



15 for 2015: Forecasts for the Asia-Pacific

The upcoming year will demand prudent and informed U.S. engagement to help support regional stability and economic progress in Asia. Despite recent international collaboration on environmental concerns, economic reforms, and counterterrorism, 2015 will raise many of the same national security and political dilemmas that defined 2014.

Already, 2015 has begun on tense terms. On the security front, nuclear proliferation, cyber insecurity, and a resurgence of militant activity in the Middle East have amplified the need for U.S. leadership at home and abroad. The U.S. imposed new sanctions against North Korean actors after cyberattacks on Sony Pictures took the world by surprise. China will continue to pull its neighbors into maritime disputes while trying to secure its status as a major power. Meanwhile, Russia, tied by Western sanctions, will use 2015 to strengthen energy and economic partnerships with Asia. The United States, for its part, may succeed in balancing out Russia and China by approving the Trans-Pacific Partnership and implementing a stronger economic and military rebalance to Asia.

Momentum is building in both India and Indonesia after they elected innovative leaders eager to recast their countries' standing in the world. Future elections in Thailand, Myanmar, Taiwan, and Hong Kong could ultimately determine the near-term course of greater political freedom in the Asia-Pacific. Meanwhile, Afghanistan will have to learn how to manage a weak economy and warring factions as the U.S. drawdown pushes the country toward independence. All of these events are cast against the backdrop of plummeting oil prices and an upheaval in the global energy landscape that may help accelerate global economic recovery.

"15 for 2015: Forecasts for the Asia-Pacific" highlights 15 areas to watch over the upcoming year. The essays predict how developments in 2015 will shape the economy, political systems, and geopolitical arena in the Asia-Pacific and beyond. Over the next year, NBR will continue to produce research and analysis on these topics as we explore how to build a more peaceful and secure world.

—Rachel Wagley, ed.

- 1** **WHAT THE UKRAINE CRISIS MEANS FOR ASIA**
Nadège Rolland
- 2** **THE ROAD BACK TO DEMOCRACY IN THAILAND**
Rachel Wagley
- 3** **INDONESIAN FOREIGN POLICY UNDER JOKOWI**
Laura Schwartz
- 4** **A NEW YEAR OF APPREHENSION IN MYANMAR**
Rachel Wagley
- 5** **AFGHANISTAN-PAKISTAN: BUILDING PEACE, ENSURING STABILITY**
Deep Pal
- 6** **IRAN'S YEAR TO COME IN FROM THE COLD**
Alison Szalwinski
- 7** **NORTH KOREA'S NUCLEAR CAPABILITY**
NBR Staff
- 8** **INDIA'S ECONOMIC DIPLOMACY**
Ved Singh
- 9** **XI JINPING'S NEW FOREIGN POLICY**
R. Lincoln Hines
- 10** **DIVISIONS BETWEEN CHINA, HONG KONG, AND TAIWAN**
Kelly Vorndan
- 11** **CAN SHINZO ABE MAKE GOOD ON HIS PROMISES IN JAPAN?**
Kunihiro Shimoji
- 12** **HIGH-PROFILE NEGOTIATIONS ACROSS THE PACIFIC**
Meredith Miller
- 13** **CHANGES TO THE GLOBAL ENERGY LANDSCAPE**
Clare Richardson-Barlow
- 14** **THE U.S. REBALANCE TO ASIA**
Andy Nguyen
- 15** **CYBER INSECURITY**
Casey Bruner

1

WHAT THE UKRAINE CRISIS MEANS FOR ASIA

Nadège Rolland

In 2015, the impact of the Russian invasion of Crimea will still be felt across Asia. It came as a wake-up call for post-modern Europe, a reminder that existential threats still exist and that conflicts can hardly be avoided because of purely economic calculations of cost and benefit. Asian powers, for their part, are well aware that geopolitics is not a thing of the past.

A situation where an emerging power wants its great-power status back, considers its sovereignty over land and maritime borders as crucial to its security, and sees its near abroad as its own restricted sphere of influence certainly sounds very familiar to any Asian power today. Even if the analogy stops here, one can still ask what lessons Beijing in particular may learn about the international community's willingness to sanction Russia's use of force in Ukraine.

From an Asian perspective, the Ukraine crisis poses the question of the future of U.S. engagement in Asia, a question crucial both to U.S. allies and to other regional countries. Will the emergence of this crisis in Europe dissipate the United States' attention to Asia? Will it impact President Barack Obama's "rebalance" policy? China no doubt hopes that the rise of Russia will deflect U.S. strategic pressure away from Asia, but U.S. allies are similarly wary of this possibility.

The Ukraine crisis also raises questions about the credibility of U.S. preparedness for Asian contingencies: if Washington failed to dissuade Russia's advance into Crimea, can it manage sovereignty disputes in Asia? If countries like Japan, the Philippines, and Vietnam provide a negative answer to this question, it will have a tremendous impact on their coming political and strategic decisions.

In 2015, [Moscow will try to speed up its energy cooperation with Asia](#) in order to counteract Western sanctions and the drop in oil prices. The reconfiguration of energy exchanges has already begun with the two deals signed in 2014 between China and Russia for gas supplies. In

addition to ramping up its civil nuclear cooperation, Russia also signed a ten-year crude oil supply deal with India.

After the invasion of Crimea, Russia decided to invest \$1 billion in North Korean healthcare, education, and a major natural gas pipeline that will run from the Russian Sakhalin Island fields through the Korean Peninsula. South Korea, the world's second-largest natural gas importer behind Japan, showed great interest in this project, as well as in other initiatives to connect South Korea's transportation network to the Trans-Siberian Railway. Russian coal was delivered for the first time to South Korea by rail from Khasan via the North Korean port of Rajin in early December 2014. Paradoxically, Russia's renewed interest in Asia's energy markets might facilitate a more integrated Korean Peninsula.

But for a country like Japan, 2015 means more regional actors competing for access to Russian resources. Tokyo's attempts at a rapprochement with Moscow over the Kurils/Northern Territories have also been complicated by Western sanctions.

For North Korea, Crimea's annexation demonstrates that it must continue to hold on to its nuclear weapons. Ukraine renounced its nuclear arsenal in 1994 in exchange for security guarantees from the other nuclear powers, including Russia. The Ukrainian denuclearization has often been cited as a possible path for Pyongyang to follow. But for his part, Kim Jung-un might think that a nuclear Ukraine would not have seen its territory amputated.

Finally, Russia's isolation by the West may spawn a strengthened strategic relationship with China in 2015. There is undoubtedly a level of distrust between the two quasi-allies, but they also share the same fears and the same adversaries—a solid basis for a marriage of convenience. China blames the European Union and NATO for the political disorder in Ukraine that eventually led to Russian intervention.

The scenario of "hostile foreign forces" planting the seeds of crisis resonates quite well with Beijing's own fears that domestic agitation could be purposefully activated from abroad. Faced with no realistic alternative, Russia

could become a more docile partner for Beijing. As China pushes forward a “Silk Road diplomacy,” with Central Asia at the core, it may enjoy greater leeway in this traditional Russian sphere of influence—precisely at a moment when the Central Asian republics may be wary of ending up like Ukraine in Moscow’s hands.

2

THE ROAD BACK TO DEMOCRACY IN THAILAND

Rachel Wagley

Democracy in Thailand took a turn for the worse in 2014. General Prayuth Chan-ocha triggered Thailand’s twelfth successful military coup in May following months of antigovernment protests, the constitutional court’s dismissal of February 2014 elections, and the ousting of Prime Minister Yingluck Shinawatra. The military government suspended the 2007 constitution (Thailand’s eighteenth constitution), banned gatherings of five or more people, shut down major media outlets, and gave itself power to arbitrarily detain people. The ruling National Council for Peace and Order (NCPO) has settled comfortably into power and is prolonging a process to rewrite the Thai constitution. Recent announcements that elections will be delayed until 2016 have prompted cynicism over whether the military actually intends to pave a road back to democracy over the next two years.

