



ASEAN NEWSLETTER

Prepared for the Ministry of Foreign Affairs and Trade, Republic of Korea by the Institute of Strategic and International Studies (ISIS) Malaysia

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ASEAN News Updates

46th ASEAN Foreign Ministers' Meeting

(June 29, 2013)

The foreign ministers of ASEAN member states as well as ASEAN's ten dialogue partners and other nations are expected to have discussions on issues such as regional cooperation and integration, security, the management of maritime disputes as well as transboundary haze. The ASEAN Foreign Minister's Meeting will be followed by Post Ministerial Conference, the 20th ASEAN Regional Forum and the 3rd East Asia Summit Foreign Ministers' Meeting. The meetings are expected to provide platform for officials of major countries, including US Secretary of State John Kerry, Russian Foreign Minister Sergey Lavrov and Chinese Foreign Minister Wang Yi, to discuss issues like Syria and denuclearization in the Korean Peninsula. (Source: Global Times, Xinhua)

2nd Asean Rice Trade Forum

(June, 18 2013)

Members of the Association of Southeast Asian Nations (Asean), agribusiness groups, non-governmental organizations (NGOs), and international development agencies attended a major forum June 4-5 in Yogyakarta, Indonesia to harness regional cooperation on ensuring the active trading and easy accessibility of Asia's main staple rice. The Forum was convened by the Asean Food Security Reserve Board (AFSRB) in coordination with the Asean Secretariat and the Asian Development Bank (ADB). Financial support is provided by the Japan Fund for Poverty Reduction through ADB. (Source: Philippine Information Agency)

Asean economic ministers enhance trade ties with US

(June 10-14, 2013)

A high-level Asean delegation visited the United States to further enhance trade and investment relations between the two sides. The delegation, led by Second Minister Pehin Dato Lim Jock Seng of the Ministry of Foreign Affairs and Trade of Brunei, composed of economic ministers from Laos, Malaysia, Myanmar and the Philippines; vice-ministers from Cambodia, Indonesia, Thailand and Vietnam; and senior officials from Asean countries. The delegation visited Los Angeles specifically the Port of Los Angeles which is the main gateway for trade between Asean and the US, San Francisco (Silicon Valley), and Washington D.C., as well as multinational corporations Fox Studios, Covidien, Mattel, and Google. They also held consultations with the private sector including venture capitalists. The total trade between Asean and the US reached US\$ 198.8 billion in 2011 which made the United States the fourth largest trading partner of Asean. For investment, the United States is the third largest investor in Asean investing more than US\$5.8 billion in 2011. (Source: Philippine Information Agency)

Foreign Ministers of FEALAC Countries Agree to Enhance Cooperation

(June 14, 2013)

H.E. Le Luong Minh, Secretary-General of ASEAN, attended the Sixth Foreign Ministers' Meeting of the Forum for East Asia-Latin America Cooperation (FEALAC) on 13-14 June 2013 in Bali, Indonesia, at the invitation of H.E. Marty Natalegawa, Foreign Minister of the Republic of Indonesia, Co-Chair of FEALAC for 2012-2013.

Throughout the Meeting, the Foreign Ministers of FEALAC countries deliberated on ways and means to enhance East Asia-Latin America cooperation in many areas, particularly promoting interconnectivity between the two regions, and jointly addressing global challenges such as poverty, food and energy security, climate change, pandemic and communicable diseases, and transnational organised crime. The Meeting adopted the Uluwatu Declaration, which reaffirmed the commitment of FEALAC member countries to continue and strengthen bi-regional cooperation for sustainable development. (Source: ASEAN Secretariat News)

17th ASEAN-Republic of Korea (ROK) Dialogue

(12 June 2013)

