

THE FOURTH ASEAN– AUSTRALIA– NEW ZEALAND DIALOGUE

4–6 December 2011
Kuala Lumpur, Malaysia



Maritime Security, the East Asia Summit, Nuclear Energy and Myanmar Reform

The fourth AANZ Dialogue was convened at the end of an intense phase of regional activity involving Australia and Asia: the Commonwealth Heads of Government Meeting (CHOGM) in Perth (28–30 October), the APEC Summit in Hawaii (12–13 November), the Sixth East Asia Summit in Bali (18–19 November), and the Track II CSCAP (Council for Security Cooperation in the Asia Pacific) General Conference in Hanoi (21–22 November). In the midst of these events, United States President Barack Obama visited Australia, pledging an increased US military presence in Darwin and affirming an intention to pursue a Trans Pacific Partnership (TPP) free trade agreement. These US-Australia developments met with strong criticism in some quarters of the Asia region.

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This intensity of diplomatic activity is taking place in the context of major transformation in the Asia region and at a time of uncertainty in the world economy. Nowhere has the spirit of transition and reform been more keenly felt than in Myanmar in 2011. Since the civilian government took office in March, a series of reforms have been set in motion, with the first release of political prisoners, the cancellation of a controversial China-funded dam project, and the initiation of reforms in the agricultural and finance sectors. Visits to Myanmar by Australian Foreign Minister Kevin Rudd in June and US Secretary of State Hillary Clinton in December were a clear demonstration that Myanmar has entered a new era of Track I and II dialogue. The 'Asialink Conversations' were subsequently held in Yangon on 3–4 February 2012.

The year was also dramatically marked by the tsunami and earthquake in Japan in March, which brought the Fukushima nuclear power plant to the brink of disaster. The wisdom of pursuing a number of nuclear power plant developments in Southeast Asia is seriously under review as the region seeks to balance its economic developments with its energy security demands.



These issues were among those discussed at the Fourth AANZ Dialogue which, like its predecessors, was hosted by ISIS Malaysia — on behalf of the ASEAN-ISIS network — and brought together an impressive range of senior academic, think-tank, private sector and government specialists. With support from Asialink, the Australian group included the Australian National University and the Australian Institute of International Affairs. Two emergency developments prevented participation from the St James Ethics Centre and the Griffith Asia Institute. New Zealand was represented by the Asia New Zealand Foundation.

The Sixth East Asia Summit (EAS): Post-script

Reports on the Sixth East Asia Summit in November 2011 have been generally positive. Two important outcomes, in particular, were noted. First, the declaration on the principles for mutually beneficial relations, which enshrines many of the principles contained in ASEAN's Treaty of Amity and Cooperation, was significant. This matters because, as one participant said, ASEAN wants participant EAS countries to be mindful of regional norms to ensure that ASEAN remains the driving force in setting the region's strategic direction. The second achievement was the declaration on ASEAN connectivity. This secures ASEAN's programs of cooperation on infrastructure development (roads, ports, airports and rail, plus information and communications technology); institutional and regulatory harmonisation; and people-to-people contacts such as education, tourism and economic engagement. It is hoped that making connectivity a core concern of the EAS will provide 'political push' on these aims, and also add to the substance of EAS activity.

Challenges in the EAS were also identified, principally when one country wants to push a particular issue through, while another might want to refrain from discussing it in that forum. The example was given of China not wishing to discuss maritime security in the South China Sea within the EAS, preferring to negotiate this independently with specific countries. Another

challenge noted was the capacity of the ASEAN Secretariat under its current arrangements to be able to manage adequately the growing emphasis and expectation placed upon the East Asia Summit. In 2012 the Secretariat will be responsible for 1100 meetings. Establishing a separate secretariat was nevertheless ruled out at the Sixth EAS — and participants at the Dialogue suggested that one reason for this was that a separate secretariat might dilute ASEAN centrality.

The Australia-Indonesia paper on better coordination of natural disaster management was presented at the EAS and this was endorsed, which means this plan can now be put into action. To help implement this Australia will provide A\$1 million to support a disaster coordination secretariat based in the ASEAN Human Assistance Center in Jakarta. Finally, a prominent regional commentator observed that, with the entry of the United States and Russia into the EAS, the Sixth EAS Summit signalled 'the end of the beginning' for this nascent grouping. The next five years, he believed, would be the test of whether the East Asia Summit would live up to its expectations.

Maritime Security

Until the last five years or so, piracy appeared to be the primary maritime security concern in the region. The emphasis has since shifted to various disputes — mostly played out between the US and China — around different interpretations as to what is permissible under the Law of the Sea. It was



suggested that the way China visualises its role in the region, and how it thinks about the deployment of its naval power, was evident in its response to naval exercises undertaken by the Republic of Korea and the United States after the sinking of a South Korean naval vessel in 2010. A PLA official is said to have protested the proximity to China of planned US-ROK naval exercises intended to warn the DPRK. The PLA and, indeed the Government of China as a whole, refused to concede that the DPRK had generated a sense of crisis on the peninsula.

