood as being marked by slow approvals and interference in domestic policies. The US and its like-minded regional middle power allies and partners need to find creative fiscal and regulatory solutions to be competitive with BRI projects.
- **Environmental sustainability.** Most of the less developed countries in the Indo-Pacific do not pay enough attention to environmental sustainability despite their vulnerability to climate change and other environmental issues.
- **Experience and capacity shortage.** While infrastructure leaders like Japan have a long history of constructing infrastructure, some mid-sized powers do not have much experience or the capacity to work on large-scale projects. Middle powers such as Canada need to identify and leverage their competitive advantages to find ways to collaborate.
- **Bureaucracy constraints from the host countries.** The dominance of state-owned firms in foreign aid projects, poor project selection, lack of transparency, corruption within bureaucracies, and regulatory frameworks that discourage the participation of the private sector are all obstacles that need to be removed. Middle

powers such as Canada can share good governance practices to achieve these objectives.

- **Cyber security concerns.** Hackers may exploit the development of digital connectivity for nefarious purposes. Since cyberspace is an important soft infrastructure platform, middle powers need to inculcate cyber security into their infrastructure and connectivity initiatives.

Some recommendations for middle powers, including Canada, to develop rules-based infrastructure and connectivity in the Indo-Pacific include:

- **Engage with the private sector.** Bringing private sector and non-governmental organizations into infrastructure projects help to increase transparency and decrease dependence on governmental resources.
- **Be open to local and international participation.** Unlocking the potential of local and international partners can bring different expertise and experience to a project. Moreover, local participation in infrastructure projects also helps create jobs for local people and contributes to increasing the constructing ability of the host countries.
- **Mobilize a variety of financial sources.** Host countries can fill financial gaps by unlocking national savings, call for private capital, and make use of multilateral and bilateral financial institutions.
- **Bring in the capabilities of each nation.** It is not necessary for players to bring only their construction equipment or raw materials to a project. Infrastructure development in the region requires human resources with legal and accounting expertise to identify sustainable projects. Other soft skills are also needed to ensure a smooth construction and maintenance process.
- **Bring in China.** Engaging China in the infrastructure projects led by middle powers not only makes use of valuable Chinese resources and but also encourages Beijing to meet international standards of transparency and good governance in their own infrastructure investments.
- **Build trust with regional countries.** Gaining trust from national governments of the host countries helps middle powers to increase their leverage when competing with China. Middle powers are able to attract host countries through their emphasis on high quality, fiscally sustainability, and respect for sovereignty.
- **Enhance digital connectivity.** The Indo-Pacific is a huge potential market for digital development thanks to its young population and dynamic economic growth. Developing digital connectivity not only helps citizens in the region benefit from the digital economy but also allows them to directly engage in information exchange and find solutions for local developmental issues.

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South Asia in the Indo-Pacific: Evolving Alignment for Middle Power Security Cooperation

Stephen R. Nagy and Chandrika Pandit

A free and open, rules-based Indo-Pacific region is untenable without an enduring US commitment, an active role for South Asian states, and coordination with middle powers. A rules-based order for the region is critical for peace and stability for the following reasons:

- **The Indian Ocean is the central sea artery of the Indo-Pacific region.** The Indian Ocean is the key sea line of communication (SLOC) for the transport of energy and goods to and from the world's most dynamic economic region. Disruption of this SLOC would have consequences for the global economy.
- **China is challenging the rules-based order in the region.** Through a mixture of grey zone operations (Asia Maritime Transparency Initiative 2021), lawfare tactics that rely on using legal weapons to go after critics abroad, and ignoring decisions by international courts, China is attempting to establish regional hegemony in the East and South China Seas (ECS and SCS) and create a military and commercial presence in the Indian Ocean.