The Senior Officials of ASEAN and ROK held their 17th Dialogue in Surabaya on Tuesday, 11 June 2013. They discussed the latest developments in ASEAN and the ROK and the Korean Peninsula, and reviewed the ASEAN-ROK relations and its future direction. The Meeting was co-chaired by H.E. I Gusti Agung Wesaka Puja, SOM Leader and Director-General for ASEAN Cooperation, Ministry of Foreign Affairs of Indonesia and H.E. Lee Kyung-soo, Deputy Foreign Minister for Political Affairs, Ministry of Foreign Affairs of the ROK. Indonesia is the current Country Coordinator for ASEAN-ROK Dialogue Relations. (Source: ASEAN Secretariat News)

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Realities of the Natalegawa Doctrine

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The truths of our global environment described by Indonesia's Foreign Minister, Dr. Marty Natalegawa during the 27th Asia-Pacific Roundtable were highly apt. Speaking of the changes occurring in the Asia-Pacific region, Natalegawa stressed that change is a reality that states must accept, adjust to and manage accordingly. It implies that while the region's environment is fairly unpredictable, states must avoid taking disruptive actions under the pretext of protecting their national interests.

As multilateral relationships flourish, it is clear that there is so much more at stake now than there was in the last 40 years, with regards to political, economic and even security exchanges between states. In other words, isolationism is no longer an option as most states now share similar challenges, such as territorial disputes involving non-traditional security threats like water scarcity, piracy and illegal immigration.

Hence, Natalegawa has called for a new paradigm; one that views international politics as being in a state of 'dynamic equilibrium', in order to accommodate the changes occurring in the Asia-Pacific. It is essentially a way forward (and a plea) for states to not only recognize the futility of harboring traditional notions of national interests and national security, but also that all national interests are inexplicably bound together. In this sense, there is no need for any form of hegemony due to the fact that peaceful regional cooperation will essentially require that all states are viewed as relatively equal and that all states have common goals to achieve, such as regional security, prosperity and stability.

Three Main Challenges in Asia-Pacific

According to Natalegawa, the Asia-Pacific faces three main challenges, which are a) trust deficit, b) territorial disputes and c) managing change.

The first refers to the lack of trust in the region. The fact is that at the end of the day, suspicion remains an ingrained sentiment amongst states. And obviously, this has more often than not, dictated state actions, which has resulted in frequent outbreaks of heightened tensions linked to the security dilemma. While there may be considerable reasonable doubts regarding one another (especially with regards to unpredictable states such as North Korea), this could also be a case of 'self-fulfilling prophecies', whereby the problem is simply an over heightened sense of security. Therefore, because states are constantly anticipating attacks or conflicts, they react accordingly or in other words, pre-emptively to ensure that they always have the upper hand in a situation.

The second challenge concerns the issue of territorial disputes in the region, especially those that involve multiple claimants such as the South China Sea and the East China Sea. Regardless of economic interdependence amongst states, the possibility of these issues escalating into armed conflict should not be taken lightly. The persistence of countries, especially China, in their renewed assertiveness towards territorial disputes signifies that their motivations are not simply limited to the preservation of scarce economic resources, but also as a show of power and the protection of state sovereignty.

The third challenge that Natalegawa highlights is the problem of managing change. Currently, due to China's perceived ascendancy, what the region is experiencing now with regards to the increase in military presence in the Asia-Pacific reflects an inability or refusal to accommodate change. This can be viewed through the United States' actions of 'rebalancing' China or as some analysts view it, a containment policy; to maintain status quo and to ensure that things remain the same. However, as Natalegawa mentions, it is impossible to contain or to stop change, and that states must adapt to it. Hence, what we need is a new order or new perspective (dynamic equilibrium) that will be able to absorb and engage China as it is, and not to prevent it from rising.

How to Manage Change?