2015 began with the high-profile impeachment trial of former prime minister Yingluck Shinawatra, sister of the controversial former prime minister Thaksin Shinawatra who was ousted in 2006. The impeachment proceeding, initiated over a populist rice subsidy program that cost the government billions, is largely considered to be a ploy to keep the Shinawatra family away from future polls. Successful impeachment would ban Yingluck from politics for five years. In early January, she stood before the National Legislative Assembly—appointed by the military government—and argued that an impeachment would be superfluous given that the constitutional court removed her from power in May.

The assembly is scheduled to vote on the impeachment on January 22 and 23. Also on trial are the former speakers of the lower and upper houses of parliament, ironically facing impeachment for attempting to amend the constitution. The military government, which will decide the motion, did away with the constitution entirely and replaced it with an interim charter that allowed General Prayuth Chan-ocha to become prime minister. The charter grants blanket amnesty for members of the NCPO and removes avenues for citizens to participate in politics.

The protracted timeline for drafting a new constitution is helping the military justify holding elections in 2016 or beyond. In late December, Deputy Prime Minister Prawit Wongsuwan backtracked on the NCPO’s earlier commitment to hold elections in October 2015. Elections will now be held in February 2016 “at the earliest,” but a potential constitutional referendum could delay them until mid-2016.

The military-appointed Constitution Drafting Committee aims to produce a draft in fall 2015, which will be followed by time-consuming election procedures and lawmaking processes. The new constitution will attempt to diminish the possibility that the rural majority will be able to vote in a populist parliament supporting policies that middle and upper class Thailand have repeatedly rejected. The constitution could also include a continuing role for the military in postelection Thailand.

For its part, the United States cut military assistance funding to Thailand, its long-standing ally, and called the decision to delay elections unwise. But the United States has not canceled Cobra Gold, the prestigious multinational military exercise held annually in Thailand, though the exercises have consequently shifted to “focus on non-lethal activities, such as humanitarian assistance and disaster relief.”

Without major international pressure, the military may extend its power indefinitely. Beloved King Bhumibol Adulyadej has long been in ill health, and the eventual accession of his less popular son could ultimately change the country’s attitude toward the monarchy and the Thai political system. Thailand needs an open, uncensored

national dialogue to explore the country's approach to democracy, monarchy, majoritarianism, and the role of the military in politics. Rather than creating room for dialogue, however, the military has severely stifled political expression. The NCPO has declared martial law, cracked down on democratic activists, imposed harsh penalties on journalists, and arrested youth mimicking the anti-totalitarian salute from the popular *Hunger Games* trilogy. Bangkok police transferred these students to an army camp for alleged "[attitude adjustment](#)," and youth around the country are being forced to recite the military government's "[12 core values](#)" in school.

Meanwhile, the economy stagnates and voters are disenfranchised. The military, having learned from past coups and the subsequent re-election of populist leaders, is attempting to rid Thailand of the Shinawatra family's influence for good. But to do so, it is gambling on the Thai people's willingness to give up their basic rights for an undefined political future.

Thailand's coups are mounting in democratic significance, shadowed by an electorate now accustomed to political participation and the royal accession on the horizon. The military has not curbed the public spending it found so repugnant in the former government, and it faces considerable internal disagreement over how to reform the country's political system. The Thai people have little reason to believe that the current suspension of civil liberties will lead, as the military attests, to national reconciliation and political empowerment in 2015.

3

INDONESIAN FOREIGN POLICY UNDER JOKOWI

Laura Schwartz

In October 2014, Indonesia inaugurated its new president, Joko Widodo, or "Jokowi," as he is widely known. As the first president elected from outside Indonesia's political and military elite, Jokowi's election has been welcomed by many Indonesians as a victory for democracy and as a promise of more effective and transparent government in the future. But where some see immense potential, others

voice uncertainty about how the Jokowi administration will balance domestic and international concerns, as well as about how these decisions will affect the prospects for U.S. engagement in the region.

Jokowi will likely make domestic issues a main focus of his presidency. Indeed, his actions as president so far—including increasing fuel prices to ease the substantial burden these subsidies place on the government budget—have largely dealt with pressing domestic concerns. However, he has also stated a number of foreign policy priorities, such as expanding Indonesia's maritime presence, developing its role within the Association of Southeast Asian Nations (ASEAN) and the broader Asia-Pacific, and increasing defense spending.

On numerous occasions, Jokowi has emphasized his aim to develop Indonesia into a "[global maritime axis](#)" in the Indo-Pacific region. As an archipelagic nation, maritime competence is critical for Indonesia, but the country's ports and naval capacity are underdeveloped. This has long affected Indonesia's ability to connect its thousands of islands and effectively police its territorial waters. Jokowi's calls for a stronger maritime presence may reflect concern over China's recent confrontations with the Philippines and Vietnam in territorially disputed areas of the South China Sea.

In the past, Indonesia has acted as an honest broker among the ASEAN claimant states and China, but the recent overlap of China's "nine-dash line" with Indonesia's territorial waters in the vicinity of the Natuna Islands may be a factor behind Jokowi's push for a stronger maritime presence. He has also pledged to take a hard line against illegal fishing in Indonesian waters. The public sinking of 3 Vietnamese fishing vessels that were seized in November led to [speculation that Indonesia may act similarly against China](#) by sinking 22 Chinese fishing boats seized in Indonesian waters in December. A decision to sink these ships would create tension between Indonesia and China, two key regional powers, and could have a broader impact on regional stability.

Another priority for Jokowi in 2015 is to ensure that Indonesia's interests are well-represented in regional

economic institutions. The ASEAN Economic Community (AEC), which intends to create a single market among the ten member states of ASEAN, is set to be implemented by the end of 2015. Overall, Jokowi sees the AEC as good for the Indonesian economy, but he has [expressed concerns](#) that Indonesia could become a victim of unfair trade as a result of the implementation of the AEC. His calls for protecting Indonesia's economic interests likely stem from rising economic nationalism in the country. As Rizal Sukma, a key foreign policy expert, [recently noted](#), the new government "will mainly underline international agendas that will benefit national economic development." ASEAN needs Indonesia's robust participation to implement the AEC and other regional initiatives, so Jokowi's decisions in this area will have a deep impact on the regional grouping.

As the leader of a vibrant democracy, Jokowi may need to navigate a complicated and fragmented domestic political environment throughout his presidency. His broad foreign policy objectives, as well as his goal to [raise defense spending](#) to 1.5% of GDP in the next five years, may face resistance from an opposition-dominated parliament that could prove to be antagonistic toward the new president. However, key members of the Jokowi administration have downplayed this concern. Senior adviser to the president Luhut Binsar Panjaitan [recently predicted](#) that relations with parliament will be better in 2015 as Jokowi's firm leadership in pursuit of popular goals, including widespread economic prosperity, becomes recognized.

Though little can be certain mere months into his presidency, Jokowi's statements so far have shown that he is likely to utilize Indonesia's regional influence to promote policies that benefit the Indonesian economy. These broad priorities will set the stage for his administration's actions in 2015 and have profound effects on the country's role within the region and interaction with powers such as the United States and China. Indonesia is a growing regional power, and the decisions made during the Jokowi presidency, particularly regarding economic integration and maritime security, will affect Southeast Asia and the Asia-Pacific more broadly. As the new president's popularity may allow for new avenues of cooperation, the United States will need to

consider Indonesia's interests as it looks to further engage with the largest economy in Southeast Asia.

4

A NEW YEAR OF APPREHENSION IN MYANMAR

Rachel Wagley

Myanmar, also known as Burma, has undergone significant political and economic transformation since 2010, but 2015 could witness an unraveling of these reforms. 2014 closed with a mass exodus of Rohingya Muslims, surprise military attacks against ethnic armed group cadets, and the [fatal shooting of a woman](#) protesting land confiscation near Letpadaung copper mine. The general election to be held later this year is already wrought with controversy as a result of the government's refusal to allow Aung San Suu Kyi, leader of the National League for Democracy (NLD), to run for president. Pair election anxiety with a stagnating national peace process and a bevy of introduced laws targeting the nation's Muslim minority that would restrict births and interfaith marriage. The gravity of these disappointments may substantiate U.S. concerns that Myanmar's reform process has stalled.