- **SLOCs are migrating away from a rules-based to a “might-is-right” order.** The increasing reliance on might over law and order is inculcating instability into critical SLOCs, raising the chances of accidental conflict and a disruption in trade.
- **China is expanding its commercial, diplomatic, and military footprint in South Asia.** Through the Belt and Road Initiative (BRI) and, now, vaccine diplomacy, China has improved its relations with India’s small neighbours by financing infrastructure projects and other economic opportunities. This is interpreted as interfering in India’s sphere of influence and raises concern about Chinese intentions.
- **The United States’ future in the region is unclear.** It is unclear what role the United States sees itself playing in the Indo-Pacific, and lack of policy coordination between the US, India, and other powers is placing Indo-Pacific stakeholders in an increasingly difficult position of choosing between their security provider (the US) and their economic partner (China) (Fook 2020).
- **Traditional and non-traditional security challenges in the region.** India faces territorial disputes with other countries in the Indo-Pacific, including China and Myanmar. Similarly, the region is suffering from non-traditional security threats such as piracy, human trafficking/smuggling, terrorism, environmental degradation, climate change, food scarcity, natural resources crises, natural disasters, social complexity, humanitarian issues, and governance problems.

“*India has started to cooperate with other powers through its inclusive concept of the Indo-Pacific.*”

South Asian states such as India, Sri Lanka, Bangladesh, Maldives, and Nepal are particularly vulnerable to these dynamics. However, India has started to cooperate with other powers through its inclusive concept of the Indo-Pacific to meet these challenges. Three significant responses to India’s outreach include:

1. Supporting a rules-based maritime order by cooperating with like-minded countries in the traditional security domain – to hedge against China’s assertiveness.

2. Strengthening ties in the non-traditional security domain by enhancing cooperation between India and other middle and small powers including Canada.
3. Increasing commitments to the Quadrilateral Security Dialogue (Quad) and Quad-plus formula.

1. Supporting a rules-based maritime order by cooperating with like-minded countries in the traditional security domain to hedge against China's assertiveness

A rules-based maritime order is essential for South Asian states, including other like-minded countries in the region. It assists with the:

- Maintenance of peace, stability, and security in, upon, and over the sea lines of communication
- Enforcing norms of legal commerce
- Freedom of navigation
- Overflight and other international legal use of the oceanic and air space
- Protection and preservation of marine resources
- Framework for a sustainable and responsible fishery

However, China is challenging the order by:

- **Expanding its maritime dominance through grey zone, lawfare, and military means.** China has been militarizing the contested territory in the East and the South China Seas (Japan Ministry of Defense 2021). Chinese naval, coast guard, and merchant vessels are often found loitering in the Indian Ocean.
- **Disregarding the Permanent Court of Arbitration's rulings in the SCS.**
- **Rapidly militarizing.** The Indo-Pacific is very anxious about China's rapid militarization (Tian and Su 2021) and naval modernization, and about the perception that maritime security conflicts over SLOCs and territorial claims with China will intensify.

China's assertive behaviour is of particular concern to middle powers, including India. Core concerns revolve around a rising power using force or other tactics to change the regional order.

In response, India is cooperating with middle powers and the US to secure the rules-based order in the Indo-Pacific. A key example can be found in Indian and Japanese collaboration in their Free and Open Indo-Pacific visions. These visions include:

- **India's SAGAR.** The Hindi word for “ocean,” SAGAR also stands for “Security And Growth for All in the Region.” India’s concept of the Indo-Pacific is based on the region remaining free, open, and inclusive, alongside a cooperative and collaborative rules-based order. It is also rooted in Association of Southeast Asian Nations (ASEAN) centrality and inclusivity. This approach is aligned with India’s “Act East Asia Policy.”
- **Japan's FOIP (Free and Open Indo-Pacific).** Japan’s FOIP vision stresses a rules-based maritime order. This includes the rule of law, freedom of navigation and overflight, peaceful settlement of disputes, and promotion of free trade. It also aims to address regional security challenges such as piracy, terrorism, proliferation of weapons of mass destruction (WMD), and natural disasters. Like India’s approach, it is also based on ASEAN centrality and inclusivity.

Some critical factors undertaken under the broader concept of FOIP are:

- Protecting the sea lines of communication;
- Search and rescue;
- Preventing oil spills in the ocean;
- Regulation of maritime installation;
- Counter operations against piracy and terrorism;
- Protecting trade shipping lines;
- Gathering natural sea resources; and
- Monitoring and surveillance activities, including using aircraft to patrol and check for illegal activities like piracy, smuggling, and terrorism.