During the 27th Asia-Pacific Roundtable, Natalegawa reiterated his suggestion of an Indo-Pacific Treaty of Friendship and Cooperation. While he does not go into great detail about the workings of the proposed treaty, the Indonesian Foreign Minister reasserts that ASEAN will still play a significant role, especially because the Indo-Pacific treaty is an apparent vindication of ASEAN principles. The importance of ASEAN and its multilateral cooperative efforts lies in its ability to provide an arena for diplomatic discussions and confidence building among all states rather than allowing the conflict to be perpetuated and brought to the "battlefield". In

this sense, Natalegawa's emphasis on ASEAN reflects a pragmatic and functional value due to the fact that his suggestion does not call for a regional overhaul, which would be near to impossible, but to make use of the foundation and the tools that ASEAN has already provided.

As for the treaty itself, questions were raised concerning the differences between this particular treaty and the Treaty of Amity and Cooperation (TAC), and whether it implied that the TAC was insufficient in its endeavors to facilitate a peaceful region. In return, Natalegawa was adamant that the creation of the Indo-Pacific Treaty does not and should not imply that the TAC has failed; rather, it should be seen as a complement to the TAC due to the fact that the Indo-Pacific treaty is supposedly a reaffirmation of the TAC and its principles in order to further address the challenges burdening the Asia-Pacific region.

On the surface level, the difference between the TAC and the Indo-Pacific Treaty of Friendship and Cooperation is crystal clear. While the TAC was drafted to ensure that states pledge to the peaceful means of conflict resolution, the Indo-Pacific treaty seeks to address more intangible issues. In fact, this treaty delves into addressing the root of conflict, the overwhelming lack of trust among states (usually accompanied by misperception too), by advocating a set of international norms and values for appropriate state conduct. By ensuring that states acknowledge and agree upon a set of governing principles, this allows states to eliminate the threat of miscalculation by refraining from provocative and unnecessary actions, which will inherently give countries more opportunities for confidence-building and cooperation.

With regards to territorial disputes, it appears that Natalegawa shows a sense of realism in the fact that he recognizes that these issues have existed for years, and in some circumstances, may never be resolved. In this sense, management is given more priority than resolution. Hence, the main point of the Indo-Pacific treaty is to nurture a sense of community, cooperation and a transparency of intentions, which are vital in the maintenance of a relatively peaceful regional environment.

The Indo-Pacific Treaty: A Promise or A Dream?

There are certain aspects of the proposed Indo-Pacific treaty that need to be called into question. Firstly, the Natalegawa doctrine becomes a little complicated here because on the one hand, there is a call for dynamic equilibrium which is essentially an "all-states-are-equal" concept. In other words, for a more cohesive, peaceful cooperation, it is a state of international politics that should be strived for by all states. On the other hand however, ASEAN centrality is being explicitly emphasized via the Indo-Pacific treaty. Admittedly, while it is necessary to prevent the control of the region being in the hands of a sole hegemon, some form of directional force is still required in order to guide us towards the right direction. For the Indo-Pacific treaty to be effective, it is imperative that the original intent is not diluted through extensive negotiations for the sake of enticing countries to accede to it. In this sense, ASEAN needs to take control especially with regards to dictating what will be in the best interests for the Asia-Pacific region. No doubt, ASEAN has had plenty of experience and could take the lead in promoting regional cooperation.

Secondly, while we can observe that the motivations behind the TAC and the Indo-Pacific treaty are different, it is necessary to ensure that the Indo-Pacific treaty is an improvement from the TAC. Natalegawa admitted during the 27th APR, that "The TAC may not have been often directly drawn upon in the resolving of disputes but its very presence has had a decompressing effect." In this sense, ASEAN may need to get over their aversion to establishing concrete confidence building measures. For example, it might go a long way if the language of the new treaty document was to be drafted in a more definitive and stronger manner, in order to ensure that member states adhere to the treaty and not view it as a piece of paper that has little or no hold on them.