The general election, scheduled for late October or early November, may little alter the electoral landscape. The government has not yet committed to international election observers. Given the country's notorious election history—in 1990, for example, the military voided the NLD's landslide win and re-established military rule—free and fair elections are anything but guaranteed. [Confusing campaign rules](#) and problems with voter registration—in particular, the disenfranchisement of Rohingya, eligibility of voters displaced from their land, and eligibility of ethnic civilians—will keep election watchers busy.

In anticipation of NLD popularity, the parliament strategically adopted a proportional representation system for the parliament's upper house in November 2014. This system favors the incumbent Union Solidarity and Development Party (USDP), which is made up of former military officers and holds over two-thirds of parliament. The lower house of parliament still operates

on a first-past-the-post system that could help the NLD and ethnic parties win seats.

The NLD has not yet confirmed its participation in the election, and Suu Kyi announced at the end of December that she will wait until an election date is set to determine whether the party will participate. Speculation by NLD leaders that the USDP's election plans may ultimately involve some sort of gimmick is not without cause. In September, the USDP abruptly canceled by-elections scheduled for late 2014, implying that it is carefully calculating the procedures of the 2015 elections. Moreover, Suu Kyi cannot run for president herself, due to the 2008 constitution's notorious article 59(f) banning presidential candidates who have foreign spouses or children. The USDP and military members of parliament have predictably blocked moves to amend the constitution before the election. Partly due to Suu Kyi's strong grip on NLD politics, the NLD has not yet announced or invested in a contingency candidate, and is still intently [pushing for constitutional revision](#).

On the other side, parliamentary speaker and expected USDP presidential candidate Shwe Mann seems to be paving his way to the presidency. Earlier this month, for example, he called for a raise in the presidential salary. Shwe Mann already exercises substantial control over legislation and constitutional amendments, as the constitution secures 25% of parliamentary seats for the military and requires over 75% of the parliament to approve amendments. Fair or otherwise, the general elections must go on, however, because the process will be critical for attracting foreign investors and preserving stability.

The military's entrenched control also helps explain why Myanmar's peace process is losing steam. Negotiations between President Thein Sein's administration and ethnic armed groups have been undermined by ongoing military raids, sexual violence and torture, and arrests and killings of civilians, particularly in Shan and Kachin States. In November, a [Burmese military shelling](#) of a Kachin Independence Army training school reportedly killed 23 cadets. [Another deadly surprise attack](#) followed exactly a month later.

Any national ceasefire agreement signed in 2015 may thus prove to be a perfunctory pre-election compromise to build legitimacy. Military land confiscations and violence in ethnic areas will likely continue regardless. Ethnic groups pushing for a federalist government and to retain their own armies face an uphill battle, and their success may depend on the support and attention of the international community. So far, however, the international community's attention to issues such as state violence, land rights, and the implementation of an independent judiciary has been sporadic. The Thein Sein government continues without check to refuse proper humanitarian aid and medical care, much less justice and citizenship, to Rohingya in Arakan State. An influx of foreign investment projects continues to displace poor communities throughout the country, and those who protest the loss of their homes are often subject to reprisal.

Given the military's treatment of ethnic groups and the controversy surrounding the election, observers should not hold their breath for a peace agreement or the creation of a federalist system in 2015. Other areas to watch that may affect democratic and economic progress include direly needed land rights legislation, Yangon's near-bursting property bubble, and the impact of falling oil prices on the development of Myanmar's coveted offshore blocks.

5

AFGHANISTAN-PAKISTAN: BUILDING PEACE, ENSURING STABILITY

Deep Pal

Weeks before 2014 came to a close, a savage attack by the Tehrik-e-Taliban Pakistan (TTP), also called the Pakistan Taliban, at a school in Peshawar, Pakistan, killed almost 150 people—over 130 of them children. The cold-bloodedness of the attack sickened the collective consciousness of the world. It demonstrated again how important 2015 is for the Af-Pak region; developments this year will decide whether the region rises above the strife or sinks back into the depths of mayhem.

The drawdown plan outlined in May 2014 by President Obama envisions leaving 5,500 troops in Afghanistan by the end of 2015. For this, it is essential that the new Afghan government consolidate its authority. That is not going to be easy, and not only because of the inherent fragility of the ethnically balanced alliance in which a Pashtun president, Ashraf Ghani, shares power with a chief executive representing the powerful Tajik minority, Abdullah Abdullah. The [Afghan economy continues to falter](#) as it is weaned away from international aid, the [Afghan National Security Force still raises questions](#) about its capability and resolve, and the Ghani-Abdullah coalition will have to survive parliamentary elections later in the year.

To be fair, after reaching an agreement in late September, Ghani and Abdullah have managed to keep the alliance intact. Meanwhile, Ghani visited China, Saudi Arabia, and Pakistan early in his presidency, suggesting that he will practice a considerably [different brand of foreign policy](#) than his predecessor Hamid Karzai. Ghani's efforts at regional diplomacy are perhaps guided most by the consideration that Pakistan ranks at the very top of the list of exogenous influences on Afghan stability. Unfortunately, violence in Pakistan is on the rise and, unless quelled, could draw in Afghanistan. Pashtun irredentism and unresolved border issues remain serious concerns; a more immediate worry are militant groups operating out of this hostile terrain that can undermine the peace process in Afghanistan and weaken Pakistan from within.

Recent militant attacks in Pakistan can be traced back to Pakistan's military operations against terrorist safe havens in North Waziristan and are likely to continue. Some members of the TTP have recently left the group to go it alone or to join the Islamic State of Iraq and Syria (ISIS). As past instances suggest, such splintering of militant groups is often followed by violent attacks as each faction attempts to prove its commitment to the cause of jihad and establish supremacy.

The greatest challenge to Pakistan, however, comes from within. Despite the latest tragedy, there are no signs that the country is giving up its strategy of discriminating between "good" and "bad" militants and using them as instruments

of state policy. Even as the strategy backfires, Pakistani leaders are in denial, blaming everyone but themselves. There is little possibility that violence—sectarian, internal, and global—emanating from Pakistan will soon subside. The country instead is [agonizing about being left out](#) of the decision-making process and losing strategic importance in the region while India's involvement increases. An alliance of its eastern and western neighbors has always worried Pakistan. It would rather have a fractured Afghanistan fraught with violence than a stable one cooperating with India.

Pakistan has developed an ambivalent relationship with the United States. Despite little domestic support for the partnership, the Pakistani government and army are accustomed to the steady flow of billions of dollars in U.S. aid. Both are concerned that with the period of active U.S. engagement in Afghanistan coming to an end, the United States may turn away and the money dry up.

For Washington, the challenges in the region persist with few immediate solutions. Attempts to nudge Afghanistan toward a path of stability will continue to be hindered by Pakistan's revisionist agenda. Drone strikes from Pakistani soil remain one of the few effective ways for the United States to take down anti-American forces in the region, and therefore are leverage for Pakistan. The Obama administration, with barely two years left and faced with immediate foreign policy priorities like Ebola and ISIS, is unlikely to have spare energy to rewrite its Pakistan strategy.

As U.S. troops leave Afghanistan, the ambit of the United States' objectives will be limited to preventing the country from again becoming a terrorist haven and incubator for anti-U.S. attacks. One way to ensure American influence in Afghanistan would be through political engagement and aid in institution building. Hand-holding of the kind seen in September, when Secretary of State John Kerry [brokered the agreement](#) between Ghani and Abdullah, provides a useful template. Canvassing for regional cooperation is also a positive step in this direction. Considering that Afghanistan is one of the few instances where U.S. and Chinese goals align, greater U.S. political and economic cooperation

with China, such as through building infrastructure and training security forces, would also help the eventual goal of a stable Afghanistan.