These non-traditional forms of security cooperation are more advanced than simply cooperating to constrain China. Moreover, India and Japan are doing more, as are other like-minded countries, to expand FOIP to the whole Indo-Pacific region. This framework involves:

- **Boosting security cooperation with the US and other middle powers in the region.** This includes the regional security architecture such as Quad and Quad-plus involving the US, India, Japan, and Australia.
- **Enhancing security cooperation at different levels.** Bilateral, trilateral, and multilateral military exercises have taken place, including the *Malabar* exercise and the Japan-India-Sri Lanka Trilateral Strategic Dialogue.

Canada and Japan’s recent announcement of *Shared Canada-Japan priorities contributing to a free and open Indo-Pacific region* (Global Affairs Canada

2021) and Japan's commitment to enhance rule-of-law cooperation in the maritime domain demonstrate a deepening alignment of middle power interests in the Indo-Pacific.

2. Strengthening ties in non-traditional security by enhancing cooperation between India and other middle powers including Canada

The Indo-Pacific region, including South Asia, faces a number of unconventional security challenges. The following are the region's immediate problems that require regional and extra-regional cooperation:

- **Poor governance is a critical source of insecurity for sub-state communities in South Asia.** Poor governance provokes violence and reduces the ability of governments to use democratic means to achieve social justice and the rule of law. Poor representation, lack of accountability, corruption, a politicized judiciary, partisan politics, weak and ineffective institutions, violent and corrupt electoral processes, inadequate infrastructure, poor public service delivery, and discrimination based on religion, caste, and gender are examples of poor governance in the region.
- **Piracy.** The Indian and Pacific Oceans have a high volume of global trade and pirates consider them “sites of profit.” Pirates can operate at chokepoints and along coastlines. Some countries near the chokepoints have inadequate maritime security capabilities and limited coordination with other countries, which makes it easy for piracy to take hold. Similarly, calculating the cost of responding to piracy is problematic because it requires cooperation among various powers in the region.
 - **India is a key partner helping combat piracy in the Indian Ocean.** India has enhanced its collaboration with countries bordering the Arabian Sea and along the East African coast. For example, it has partnered with the UAE in a naval exercise (*Gulf Star 1*) and with the Kenyan navy in a joint exercise. India has signed an MOU with Mauritius on maritime security in the Indian Ocean region, in which both are to “train and patrol the seas together,” operationalize coastal surveillance radar (CSR) stations, and use Dornier aircraft to undertake surveillance. India can similarly partner with other powers in the region.
 - **Terrorism in the Indo-Pacific.** Iraq, Afghanistan, India, Pakistan, the Philippines, Nigeria, Somalia, Egypt, and Syria are countries that face the most serious threat of terrorism. Examples include Al-Shabab in Somalia; Al-Qaeda; Boko-Haram in Kenya; Jemaah Islamiyah, Abu Sayyaf and the Moro Islamic

Liberation Front in Southeast Asia; Jemaah Ansharut Daulah (JAD), an Islamic State-linked terrorist organization in Indonesia; transnational armed groups in Malaysia; local armed groups in the Philippines; violent activities of Arakan Salvation Army in the Bangladesh-Myanmar border regions; and lone-wolf terror attempts in Australia and the US. Small terror groups have allied with each other or even with ISIS.

- o **Combatting terrorism requires collaboration at bilateral, regional, and multilateral levels** with the help of existing regional organizations and international organizations. Examples include the South Asian Association for Regional Cooperation (SAARC), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), ASEAN, and the Indian Ocean Rim Association (IORA). Canada needs to maximize its relationship with India and leverage its comparative advantage to contribute to counterterrorism in the region.

“Combatting terrorism requires collaboration at bilateral, regional, and multilateral levels.”

- **Forced migration (refugees and internally displaced persons).** People leave their homes for a variety of reasons, such as in search of security, threats to life and property, to avoid conflict and war, in search of protection from religious or other kinds of persecution, for work and food, or in search of a better life. Over one-fourth of the world’s refugee population is in South Asia. Examples include the Rohingya in Bangladesh and India, Afghans in Pakistan, Tamils in southern India, Bhutanese and Tibetans in Nepal, and people affected by the India-Pakistan conflict.
 - o **Coordination among state and non-state actors,** civil society organizations, and intergovernmental organizations at a multilateral level helps to address these issues. Canada can contribute through coordinating actors and providing resources and expertise.
- **Human trafficking and smuggling in the Indo-Pacific.** Cambodia, Laos, and Myanmar are source countries for many trafficking

victims, who often find their way to countries such as Thailand. Cambodia's coastal region is considered a recipient zone for women trafficked from Vietnam and other countries. Vietnamese workers are trafficked for forced labour in other countries on the false pretext of lucrative job opportunities. Indonesia has emerged as an important transit point for human trafficking and smuggling. Rohingya refugees from Myanmar seeking to travel to Malaysia and through to Australia often use Indonesia as a transit point. Malaysia receives refugees from countries other than Myanmar, too, including Bangladesh, and other Southeast Asian countries. Filipinos are often trafficked to more affluent countries. Nepalese women are trafficked to India and Malaysia.