It was noted that there has been a greater focus on maritime security in various regional groupings: the ASEAN Regional Forum (ARF) adopted a maritime security work plan in 2011; the ADMM Plus established an expert working group on maritime security; and an ASEAN maritime forum was established in 2010 to promote understanding on maritime threats and cooperation. The adoption of CBMs (confidence building measures) — that is, efforts to decrease tensions — was seen as a productive way to deal with disputes in the South China Sea. There is of course a great deal of sensitivity towards sovereignty in the region and difficult issues, such as sovereignty claims in the South China Sea, need to be approached carefully. It is seen as helpful by some Southeast Asian states to engage ASEAN partner countries — such as Australia, New Zealand and the United States — in the regional maritime dialogue.

The Future of Energy Security in East Asia post-Fukushima

The nuclear disaster at Fukushima in March 2010 appears to have only temporarily interrupted plans for nuclear energy development in Southeast Asia. Elsewhere in the region nuclear energy is considered irreplaceable. Neither China, nor the Republic of Korea, plan to switch from nuclear technology, as their dependence on nuclear energy is now far too high. While several ASEAN nations are proceeding with their plans to build nuclear power plants, it was acknowledged that there was now a greater emphasis on preparedness for disaster management. Vietnam, for example, will continue with its nuclear plans, although it will make nuclear safety a top priority; Thailand will halt its plans to build a nuclear power plant until a review has been carried out; and the Malaysian government has said that nuclear power remains a viable and safe source of energy.

It was acknowledged that all ASEAN countries, except Brunei, are net importers of oil so nuclear energy is an inevitable future source of energy. In light of the proximity of neighbouring countries in the region it was suggested that ASEAN adopt a nuclear plan, stipulating terms and conditions in nuclear energy development. Though not all at the Dialogue agreed, it was observed that the development of nuclear energy held some state prestige and that this drove a degree

of competition in acquiring nuclear power among some ASEAN nations. Perhaps more importantly it was pointed out that no state can argue that nuclear energy is a sovereign issue — the acquisition of nuclear technology has the potential to impact upon all states in the region. All nuclear agreements therefore need to be multilateral and the ASEAN community will need to consider mechanisms to regulate regional power plants once they have been established.

Assessing China's economic influence

China is ASEAN's and Australia's largest trading partner and is New Zealand's second largest. An economically strong China is therefore very much in the interests of the region. Yet the signs are not all positive. One participant suggested that the benefits delivered to other countries from China are overstated and China itself is more vulnerable than widely thought. State-owned banks, for example, are in a bad state. There are four major state-owned banks that make loans to state-owned enterprises, many of which are never paid back. To mask these unpaid debts, the banks are recapitalised every five years or so, creating an artificial situation. Financial markets are concerned that this will, at some point, come to a head.

The demographic challenges and domestic risks facing China's continued growth trajectory are also multiple, including: a housing bubble, growing inflation, increasing



local government debt, inefficiencies across state owned enterprises (SOEs); and an ageing society supported by a low-income base. If we are dependant on China, it was agreed, we need an economically healthy China, but it can only address its domestic weaknesses progressively.

The Renminbi (RMB) is fast being accepted as an international medium of exchange and, increasingly, also a store of value. Today, about ten per cent of world trade is in RMB, while offshore RMB deposits in 2010 exceeded RMB320bn. It is in China's interests, as well as that of its major trading partners, to see the liberalisation and greater use of the RMB. The dominance of the US dollar in the Post-World War II period has greatly spurred the growth in world trade but over-reliance has also imposed costs, such as currency volatility, including periods of severe dollar shortages. The greater use of RMB in the region makes it an increasingly different environment. As China seeks to promote RMB use, and as it attempts to develop appropriate markets and institutions, it is imperative that stakeholders — including ASEAN, Australia and New Zealand — be more heavily involved with China in currency cooperation and dialogue, including addressing feedback on problems and risks.

There was much discussion about multilateral free trade agreements (FTAs) since the United States has shown renewed interest in the Trans Pacific Partnership (TPP). The TPP is in conflict with the proposed, more Asia-centric, ASEAN Plus Three FTA and the Comprehensive Economic Partnership for East Asia (CEPEA), which includes the

ASEAN Plus Six countries. One participant thought the TPP, and its exclusion of China, was 'futile and pointless'. It is, in effect, said another, economic encirclement led by the US and has stirred a great deal of suspicion in Beijing. With Australia's support of the TPP, an ASEAN participant felt that the US and Australia might 'push away from ASEAN norms' with this alternative FTA. Yet there was some doubt that TPP negotiations would ever be concluded anyway given the many obstacles. The discussion on these proposed multilateral FTAs led to the conclusion that they no longer fulfilled purely economic objectives but also addressed regional strategic concerns.