6

IRAN'S YEAR TO COME IN FROM THE COLD

Alison Szalwinski

The November 2014 agreement between the P5+1 (the five permanent members of the UN Security Council plus Germany) and Iran to extend nuclear talks for seven months raises the question of whether 2015 will bring a final deal on Iran's nuclear program. In addition to these negotiations, a number of related developments must be watched carefully as well. The alignment of U.S. and Iranian interests over militants in Iraq, the possibility of the Republican-controlled Senate passing new sanctions, and the pressure from energy-hungry Asian nations looking for new opportunities to engage with Iran will all determine whether Iran's global relations will alter significantly in 2015 or remain fraught with tension.

The recent extension of nuclear talks renews the conditions of the November 2013 Joint Plan of Action: in exchange for Iran freezing its nuclear program and allowing International Atomic Energy Agency inspectors greater access to nuclear facilities, the P5+1 agrees not to impose new sanctions and to gradually return approximately \$4.2 billion in frozen oil sales. Secretary of State John Kerry optimistically [welcomed](#) the agreement's extension, asserting that new ideas have emerged "that could...help resolve some issues that had been intractable" and anticipating that a framework deal could be resolved within three to four months.

The primary disputes to be ironed out in the talks include the continuation of Iran's enrichment program, the timeline for lifting sanctions, and the duration of a potential agreement. Iran insists that it be allowed to further develop its enrichment capacity, increasing the number of centrifuges and constructing additional power and research facilities. The P5+1 strongly opposes this demand, as these

steps could dramatically shorten Iran's breakout time. Iran wants sanctions removed immediately and the deal to last five to seven years, whereas the P5+1 seeks gradual removal contingent on Iran's implementation of the deal over ten to fifteen years.

Several factors could inhibit an agreement. The Republican takeover of Congress has prompted speculation that a new sanctions bill will be introduced to pressure Iran into compliance. While the president has promised to veto such a bill, misbehavior on the part of Iran, such as that alleged in a recent [report](#) that Iran has sought to procure materials and equipment for its heavy-water reactor at Arak in violation of UN sanctions, could convince Congress to override the president's veto. But while the staunchest proponents of new sanctions have continued to call for congressional action, it appears likely that the new Congress will give negotiators a few months to make progress before introducing legislation.

Meanwhile, outside the scope of the nuclear talks, the activities of the Islamic State of Iraq and Syria (ISIS) have produced an area of converging interests for Iran and the United States. Both sides continue to reject the possibility of formal policy coordination, but they share a desire to prevent ISIS from gaining ground in Iraq and threatening regional stability. This has prompted them to open channels of communication over militant activities. Greater cooperation between Iran and the United States on any front will undoubtedly make U.S. partners in the region uneasy, including Saudi Arabia and Israel. However, the reality of events in Iraq and Syria means that addressing the ISIS threat will continue to be a common interest between the two nations.

Beyond the critical U.S.-Iran relationship, Iran's relations with other Asian nations will be equally complex in 2015. While many countries, including China, Japan, South Korea, and India, are apprehensive about Iran taking further steps in its nuclear program, they continue to look to Iran as a major source of energy and trade. As Iran's largest trading partner, China hopes to see current negotiations succeed so that trade restrictions may be lifted and more oil exported. Toward the end of 2014, China and Iran increased their

military cooperation. They have [plans](#) for more military exercises in 2015, including their first-ever bilateral blue water naval exercise.

Japan also has a complicated relationship with Iran. Tokyo's desire to improve relations with Tehran in order to satisfy energy demand conflicts with its extreme moral opposition to nuclear weapons. Iranian leaders, including Iranian Parliament chairman Ali Lajani, have [said](#) that the country wants to follow the "Japan model" of peaceful nuclear development, leading some commentators to [speculate](#) that Tokyo could be an ideal mediator between Washington and Tehran, particularly if negotiations break down.

The first few months of 2015 are critical for determining Iran's standing in the international community. If a final agreement is not reached, the United States is likely to double down on sanctions and press other countries to follow suit, resulting in greater restrictions on energy exports, trade, and finance. Should talks succeed, however, this will be only the beginning of a long road Iran must travel to come in from the cold.

7

NORTH KOREA'S NUCLEAR CAPABILITY

NBR Staff

Recent high-profile cyberattacks on Sony Pictures and subsequent U.S. sanctions against North Korea have refocused international attention on the threat posed by the Kim Jong-un regime. Although North Korea's cyber capabilities are likely to dominate discussions in the near term, greater concern should surround the country's other emerging asymmetric capability: its slowly advancing nuclear and ballistic missile programs.

North Korea is moving toward the operationalization of a small nuclear force. With its conventional forces falling into disrepair and the conventional military gap against the combined forces of South Korea and the United States expanding, Pyongyang views its nuclear weapons capability as a trump card over the impressive forces arrayed against

it. As such, the North's nuclear weapons have taken on a central role in what the regime views as its struggle against "imperialist aggression."

Should North Korea achieve a credible nuclear capability, the United States and its allies will face a different security challenge on the Korean Peninsula. If North Korea developed a credible nuclear weapon with intercontinental range—a capability thought to be not far off—U.S. allies may fear that Washington would be deterred from coming to their aid in a conflict. Instead, in the event of a crisis, U.S. allies in the Asia-Pacific may choose to acquiesce to North Korean demands that they evict U.S. forces from their territories or deny the U.S. access to crucial facilities rather than risk their capitals—a choice that would undermine allied security relations with the United States. Such a scenario would fundamentally challenge U.S. [extended deterrence](#), the foundation on which the current regional security architecture rests.

There is some reason to believe that in a conflict with the United States, North Korea is likely to perceive that the early use of nuclear weapons is in its best interest. Of crucial importance is the structural asymmetry in the capabilities and stakes involved for each side that could make deterring North Korea from using nuclear weapons extremely difficult. Facing a threat it views as existential from a superior adversary, the North Korean regime could be willing to take any drastic action to ensure its survival. The stakes involved for the United States, meanwhile, would be lower and Pyongyang may believe that Washington could be less willing to pursue actions that might lead to significant losses.

Although U.S. and South Korean officials have recently stated that they suspect North Korea is close to acquiring or may even already possess the technical ability to miniaturize a warhead to fit atop a ballistic missile, North Korea has several considerable hurdles to clear before it possesses operational nuclear capability. For example, it will need to conduct additional nuclear tests to ensure the effectiveness and reliability of its warhead designs. North Korea will also need to develop a re-entry vehicle suitable for carrying a nuclear payload as well as strengthen, and in some cases develop, the necessary command, control, and targeting

infrastructure. Despite the suspected maturation of its weapons program in recent years, these areas, among others, represent significant obstacles to Pyongyang's realization of an operational nuclear capability.

North Korea is therefore likely to continue work in each of these areas in 2015. Expect to see additional missile tests, and potentially another underground nuclear test, tied to important dates in the North Korean calendar or in response to perceived acts of international "aggression"—such as the unlikely referral of the regime to the International Criminal Court over human rights violations or the annual military exercises carried out by the United States and South Korea.

Pyongyang's steady progress toward an operational nuclear weapon poses a significant threat to regional stability and security. The United States must therefore take measures to sustain the capabilities underpinning its extended deterrence commitments, thus reinforcing the credibility of these commitments to both its regional allies and adversaries. It must place renewed emphasis on addressing this gathering storm through a mixture of economic and diplomatic pressure and inducement in close consultation with other concerned regional powers. Pyongyang's acquisition of an operational nuclear weapon would be hugely destabilizing to the region and ultimately in no country's interest. This issue is nearing a crucial tipping point, and greater urgency is required if North Korea is to be stopped from going nuclear.

8

INDIA'S ECONOMIC DIPLOMACY

Ved Singh

The success of Narendra Modi and his Bharatiya Janata Party (BJP) in India's 2014 national elections marked a major change in the Indian political landscape. The election ended a 30-year era of coalition governments, which have been prone to indecision, dysfunction, and mismanagement. The BJP's landslide victory provided enormous leeway to the Modi government to pursue its agenda to link revival of India's economy with the country's

foreign policy. During the seven months that Modi has been in office, the government has announced a number of reforms and programs to address stagnant economic growth, while reaching out to the United States, China, Japan, Australia, and Southeast Asian countries to attract foreign investment. 2015 will be a significant year as the Modi government works to prove that it can follow through on structural changes to the economy.