- **Police, law enforcement, security, intelligence, government IT and information agencies, and non-state actors can work together** at the bilateral and multilateral levels.
- **Humanitarian assistance and disaster relief (HADR) following natural disasters.** The Indo-Pacific region is particularly vulnerable to natural disasters such as drought, earthquakes, floods, wildfires, storm surges, tsunamis, cyclones, and landslides.
 - **Major naval powers in the region are used to coordinating their actions to improve HADR measures.** For instance, the joint naval exercise *Milan* in 2014 focused on “Maritime Cooperation for HADR Operations,” and at a sub-regional level, the BIMSTEC Disaster Management Exercise was initiated in 2017.
- **Many countries perceive climate change as threatening their food and water security and causing natural disasters.** Agrarian economies such as Nepal, Bhutan, Pakistan, India, and small island states like Sri Lanka and the Maldives are vulnerable to the effects of climate change, but its severe impacts are trans-national.
 - Cooperation at both the country and regional level can help address the effects. For example, the South Asian Association for Regional Cooperation (SAARC), the International Centre for Integrated Mountain Development (ICIMOD), and the Asian Development Bank (ADB) are working together on issues of food and water security and climate change with respective governments in the South Asian region.
- **Cybersecurity.** The Indo-Pacific region has emerged as the hub of innovation in the cyber security domain. The countries in the Indo-Pacific often face cyber attacks from state and non-state attackers alike. The large economies in the Indo-Pacific, such as the US, Japan, India, and Taiwan are among the top 10 countries targeted by cyber attackers. Attackers are motivated by the possibility that

they can steal intellectual property, gather intelligence, disrupt or sabotage the targeted country, or reap a financial gain.

3. Increasing the commitment to the Quadrilateral Security Dialogue (Quad) and the Quad-plus formula

- **Quad-plus functional cooperation.** In January 2021, exercises by Quad (a security partnership comprising the US, India, Japan, and Australia) around Guam under *Sea Dragon 21* (CTF 72 Public Affairs, 2021) included Canada (the “plus,” in this case). France followed by leading the *La Pérouse* joint exercises (Parpiani and Dubey 2021) in April 2021 in the Indian Ocean. More Quad-plus cooperation is feasible and desirable.
- **Quad partners and the provision of public goods.** The March 2021 Quad Leaders’ Joint Statement highlighted the provision of public goods in the March 2021 Quad Leaders’ Joint Statement, “The Spririt of the Quad” (The White House 2021), which focused on four areas: 1) supporting a region that is free, open, inclusive, healthy, anchored by democratic values, and unconstrained by coercion; 2) promoting a free, open rules-based order, rooted in international law to advance security and prosperity and counter threats to both the Indo-Pacific and beyond; 3) pledging to respond to the economic and health impacts of COVID-19, combat climate change, and address shared challenges, including in cyber space, critical technologies, counterterrorism, quality infrastructure investment, and humanitarian assistance and disaster relief as well as maritime domains; and 4) joining forces to expand safe, affordable, and effective vaccine production and equitable access, to speed economic recovery, and benefit global health.

Some opportunities for South Asian and middle powers to build on the growing success in the Indo-Pacific involve:

- **Creating institutional/cooperative frameworks at two levels.** This should take place at the sub-regional and trans-regional levels covering the whole of the Indo-Pacific.
- **Focusing on troubled areas and hotspots, particularly areas that will yield significant results.** A focus on transit points will significantly help to address human trafficking and smuggling, while an emphasis on chokepoints will help to control piracy.
- **Cooperation among the leading powers in the region.** India, the US, Japan, Australia, and other middle powers should collaborate intensively on maritime security in general and in combatting piracy specifically. The collaboration needs to take place with regional organizations such as ASEAN, BIMSTEC, SAARC.