Australia Update

Despite the fact that Australia is the world's 14th largest economy, enjoyed the fastest growth in the developed world in 2011, and has an unemployment rate of just five per cent, it was reported that there is an undercurrent of pessimism in Australia. This is largely due to its 'two speed' economy, exemplified by the fact that growth stands at six per cent in Australia's mining states and just two per cent in non-mining states. The high dollar is also to blame with its negative impact on tourism, education, and manufacturing. These factors have resulted in weak retail spending, though savings are up ten per cent. New taxes on mining 'super profits' and carbon emissions have gone through Parliament, and a national broadband network (NBN), representing a A\$36bn investment over ten years, have been major

domestic issues in 2011. It was also observed that although Australia is a country faced with no immediate threats, it is very concerned about security.

Questions were raised about Australia's willingness to allow Asian investment and the failed merger of the Singapore and Australian Stock Exchanges (ASX). People in Singapore, an ASEAN delegate said, were puzzled about Australia's response to the proposed merger. It was acknowledged that Australians are sensitive about foreign investment where national icons, such as BHP Billiton or the ASX, are concerned. Contrary to popular belief, however, it was pointed out that in 2010 no Chinese foreign investment applications were rejected by the Foreign Investment Review Board. In terms of aid, after a review of Australia's aid effectiveness in 2011, the decision was made to increase its commitment — from 0.35% per cent of Gross National Income (GNI) (A\$4.8 billion) in 2011-12 to 0.5% of GNI by 2015-16.

United States President Barack Obama's visit to Australia in November 2011, and Australia's decision to allow an increase in the presence of US marines in Darwin, was discussed. An Indonesian participant believed the decision signaled a 'marker for intra-regional rivalry'. This was countered by an Australian who said that the agreement simply reflected the evolution of Australia's US alliance. 'ASEAN centrality' he continued, 'would not preclude Korea, Japan or Australia enhancing their alliances.' Generally there was a reluctance to interpret the United States' expressed revival of interest in Asia as a return to Cold War rivalry. Instead, it



was acknowledged that the region is clearly in the process of transformation and a central feature of that is a preference for multilateralism. This was depicted as an inversion of the 'hub and spoke' metaphor, which previously placed the United States as the hub, with its bilateral relationships the spokes. ASEAN is now moving into position as the hub and the major powers are its spokes.

Myanmar: Glass half full or half empty?

Since the civilian government was established in Myanmar on 30 March 2011, it has implemented reforms with far reaching implications. There seems little doubt now that Myanmar's political, economic and social reforms will be difficult to reverse. While this has occurred in accordance with Myanmar's 7 Step Road Map to Democracy, which was voted into the State Constitution in 2008, the swiftness with which reforms have occurred has been a surprise. Under new President U Thein Sein some political prisoners have now been released, the government's relationship with democracy leader Aung San Suu Kyi has thawed, and reforms in the agricultural and financial sectors have commenced. Possibly the most deeply significant steps forward in 2011 were Myanmar's decision to halt a controversial dam project funded by China, and the approval of Myanmar's chairmanship of ASEAN in 2014.

The glass, it seems, is half full. There is a high degree of confidence in the new

government and the opening up of external relations will bring considerable gains. United States Secretary of State Hillary Clinton's visit to Myanmar in November 2011 resulted in the US decision to ease financial restrictions, increase US aid, assist in English-language programs and narcotics cooperation, and cooperate on finding WWII remains. Australia has also played its part. It was noted that Australia has continued to maintain an Ambassador in Yangon and Australia is the second largest bilateral aid donor to Myanmar. Australia's Foreign Minister Kevin Rudd visited Myanmar in June 2011 when he announced that Australia's aid to Myanmar would reach A\$50 million in 2012-13. Although there was general optimism at the Dialogue about progress in Myanmar, one ASEAN participant expressed some reserve, saying that much more needed to be done.

Australia's continued diplomatic presence in Myanmar, and Foreign Minister Rudd's early diplomatic gesture, was recognised at the Dialogue. Why then, it was asked, is so much emphasis placed on the United States? A Myanmar specialist pointed out that this was because the United States, having played 'bad cop' for so long, represents a much more significant shift for Myanmar.

Open discussion

The Dialogue concluded with an open discussion on a range of topics. The focus was, however, mostly on the region's relations with Japan and India.

It was observed that Japan and India had received little attention at the Dialogue. Japan remains one of Australia and New Zealand's closest Asian partners and it has been a staunch supporter of Southeast Asia through investment, education programs, and its support of the ASEAN organisation. In recent years the focus has shifted towards China, even though it still does not match Japan in terms of regional investment.

India, on the other hand, was not seen as an active participant in Southeast Asian engagement. It has security interests in the South China Sea and Indian Ocean, but India's Look East foreign policy was considered somewhat inconsistent in application, largely because of its more pressing focus on China and Pakistan.



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