The administration's flagship initiatives include the "Make in India" campaign, which seeks to boost the country's manufacturing sector; the easing of caps on foreign direct investment in the defense, insurance, and railway sectors; and a proposal to build one hundred "smart cities." According to the International Monetary Fund, these reforms will lead the economy to grow at 5.6% this fiscal year. For the Indian economy to register the high GDP growth rate seen between 2005 and 2010, these structural changes will be crucial. A good marker of the government's plan for 2015 should be its budget slated for February. Senior government officials have hinted that the budget will include a "[whole set of second generation reforms](#)" to boost economic growth.

The central tenet of Modi's foreign policy is economic diplomacy—a vision to attract foreign investment while strengthening ties with other countries. Following on this theme, Modi has reached out to regional powers such as China, Japan, and Australia and has been promised over \$55 billion in foreign investment over the next five years. One of Modi's most talked about visits was to the United States, given that he had previously been denied a visa because of his alleged role in 2002 communal riots in Gujarat, which led to two thousand deaths. Modi's readiness to not let the past cloud the possibility of better ties with the United States was significant. During his visit, he attended the UN General Assembly, addressed a packed crowd of largely Indian-American supporters at Madison Square Garden, met with President Obama, and addressed congressional and industry leaders.

2015 will begin on an even stronger note for U.S.-India ties, with President Obama arriving in India for a two-day visit as the [chief guest for India's Republic Day](#) on January

26. This will mark the first time that a U.S. president has been invited as the celebration's honored chief guest and will also make Obama the first U.S. president to visit India during both his terms.

Modi has made clear that a significant part of his economic diplomacy will focus on India's immediate neighborhood. He invited leaders of Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka to his inauguration, made Bhutan and Nepal his first international stops, and resolved a seven-decade-long territorial dispute with Bangladesh in December. At the November summit of the South Asian Association for Regional Cooperation in Nepal, India backed three pacts to enhance connectivity and energy cooperation in the region. The agreements fell through when Pakistan dissented, but [reports](#) suggest that the rest of India's neighbors are exploring the possibility of bilateral agreements with India.

Modi's regional outreach is likely to expand beyond South Asia in 2015. He unveiled India's "Act East" policy at the Association of Southeast Asian Nations (ASEAN) Summit in November. This is an evolved version of the "Look East" policy that India introduced over two decades ago and commits India to greater engagement and stronger trade ties with Southeast Asian countries.

Major challenges for the Modi government in 2015 will include managing the relationships with Pakistan and China. Heavy exchanges of fire along the India-Pakistan border in recent months have resulted in rapidly deteriorating relations that have effectively put the relationship on hold. With China, Modi will need to balance economic interests with national security concerns. Chinese incursions into Indian territory continue, with the most recent occurring during President Xi Jinping's visit to India in September 2014. Despite India's objections, it took two weeks after Xi's visit to resolve the incident.

The high frequency of Modi's international visits will likely be sustained in 2015, as such trips form a crucial element in his foreign policy that centers on economic diplomacy. Even as Modi spends considerable energy convincing international investors of India's eligibility as a top global destination for their money, questions over

the political will for economic reform in India persist. The success of Modi's foreign policy will thus be tied to the degree to which he is able to implement structural reforms to revive India's economy.

9

XI JINPING'S NEW FOREIGN POLICY

R. Lincoln Hines

Since 2008, China has taken an increasingly strong-handed approach to regional affairs, and this provocative approach has continued under President Xi Jinping. However, increasingly sensitive to regional backlash against Chinese policies, Xi outlined in November 2014 a foreign policy vision meant to reassure the United States and regional neighbors, while proclaiming China's status as a "major country." Yet despite Xi's reassurances, the logic driving China's maritime strategy remains unchanged. Observers should expect continuity in Xi's regional strategy in 2015.

This regional strategy is driven by interwoven domestic and external considerations. The Chinese Communist Party, wary of domestic unrest and concerned by the U.S. rebalance to Asia, must address often conflicting policy goals, such as creating a stable regional environment, satiating nationalist ambitions, and asserting regional and geopolitical influence. China has thus pursued a regional policy characterized by creeping assertiveness in the maritime domain, conciliatory rhetoric, and economic engagement.

Xi's foreign policy also stems from more immediate concerns. Xi is undertaking a consolidation of domestic power unprecedented in the post-Deng Xiaoping era: he has pursued a vigorous anticorruption campaign, targeting potential rivals and ensnaring top civilian and military officials, and attempted to make difficult reforms to allow markets to play the "[decisive role](#)" in the economy. In tandem, Xi is taking a stronger approach to regional security, placing an oil rig near the Paracel Islands, confronting the USS *Cowpens*, intercepting a U.S. P-8 near Hainan Island, constructing an artificial island near the Spratly Islands, and establishing an air defense identification zone (ADIZ)

in the East China Sea (raising concerns that China will also declare an ADIZ over the South China Sea).

These actions have damaged China's regional image. Countries on its periphery have vehemently rejected Chinese maritime claims and sought stronger security assurances from the United States. The Philippines has taken its territorial dispute with China to an international tribunal, and Vietnam has witnessed massive anti-China riots. The United States is adopting a firmer stance toward China, [releasing a report](#) in December questioning China's "nine-dash line" claim in the South China Sea. China has also experienced economic repercussions for its confrontational approach toward Japan, with Japanese direct investment in China dropping nearly [49%](#) in the first half of 2014.

Xi, consequently, is under pressure to address this backlash and reassure regional stakeholders. Perhaps most significantly, during [China's Central Conference on Work Relating to Foreign Affairs](#) in November, which was Xi's first work conference on foreign affairs and only China's second such conference in eight years, Xi emphasized building cooperative win-win relations with neighboring countries. These remarks were intended to allay concerns about Chinese revisionism and have been complemented by recent diplomatic efforts, including warming relations with Japan, a landmark climate agreement with the United States, major diplomatic outreach in Southeast Asia, and the removal of the oil rig from the Paracel Islands.

Despite these reassuring gestures, Xi reiterated at the work conference on foreign affairs China's commitment to protecting its "core interests" and underscored China's belief in U.S. decline, describing the world's "inevitable" move toward multipolarity. Beijing has not indicated plans to moderate its assertive maritime policies.

Moreover, China has regionally promoted an "Asia for Asians" security concept, as well as alternative regional security institutions and forums such as the Shanghai Cooperation Organisation and the Conference on Interaction and Confidence Building Measures in Asia. Similarly, China is promoting alternative economic institutions aimed at regional integration, such as the Asian Infrastructure Investment Bank, a China-led alternative to

the World Bank and the Asian Development Bank. Globally, China has continued calling for "major country relations" as a model of relations with other great powers. Though it may genuinely seek a more cooperative relationship with the United States, China does not believe that Chinese regional and global influence is commensurate with Chinese power. Thus, the underlying existential tension in U.S.-China relations remains: how can China, an aspiring great power, and the United States, the established superpower, peacefully accommodate each other's national interests?

For U.S. policymakers and concerned regional powers, actions speak louder than words. As long as China continues to rapidly modernize its military and coerce its neighbors in the maritime domain, it is difficult to see Chinese soft power improving regionally, especially among countries on China's immediate periphery, such as Japan, Vietnam, and the Philippines. For various reasons—nationalism, insecurity, resource demands, and status—China still has an interest in vigorously pursuing its maritime claims. New developments, such as the outcome of the Philippines arbitration case, could heighten regional tensions. But because the risk of outright conflict with the United States is too high, China will likely continue pursuing these claims throughout 2015 at a level just below the threshold that would necessitate a U.S. response.