- **Focusing on developing state capacities and governance.** Middle powers in the Indo-Pacific should focus on critical sectors/and institutions such as law enforcement agencies and develop collaborative platforms. Building state capacities will help to address issues such as terrorism and human trafficking and smuggling.
- **Cooperation with both state and non-state actors.** Addressing non-traditional security issues needs partnerships with agencies dealing with police, law, education, IT, and various non-state actors.
- **Developing resilience.** Combatting extreme climatic conditions requires making agriculture more disaster resilient in rural areas and implementing robust rural livelihoods programs.
- **Free, open, and secure cyberspaces.** Partners in the Indo-Pacific must engage in information sharing with an aim to addressing cybercrimes and cybersecurity issues

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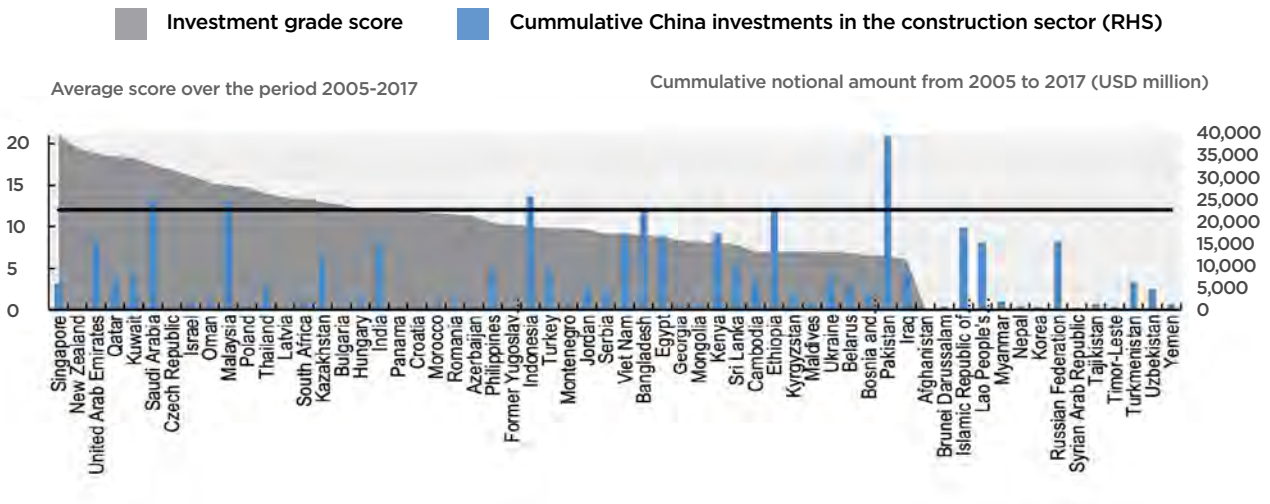
Safeguarding Peace and Stability through Economic Cooperation in the Indo-Pacific Region

Stephen R. Nagy and Giovanni Catino

The Indo-Pacific is the world's most dynamic economic area. However, economic and geopolitical competition is reshaping the balance of power in the Indo-Pacific region. Key drivers include:

- **Unsatisfied and assertive regional stakeholders.** While China is not alone in contesting territories in the Indo-Pacific, it is by far the most proactive in challenging the sovereignty claims of its neighbours in the East and South China Seas (ECS and SCS) and the Himalayan plateau.
- **The Belt and Road Initiative (BRI).** The BRI provides valuable public goods to the region. It is also creating asymmetric economic relations with recipient countries that could alter the regionalization process away from an ASEAN centred one towards one dominated by Beijing.
- **Re-emergence as the region's dominant economy:** In the short-to mid-term, China's economy will continue to grow and be a more attractive market for neighbouring states. China presents both an opportunity and a risk as Beijing has a growing track record of economic coercion.

FIGURE 1: CREDIT RATING SCORE BY BRI-PARTICIPATING ECONOMY VERSUS CONSTRUCTION PROJECT INVESTMENT



Source: OECD 2018.

Source: S&P, Fitch Moody's. AAA and Aaa are given a score of 21; AA+ and Aa1 are given a score of 20, and so on, down to 1 for D and C at the junk end. Investment grade ends at BBB-/Baa3 at a score of 12.