Thirdly, what is interesting about dynamic equilibrium is its smooth blend of ideals and practicality. While it appears to be able to theoretically address many important issues concerning the Asia-Pacific region, further elaboration on the idea of the Indo-Pacific treaty is needed in order to be able to truly gauge its full potential. At the end of the day, it is simplistic to believe that problems are solved overnight. The reality is that at its best, the Indo-Pacific treaty could be a ground breaking mechanism for creating peace and cooperation worldwide. Another reality is that at its worst, the Indo-Pacific Treaty of Friendship and Cooperation could just simply be a "white elephant"; a waste of valuable time and resources that could potentially result in the undermining of ASEAN credibility and existing frameworks such as the TAC and the East Asia Summit (EAS). The challenge here is to ensure that the implementation of the treaty highlights the former, and certainly not the latter.

The ADMM-Plus – Initial moves towards military cooperation between members

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The recent ASEAN Defence Ministers' Meeting (ADMM)-Plus Humanitarian Assistance and Disaster Relief (HADR) / Military Medicine (MM) Exercise held in Brunei from 17 to 20 June this year drew substantial participation from member countries with 3200 personnel, seven ships, 15 helicopters as well as military medical, engineering, search and rescue teams and assets from the 18 member nations involved in it. The ADMM-Plus is made up of 18 countries, namely the ten ASEAN countries as well as Australia, China, Japan, India, Republic of Korea, New Zealand, Russia and the United States.

Both China and the United States sent a contingent to the exercise, China with the 'Peace Ark Hospital ship along with engineers, medical and SAR teams along with helicopters while the United States sent the supply ship USNS Matthew Perry with medical teams and helicopters thus marking a rare moment where their two militaries participated together in a joint multinational field exercise and for that matter too in the case of Japan and China, with the Japanese having sent the destroyer JS Shirane along with medical personnel and helicopters.

This was the first major exercise held under the umbrella of the ADMM-Plus and it was not surprising that HADR operations and Military Medicine was chosen to be the first ADMM-Plus exercise. The ADMM-Plus's purpose is to facilitate strategic dialogue between defence officials as well as practical cooperation between militaries with the goal of confidence building and promoting stable military-to-military relations in the region.

At the inaugural ADMM-Plus meeting held in Ha Noi, Viet Nam, on 12 October 2010, it was agreed that there would be five areas of practical cooperation to pursue under ADMM-Plus, namely maritime security, counter-terrorism, disaster management, peacekeeping operations and military medicine with Expert Working Groups (EWGs) established for it. Realistically in the view of the writer, a combined HADR and Military Medicine exercise was the only acceptable exercise to begin under ADMM-Plus. This is because some of the countries in the ADMM-Plus grouping are knee-deep in contentious disputes over territorial claims, along with the fact that the exercise location happens to be close to the disputed South China Sea and Spratly Islands making it hard for those countries to justify participation in a maritime security exercise.

Bearing in mind that China is part of the ADMM-Plus, ASEAN as a whole treads carefully with regards to military maritime cooperation with China due to uncertainty over strategic intentions for the region and its claims over territories in the region. Most ASEAN countries limit maritime naval engagement with China to port calls and search and rescue exercises. A maritime security China's exercise under ADMM-Plus would perhaps be a step too far, particularly with the implications that it would in effect legitimize the PLAN role in maintaining maritime security in the region.

While counter-terrorism is a priority for the region, many ASEAN countries have existing bilateral counter-terrorism exercises with each other and also with ADMM-Plus nations. In a practical sense, while the exchanges would be beneficial, it would be hard to envisage an actual counter-terrorist scenario where the involvement of all or most of the ADMM-Plus nations would be required. Furthermore given that most counter-terrorist and special forces prefer to operate under a veil of secrecy and would rather not have their activities and exercises publicized, such an initiative would be incompatible with the need to showcase the ADMM Plus's first field exercise. While on paper, a ADMM-Plus peacekeeping exercise may look good, (given that the ADMM-Plus's regional area of operations would be in the ASEAN region) such an exercise would imply an expectation that peacekeeping would be required in the future in one of the ASEAN countries; hardly a message which ASEAN, which prides itself on regional stability would want to send out.