10

DIVISIONS BETWEEN CHINA, HONG KONG, AND TAIWAN

Kelly Vorndan

2014 saw discord in the People's Republic of China (PRC), Hong Kong, and Taiwan. President Xi Jinping's anticorruption campaign reportedly divided opinions among top leaders and party elders, particularly over the high-profile charges against ex-security czar and former Politburo Standing Committee member Zhou Yongkang. The anticorruption crackdown has largely been understood as a means for Xi to consolidate power within the Chinese Communist Party (CCP), as well as weaken rival factions and restore public trust in the CCP. Further bolstering Xi's

authority are his new roles as the chairman of the National Security Commission and head of the Leading Group for Deepening Reform in the Central Committee.

In the year ahead, Xi will continue his anticorruption drive and implement a new “rule of law” campaign to bolster the PRC constitution. However, Beijing faces notable challenges in other areas, including implementing economic reforms to address declining growth. An economic downturn could lead to political unrest, job cuts, or lower wages. In addition to these economic challenges, Xi will have to contend with the ramifications of the large-scale protests in Hong Kong and Taiwan in 2014. In both places, protestors reflected public dissatisfaction with their government and its relationship with the PRC.

In the case of Hong Kong, demonstrations during the last few months of 2014 shook the normally stable and practical city. The former British colony witnessed the [Umbrella Revolution](#)—a massive student-led occupation of its financial heart, highlighting growing divisions between the Hong Kong public and the mainland government. The protests stemmed from Beijing’s decision that all candidates for the 2017 chief executive election, during which Hong Kong will enjoy universal suffrage for the first time, will be vetted by a pro-Beijing committee.

The Umbrella Revolution, which lasted from late September to early December, failed to force the Hong Kong or mainland government to enact any policy changes, but the protests shined a spotlight on future problems that Beijing will face with Hong Kong’s younger generation. On the surface, Hong Kong will return to business as usual. But underlying tensions, paired with continued protest efforts by student leaders, could result in renewed unrest as the public looks ahead to the 2016 legislative elections and the 2017 chief executive election.

In early 2014, Taiwan also dealt with domestic unrest over governance issues and the state of relations with the PRC. The [Sunflower Student Movement](#) protested the ratification of the Cross-Strait Service Trade Agreement (CSSTA) without a detailed review by the legislature, an action seen as subverting the democratic process. Protests resulted in student occupation of the Legislative Yuan and

widespread debate within Taiwan about the direction and pace of cross-strait engagement. Observers note that such public dissatisfaction, combined with popular discontent on social and economic issues, resulted in the Kuomintang (KMT) losing several districts to the opposition Democratic Progressive Party (DPP) in the November elections.

This shifting of the political tide in the DPP’s favor carries significant implications for the political environment in 2015 in the run-up to the 2016 presidential race. The DPP’s platform on cross-strait engagement will come under scrutiny, and the KMT will have to grapple with steering the course on economic integration after the CSSTA setback.

As a whole, 2015 will witness continued division in Hong Kong and Taiwan over their relationships with China in the lead-up to key elections in 2016 and 2017. In order to maintain the stability that the government values above all else, China will need to strike a balance with Taiwan and Hong Kong, even as it attempts to implement economic reforms and strengthen the rule of law on the mainland.

11

CAN SHINZO ABE MAKE GOOD ON HIS PROMISES IN JAPAN?

Kunihiro Shimoji

In 2015, Prime Minister Shinzo Abe will continue to advance an ambitious foreign and domestic policy agenda to stimulate economic growth, foster energy security, and reform defense programs in Japan. Yet in order to deliver on promises made during the first two years of his government, Abe will need to rebuild public confidence not just in his policies but in himself.

The Liberal Democratic Party (LDP) and Abe’s Komeito coalition won a landslide victory in December and secured a two-thirds majority in the parliament’s lower house. The election was held after Abe dissolved the lower house to see how the public viewed his economic policy agenda, particularly his consumption tax increase. Despite the election being decided heavily in Abe’s favor, polling both before and after the election revealed that the Japanese public did not necessarily support Abe’s policies. [A pre-election](#)

[poll conducted by Nikkei](#) in December showed an even split between those approving and disapproving of the LDP, which suggests that a large number of Japanese are still skeptical about Abe's policy agenda. [Nikkei's postelection poll](#) revealed that 85% of the Japanese public believed the success of the coalition was largely a product of the weakness of the opposition party.

Public skepticism centers on three key questions about Abe's policy agenda that he will need to address in 2015. First is Abe's ability to deliver economic growth. Abenomics has been a central tenant of the prime minister's domestic policy agenda, but the results have been mixed at best. For example, Japan's GDP dropped by 1.9% after Abe's consumption tax increase was introduced in April 2014. The country officially fell into a recession in November, and its debt-to-GDP ratio hit an all-time high of 227.2% in 2014. The Japanese public will be closely monitoring these trends in 2015. To move forward on his overarching agenda, Abe will need to rejuvenate the economy. Japan's plummeting birthrate and aging population raise [major demographic concerns](#) that could further exacerbate efforts to stimulate economic growth.

Second, a majority of the public opposes Abe's plan to restart nuclear power plants that were shut down following the Fukushima Daiichi nuclear disaster. Abe sees nuclear power as a base-load power source and a crucial way to help boost the economy. This has led him to push to restart two power plants, which passed the Nuclear Regulation Authority's safety test last year. It will be crucial for Abe to gain public trust in and support for this initiative, which will pose a great challenge in 2015. Restarting nuclear power plants without public support could lead to a significant decline in his overall approving rating.

Finally, the Japanese public remains deeply skeptical of the direction of Abe's defense policies. Abe believes the security environment surrounding Japan is growing increasingly tense due to threats posed by China and North Korea. This has led him to take steps to enhance national security. In 2015, Abe will focus on two major security reforms: (1) the revision of [the bilateral defense cooperation guidelines](#) with the United States and (2) the development of

legislation to enable Japan's Self-Defense Forces to engage in collective self-defense across a range of possible scenarios. The latter reform has been especially controversial because the Japanese public has raised concerns that revising laws to allow for collective self-defense could drag the country into future warfare.

Close coordination on these reforms with the United States will be critical. In developing the legal framework to enable collective self-defense, both Japanese and U.S. leaders must be on the same page with regard to their commitments and expectations for how much Japan can and cannot do under this legislation. If these details are worked out, Japan and the United States will be taking a major step forward in strengthening the alliance and maintaining strategic balance in the region.

Another foreign policy priority for Abe in 2015 will be improving Japan's stagnant relationship with South Korea and strengthening defense cooperation between the two countries. In late 2014, Japan, South Korea, and the United States signed the long-awaited General Security of Military Information Agreement, which allows information sharing on North Korea. Japan must also enhance collaboration with partners in South and Southeast Asia on economic and defense activities, including [humanitarian assistance and disaster relief](#). Japan will face growing challenges throughout 2015 if it does not fully prioritize strong regional partnerships. Given his ambitious defense goals, Abe should deliver on economic reforms to work toward earning support for his broader agenda.

12

HIGH-PROFILE NEGOTIATIONS ACROSS THE PACIFIC

Meredith Miller

The coming year promises to be pivotal for U.S. economic policy in Asia. Asia is central to President Obama's efforts to revive the U.S. economy by attracting more investors, increasing exports, and deepening scientific and technological cooperation. As the Obama administration heads into its final lap, the urgency of executing flagship

initiatives, such as the Trans-Pacific Partnership Agreement (TPP), has increased. Relations with China, Asia's economic center of gravity and the United States' second-largest trading partner, will occupy center stage as U.S. concerns heighten over Chinese economic espionage and industrial and currency policy. Asia's regional economic integration continues as trade and investment steadily rise and deadlines rapidly approach for the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP) agreement.

The TPP is arguably the most ambitious free trade agreement negotiation the United States has ever undertaken. Ultimately, it aims to tie together twelve Asia-Pacific economies into an arrangement that would liberalize approximately one-third of world trade and address issues central to the modern economy, such as e-commerce, intellectual property rights, and cross-border investment. The TPP would have an open accession clause and is envisioned as a building block toward an eventual Free Trade Area of the Asia-Pacific (FTAAP). The initiative thus has huge symbolic and practical implications for U.S. leadership and economic standing in Asia.