- Debt.** Potential debt issues loom. Figure 1 shows the sovereign credit ratings calculated by scoring the ratings from Moody's and S&P/Fitch (the grey area) along with the investment by China in construction projects for each economy. Seventeen economies score at or above 12, which gives them an investment grade rating of BBB- or above. Meanwhile, 29 economies are rated below investment grade and 14 have no rating at all (economies to the right of Iraq in Figure 1). China's investment in construction infrastructure projects in these latter economies constitutes well over half of the cumulative totals since 2005: i.e., US\$253.8 billion compared to a total cumulative investment of US\$420 billion since 2005 (OECD 2018).
- The US role in ensuring security.** Long-term concerns about the US commitment to the Indo-Pacific deepened under the Trump administration (Chong 2020). The Biden administration's different tone and behaviour has helped to reduce those anxieties, but questions remain about the sustainability of the US role in the region.

Given the facts above, middle powers in the region and the US will have different approaches to building their Indo-Pacific visions to meet their comprehensive needs, which will also include their approach to China. Canada's engagement with stakeholders will depend on its own unique understanding

of the approaches it wishes to take, and the associated opportunities. Canada has a number of possible avenues to approach Indo-Pacific engagement – specifically, by working with key partners and their respective approaches in the region. Possible partners and their approaches are explored in more detail below:

1. **ASEAN**

ASEAN and Southeast Asian states prioritize strategic autonomy as a tactic to manage larger neighbours in and out of the region. However, despite the general perception that ASEAN silently acquiesces to Chinese influence in the region, ASEAN member states are becoming ever more anxious about China’s increasingly assertive behaviour (Tomotaka 2020). China has been adept at leveraging its economic relations with Southeast Asian states to prevent them from developing a unified stance on South China Sea-related issues.

- **Conflict management vs. conflict resolution.** ASEAN must operate within the mandate of its Charter, namely, “respecting the fundamental importance of amity and cooperation, and the principles of sovereignty, equality, territorial integrity, non-interference, consensus and unity in diversity.” Canada can contribute to both Conflict management vs. conflict resolution by promoting track 1.5 diplomacy.

2. **Japan**

The Japanese government has looked for the US to collaborate more in the region. This includes finding a place for the BRI and Japan’s national interest to co-exist. Japan is also keen to involve other possible partners in its regional engagement, including Canada.

- **Japan’s Free and Open Indo-Pacific vision (FOIP).** The FOIP aims to increase Japan’s contribution to infrastructure funding, though it is difficult for Japan to compete with China on the amount of funding.
- **FOIP sustainability, branding, and collaboration.** Tokyo is counting on the quality and the merits of its transparency and the socio-environmental impact of its projects as a means to entice actors to engage with them in the region. In collaboration with the Asian Development Bank, its 2015 “Partnership for Quality Infrastructure” aimed to fund US\$110 billion for infrastructure projects in Asia.

The Japanese government is taking a dual approach to the region – one that is non-zero-sum. For instance, it supports the BRI on the one hand, and strengthened relations with the US on the other (Ekman et al. 2019). Indeed, Japan sent a large delegation

to the BRI summit in May 2017. Japan is ready to cooperate with China if transparency and the economic viability of the projects are ensured, BRI loans are fair, and if the projects are in accordance with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and contribute to the peace, prosperity, and stability in the region.

3. European Union (EU)

The EU continues to hesitate in its approach to the Indo-Pacific and on its China policy.

- **Interference by China.** China's growing track record of fracturing EU unity and interfering in internal European Union affairs have irritated Brussels and influenced the way the EU is engaging with China.
- **Divide and rule.** There is a perception that China is taking a "divide and rule" strategy to the EU through its 16+1 Summit with European countries, where China is strengthening bilateral relations with only some of the 16 members and giving them more attention than others. In 2019, for instance, the Czech Republic not only received the first visit by a Chinese president to the country, but it was also Xi Jinping's first presidential visit to any of the Central and Eastern European countries. Romania and Serbia also welcomed high-level business delegations from China in 2019 with €6 billion committed to Romania (Stanzel 2016).
- **Balancing.** The EU-Japan free trade agreement and EU-Japan connectivity partnership are widely viewed as a strategic tool to balance China's economic power and political influence.
- **Tilting.** The adoption of the "EU Strategy for Cooperation in the Indo-Pacific" (EU 2021) on April 19, 2021 and the EU's suspension of its efforts to ratify its China investment deal suggest that the EU is tilting towards an Indo-Pacific vision more in line with Japan, the US, and other key Indo-Pacific stakeholders.