Closely associated with the Obama administration's Asia "rebalance" and widely viewed in Asia as a U.S.-led initiative, the TPP will have an impact on the United States' competitiveness in Asia and ability to set new norms and standards for global trade. The new Republican congressional leadership has pledged support for trade promotion authority (TPA), which provides for a congressional up-or-down vote on trade pacts without amendment and is considered by many to be a prerequisite for congressional passage. TPA would offer U.S. negotiators a boost as they work to resolve thorny issues such as market access for agricultural products and textiles, intellectual property rights, foreign investor protections, and investor-state dispute settlement. Negotiators are under increasing pressure to wrap up the agreement ahead of the U.S. presidential election cycle, with many analysts suggesting that to ensure passage during the Obama administration, the TPP must be concluded in the first half of this year.

While China is not a party to TPP negotiations, 2015 also holds great potential for further advances in the framework of U.S.-China economic relations. In 2014, the two sides made important breakthroughs on the expansion of the WTO Information Technology Agreement, the negotiation of a bilateral investment treaty, and other new measures to facilitate trade and investment. Yet even with these areas of progress, the U.S.-China relationship remains tense. China's industry policy, complaints of cyberespionage and intellectual property theft, and China's recent targeting of foreign companies for alleged violations of anti-monopoly law are matters of deep concern for the United States. Coming out of an election cycle, the new U.S. Congress is likely to place a stronger focus on resolving these concerns and shine a brighter spotlight on the U.S.-China relationship.

As the Asian Development Bank [reported in 2014](#), Asia's cross-border trade and investment and tourism flows have continued to rise despite a weak global economic outlook. This trend is underpinned by significant policy initiatives, and important deadlines for regional integration loom. Notably, ASEAN is in the final stretch of fulfilling the requirements for the AEC by the end of 2015. Approximately 80% of these requirements have been met, but the remaining issues, including investment and labor flows, are the most challenging. Indonesia's new president Joko Widodo (known as "Jokowi") raised eyebrows in the region with his statement that Indonesia would not be supportive of the AEC's goal of a single market and production base by the end of 2015 if it puts Indonesia at a disadvantage. Under Malaysia's 2015 ASEAN chairmanship, the group will develop and finalize a strategic plan and targets for deeper integration beyond 2015.

Both endeavors are important indicators of the future viability of a unified and integrated ASEAN region able to compete with regional giants. The sixteen negotiating parties to the RCEP (the ten ASEAN members, Australia, China, India, Japan, New Zealand, and South Korea) are also facing a December 2015 deadline to conclude their talks. If successful, the RCEP would create an integrated market with a combined GDP of approximately \$20 trillion, though it would not have the scope of coverage or depth of the TPP.

Significantly, the RCEP would also present an alternative and less comprehensive vision for a future FTAAP, thereby further raising the stakes for successful conclusion of the TPP this year.

13

CHANGES TO THE GLOBAL ENERGY LANDSCAPE

Clare Richardson-Barlow

2015 will be a momentous year for global energy markets, as countries around the world are forced to address issues related to growing energy consumption, increased demand, and security of supply. The implications of changes to the global energy landscape have become increasingly clear, and 2015 may be the year in which dramatic steps are taken and possible solutions are found.

Increased shale gas production in North America, a result of improved hydraulic fracturing technologies, has provided readily available gas and coal from North America for Asian markets. The Asia-Pacific has driven global economic growth, leading to reliance on energy imports and producing significant environmental effects as a result of increased energy use. The perfect storm of rising demand, increasing supply, and rapid economic growth has shaped the current global energy market as we see it in early 2015—with technology innovation spurring greater options for consumers and buyers.

The need to address climate change and protect the environment has often taken a back seat to these dramatic developments, but 2015 may prove to be the year that global promises are made and followed through on with regard to environmental and energy challenges. Significant reductions in carbon emissions must take place in both developing and developed economies. Cooperation and leadership from China and the United States both on international climate and energy consumption standards and on technology development is one path forward in 2015.

The 2015 United Nations Climate Change Conference will be held in Paris and will set objectives for reaching an international agreement on addressing climate change. The

1992 United Nations Framework Convention on Climate Change is a legally nonbinding agreement to address changes to the climate as a result of man-made pollution. After years of indecisive action, 2015 is a crucial time to improve policy frameworks for encouraging responsible energy consumption, higher efficiency, and international standards for emissions, while supporting the growth of energy markets and ensuring security of supply.

The December 2014 U.S.-China climate deal, which set emissions targets up to 2030, is one major signal that CO₂ emissions are becoming a global policy concern. It is essential that world leaders build on this momentum to make significant policy and industry changes in 2015. To start, promoting clean coal technologies (CCT), rather than rejecting the use of coal, will be an important part of this collaboration. CCT refers to a group of technologies that increase efficiency and lower emissions of coal-based electricity production. As global leaders in energy consumption and production, the United States and China can play an important role in CCT development and must encourage global and national policies that promote technology innovation in this area.

While there are many options for reducing emissions, coal technology will be critical for determining if—and when—global climate goals are reached. Coal is the most widely used electricity source in the world and has powered industrialization and economic growth in both the Western world and many Asia-Pacific countries. There are cleaner options, yes, but coal is the most readily available resource in the world: it is both abundant and easy to transport, and significant infrastructure is already in place to support its continued use. Improving how coal is utilized is one step toward making global climate goals more realistic and may be a catalyst for heightened cooperation among major superpowers and energy consumers. To this end, the United States and China should take a strong stance on both cleaning up the environment and addressing global energy security needs by (1) increasing funding for CCT development, (2) increasing the efficiency of coal-fired power plants, (3) replacing old plants entirely, and (4) setting goals for improved efficiency standards while emphasizing

the importance of such standards for developed and developing economies.

Establishing global climate and emissions targets is an important way to improve energy and environmental security. Equally important is the need to depoliticize discussions of coal's role in this process. Recognizing that coal can be utilized more efficiently, while also promoting international collaboration to address climate change and develop alternative technologies, will take energy policy much further in 2015 than it has gone before. U.S.-China leadership will be a major factor in this compromise and may help bring about significant advances in climate and energy policy.

14

THE U.S. REBALANCE TO ASIA

Andy Nguyen

2015 is a defining year for the U.S. rebalance to Asia: the war against the Islamic State of Iraq and Syria (ISIS), the nomination of a new U.S. secretary of defense, the Republican takeover of the Senate, and ongoing Trans-Pacific Partnership (TPP) negotiations all have important strategic implications for the economic and military components of the rebalance.

Newly nominated secretary of defense Ashton Carter is expected to carry out the rebalance to Asia with full force. Carter was a strong advocate for the initiative during his tenure as deputy secretary of defense. At an [event hosted by the National Bureau of Asian Research](#) in October 2012, Carter declared, “We are not just talking the talk of rebalance—we are walking the walk. Even in a period of fiscal austerity, we can and will invest in a continued military presence and engagement for the Asia-Pacific region.” The conclusion of U.S. combat operations in Afghanistan will give Carter more political capital, funds, and troops for the rebalance effort. If he is confirmed as secretary of defense, look for greater deployment of U.S. Army and Navy forces to Asia, increased cooperation with regional allies, and continued investment in military infrastructure and training in the region.

The military rebalance, however, faces obstacles on two fronts. First, regardless of Carter's intentions, he [will likely face the threat of budget cuts](#)—known as sequestration—and will need to dissuade Congress from imposing a cap on defense spending. Second, U.S. involvement in the war against ISIS will further complicate matters. In December the Senate Foreign Relations Committee approved a new measure authorizing the use of military force against ISIS (though the United States had already been launching airstrikes against the militants). The measure, which prohibits the use of ground troops, was passed with a party-line vote by the then Democrat-controlled committee and permits the use of force for the next three years.