Indo-Pacific economic development needs to be supported by infrastructure and connectivity. Such components not only provide broad economic benefits but are also a means to promote peace, prosperity, and stability in the region. As Canada looks to avenues of engagement, its efforts should be informed by the following key points:

- **Economy as a central pillar.** Any Indo-Pacific vision must put economic development at its core. This includes promoting trade through regional free trade agreements and reform of the World

Trade Organization to adjust for trade imbalances associated with the rapid increase in the size of the Chinese market as well as enhancing connectivity and infrastructure.

- **Financial gaps in infrastructure.** There is a paucity or imbalance of infrastructure in the Indo-Pacific. The Organization for Economic Cooperation and Development estimates global infrastructure investment needs at US\$6.3 trillion per year from 2016 to 2030 to support growth and development, without even considering further initiatives to combat climate change (relative to mid-2016) (OECD 2017). Canada needs to work with key partners in the region, such as Japan, the US, and Australia to find opportunities to cooperate sustainably.
- **Market-based economic competition.** The growing role of state-owned enterprises (SOEs) and the cozy relationship between Chinese businesses and the Chinese government has created an unfair trading environment. States need to ensure that any free trade agreements they negotiate limit the role of SOEs and establish clear borders between businesses and governments. The CPTPP is a model that should be expanded with this goal in mind and Canada should work with like-minded partners to realize that objective.

However, there are issues in the region which are hindering the economic integration among countries. These include:

- **Deepening authoritarianism.** Deepening authoritarianism is blurring the distinction between the government, political parties, and policy.
- **The questionable reliability of the US.** Domestic politics in the US and its tilt towards less international engagement raises concerns about the sustainability of the US commitment in the region. This was exacerbated by the Trump administration and by the economic, social, and political capital damage caused by the COVID-19 pandemic.
- **Questionable Chinese intentions.** Beijing's assertive behaviour raises concerns about its regional hegemonic intentions. This has become especially acute with its rapid militarization (Tian and Su 2021).
- **Heterogeneity in the Indo-Pacific.** The Indo-Pacific region has exceedingly diverse values and norms. Canada needs to cooperate with like-minded democracies and states that have shared interests, not alienate potential partners (Brands and Edel 2021).

Structural issues such as an aging population will affect development in the Indo-Pacific region and need to be addressed in any strategic Indo-Pacific engagement. China, Japan, and South Korea all face serious demographic issues when it comes to their aging population, while South Asia and Southeast Asia have young populations but not necessarily enough white collar jobs to help them become middle-income states. China's "economic miracle" is facing resistance from demographics, the COVID-19 pandemic, and states re-orienting their economies to be less exposed to economic coercion.

Any potential partners looking for future economic cooperation in the Indo-Pacific must have a clear-eyed understanding of these macro trends as they seek to develop infrastructure and connectivity in the region.

Considering the issues mentioned above, a common rules-based order is fundamental to building trust among countries and to building economic prosperity based on transparency. There are several key areas upon which to focus:

- **Rules-based common standards.** The different initiatives for connectivity all require that the accounting policies of the different countries be coordinated and harmonized. By improving transparency, we can better promote cross-border investment financing. Canada can provide deliverable and sustainable good governance tools to facilitate this process.
- **Focusing on norms and values while cooperating on China.** China should not be excluded. It should be involved in the many on-going initiatives with the aim of improving the quality of infrastructure projects under the BRI and coordinating them with other initiatives. Third country cooperation between Japan and China may be a template for other middle powers to duplicate.
- **The Partnership on Sustainable Connectivity and Quality Infrastructure.** Japan and the European Union are currently engaged in the Partnership on Sustainable Connectivity and Quality Infrastructure (EU 2019). The EU and Japan should work to expand their international people-to-people exchanges with Southeast Asia states and China. For instance, by increasing exchanges between institutions in higher education, they will be able to create professionals with a shared regional and global vision. One concrete example is to connect with the ASEAN University Network, which consists of 26 leading universities across the region and provides exchange and placement opportunities for both staff and students to study and learn.

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