There has been much debate in Washington regarding the use of force against ISIS. Secretary of State John Kerry [advised](#) the Senate Foreign Relations Committee in December that the measure, for strategic reasons, should not bar the use of ground troops. Many Republicans on the committee—including new chairman Senator Bob Corker—[argued that the vote was rushed](#), and the measure will continue to be debated in early 2015. Although airstrikes against ISIS have already refocused some of Washington's strategic attention back on the Middle East, a force authorization that permits the use of ground troops will do so with increased vigor. However, if airstrikes continue to be the dominant form of force projection against ISIS, the rebalance to Asia should not be severely affected.

Although the extent of the military rebalance to Asia depends on the level of U.S. involvement against ISIS, the economic rebalance will strengthen regardless. Trade promotion authority (TPA)—fast-track legislation that would allow the president to send an unamendable trade bill to Congress—is more likely to get passed in the new Senate. Republican leaders in the House have already pushed for more open trade, and Senate majority leader Mitch McConnell is [eager to work with President Obama](#) on TPA, which could facilitate the passage of the TPP and other trade agreements. While Senate Republicans hold a majority (with 53 seats), the White House and Republicans still need moderate Democrats to support TPA, as over 60 votes are required to prevent a filibuster. With enough politicking

from the president and Republicans, look for TPA to pass in early 2015 and for TPP negotiations to subsequently gain momentum. The TPP faces various obstacles on the Japanese side—such as domestic pressure in Japan to protect and exempt agricultural products like rice and sugar—and passing TPA will signal to Tokyo that an agreement would not stall in Congress.

Additionally, U.S. energy exports to Asia will likely increase in 2015. With Republicans and a number of moderate Democrats in favor of increased energy exports, the new Congress will likely [reform export laws](#) and approve new oil and gas pipelines. This month, for instance, Republican senators are working to advance a bill to authorize the Keystone XL Pipeline that would transport oil from Canada to the Gulf of Mexico. President Obama, however, plans to veto the bill, arguing that the pipeline still needs to pass an extensive approval process. Although this debate is still playing out, the episode will foreshadow how effective the new Congress will be in 2015 with regard to energy policy. If the new Congress succeeds in reforming export laws, the United States will be able to export more of its abundant resources to energy-hungry Asia, thereby strengthening U.S.-Asia energy ties and contributing to the economic rebalance.

15 CYBER INSECURITY Casey Bruner

In 2014, five Chinese hackers were indicted by the U.S. Justice Department; new security breaches struck both public and private organizations, resulting in the loss of millions of people's private data; and a U.S. entertainment company was hacked for releasing a movie. Yet despite these unprecedented attacks and booming cybertheft, 2014 nearly finished without any meaningful reforms of U.S. cybersecurity policies. In a last-minute display of efficiency by a notoriously gridlocked Congress, however, a number of bills were passed in the final weeks of the year that contained key cybersecurity provisions—most

importantly, the National Defense Authorization Act for Fiscal Year 2015 (NDAA).

Most of the legislation passed at the end of 2014 was narrowly focused on the structure of the federal government's cyberdefenses. For instance, the National Cybersecurity Protection Act of 2014 codifies the Department of Homeland Security's National Cybersecurity and Communications Integration Center, which already existed. The Federal Information Security Modernization Act of 2014, on the other hand, primarily moves the federal government's cybersecurity management under the Department of Homeland Security.

Buried within the NDAA, however, is a small but powerful provision (Section 1637) that allows the president to sanction foreign hackers known to have engaged in economic or industrial espionage in cyberspace. Under this expanded authority, the president can list people, companies, or organizations that fit the statute's definition of cyber spies and ban them from sending or receiving payments through the U.S. financial system. The section is modeled after the Deter Cyber Theft Act of 2014 and draws in part from a recommendation made two years ago by [the Commission on the Theft of American Intellectual Property](#) (IP Commission).

Through the NDAA, Congress has finally given the administration an effective tool to respond to cyberattacks. Now instead of issuing indictments against foreign hackers that no one seriously believes will lead to prosecution, the president can impose financial sanctions. Banning attackers from the financial system provides one less avenue of support for their efforts. The administration should begin consistently exercising this authority to mitigate IP theft and cyberattacks. Consistent use of this new tool would incentivize foreign actors not to steal or use stolen U.S. intellectual property. Such a shift in the incentive structure within China and other countries was the goal of some members of the IP Commission from the start. What remains unknown is whether President Obama will actually use this newly expanded authority. On occasion, he has indicated that cybersecurity is a top priority. More often, however, it appears that cybersecurity has taken a back seat to other foreign policy objectives.

While Section 1637 of the NDAA is a step in the right direction, it is not a silver bullet. Many deficiencies still exist in U.S. cybersecurity law that will limit the effectiveness of sanctions authority. Private companies still fear liability for sharing threat data, even anonymously, with the federal government. The proposed Cyber Intelligence Sharing and Protection Act would have fixed this. But with Representative Mike Rogers retiring, it is unclear whether the bill will have a new champion. Another hurdle is that technical limitations make attribution of cyberattacks difficult. While companies may know that they have been hacked, it is usually impossible for them to identify the person or organization responsible. Without hackers' names, how will the administration know whom to sanction? Finally, the immense breadth of the Computer Fraud and Abuse Act, the nation's "anti-hacking" statute, shackles private actors from fully defending their own networks for fear of criminal liability. So while the NDAA may prove to be a useful tool, its power is constrained by legal, structural, and technical limitations that have yet to be addressed. Much work remains to be done to reduce the \$300 billion per year cost of foreign theft to the U.S. economy.

What then should we look for in 2015? Watch if the president decides to use his new authority under the NDAA to sanction foreign hackers. Watch how foreign actors react to new sanctions under the NDAA or otherwise, such as the administration's January sanctions against North Korean actors for their ties to the high-profile Sony hack. Watch if Congress passes legislation to help address some of the deeper issues of cyber insecurity.

2015 has potential. The year began with legislative momentum, the establishment of two new cybersecurity subcommittees in Congress, and sanctions by the president against North Korean actors for their role in cyberattacks. Stay tuned to see if policymakers are motivated to act on cyber legislation needed to create a healthier economy, stronger national security, and more reliable critical infrastructure. ~

This piece was compiled by staff at NBR.

CASEY BRUNER was a Project Manager in the Slade Gorton International Policy Center at NBR from 2010 to 2014. He also served as Project Manager of the Commission on the Theft of American Intellectual Property from 2012 to 2014.

R. LINCOLN HINES was a Bridge Fellow from 2013 to 2014.

MEREDITH MILLER is Senior Vice President of Trade, Economic, and Energy Affairs and Director of NBR's Washington, D.C., office.

ANDY NGUYEN is a Trade, Economic, and Energy Affairs Intern.

DEEP PAL is a Political and Security Affairs Intern.

CLARE RICHARDSON-BARLOW is an Assistant Director of Trade, Economic, and Energy Affairs.

NADÈGE ROLLAND is Senior Project Director for Political and Security Affairs.

LAURA SCHWARTZ is a Trade, Economic, and Energy Affairs Project Associate.

KUNIHIRO SHIMOJI was an Atlas Fellow from 2013 to 2014.

VED SINGH was a Trade, Economic, and Energy Affairs Intern in 2014.

ALISON SZALWINSKI is a Political and Security Affairs Project Associate.

KELLY VORNDAN is a Political and Security Affairs Intern.

RACHEL WAGLEY is the Assistant Director of Outreach.

Media inquiries may be directed to Rachel Wagley at media@nbr.org or (202) 347-9767.

Join the NBR community:

[Facebook.com/NBRnews](https://www.facebook.com/NBRnews)

[Twitter: @NBRnews](https://twitter.com/NBRnews)



THE NATIONAL BUREAU of ASIAN RESEARCH

1414 NE 42ND STREET, SUITE 300
SEATTLE, WA 98105 • 206-632-7370

1301 PENNSYLVANIA AVENUE NW, SUITE 305
WASHINGTON, D.C. 20004 • 202-347-9767

WWW.NBR.ORG

[@NBRNEWS](https://twitter.com/NBRNEWS)