As such, a combined HADR and Military Medicine exercise was the only practicable option though at the same time it should be noted that such an exercise is of immense value. Given the region's increasing occurrence of natural disasters and pandemics, there is a need for such training to enhance joint cooperation. Such coordination among military forces in dealing with pandemics and establishing procedures and plans for future international military HADR and medical relief operations is necessary. PACOM's Admiral Samuel Locklear stated at the 27th Asia Pacific Roundtable on June 5 in Kuala Lumpur that no one country could go it alone in regional security and cooperation would be the key to addressing such issues. As such the ADMM-Plus HADR and Military Medicine exercise held in Brunei served both the purpose of fostering cooperation between the

ADMM-Plus countries but also operationally prepared the militaries participating for common future joint operations in HADR and medical relief.

The question though is whether future ADMM-Plus exercises will continually revolve around HADR and military medicine exercises or will it move into the other cooperation areas which the ADMM-Plus is also focused upon. Aside from the various reasons mentioned above, it should be noted that the other areas of ADMM-Plus cooperation would call for the exercise involvement on units and assets in frontline operational duties. Given budgetary issues and commitments, some ADMM-Plus countries may be hard pressed to deploy units, ships and aircraft given their operational commitments and their already extensive exercise commitments.

The ASEAN militaries practice of conducting regular annual bilateral exercises with each other and also with the United States, means an already packed exercise schedule for their militaries and a ADMM-Plus exercise involving operational assets may be hard to fit into the current commitments. Still given the ASEAN predilection for a slow and gradual approach, it would seem that for the time being, expansion of the ADMM-Plus exercises beyond HADR and Military Medicine will not be in the near future. For the time being, it is expected that the combined HADR and Military Medicine exercises will be the norm for the ADMM-Plus for the next few years.

Reflections on Resource Pooling and the ASEAN Infrastructure Fund

By: Mr. Steven C.M. Wong, Senior Director, Institute of Strategic and International Studies (ISIS)

As the name suggests, the ASEAN Infrastructure Fund (AIF) was established with the purpose of financing roads, railways, ports, energy, water and sanitation and the like. The Fund currently stands at US\$485m, of which ASEAN Member States (AMS) contributed US\$335m and the Asian Development Bank (ADB) US\$150m. It is planned that a further US\$162m will be raised in the form of hybrid (debt-equity) capital, bringing the total to US\$647.2m. At some point in the future, the AIF is expected to borrow from the ADB and also issue debt that will be bought by central banks.

At the last Board Meeting of AIF in May 2013, it was announced that lending operations will commence in the second half of 2013 with a US\$1 billion commitment over the next 3 years. Details of project loans will only be announced closer to finalisation but a look at the preliminary list under consideration shows a fair spread of projects in 5 AMS.

What makes the AIF interesting is that small as it is, this is the largest single financial outlay that AMS have conceived. Resource-pooling schemes are not common at all in ASEAN and one has to go back to the early 1980s and the ill-fated ASEAN Industrial Projects to think of a similar set-up. There are a number of reasons for this but among the most cogent are probably (1) divergent national interests, (2) the politics of contributions and (3) politics of (proportional) benefits.

Resource pooling assumes common interests of all participants. This is not necessarily the case. Even if there were to be unanimity, there is still the question of how the shares of AMS are to be apportioned. If there are to be no 'free-riders' (i.e. those who benefit disproportionately compared to their outlays), each AMS would have to contribute equal shares. Some would not, however, have the desire or capacity to do so.

We see this even in the case of the AIF. The two largest contributors are Malaysia and Indonesia at US\$150m and US\$120m respectively. Singapore, Thailand and Vietnam contributed only US\$15m each, with Brunei adding a further US\$10m. As small but rich states, Singapore and Brunei are known to dislike resource pooling as they will be asked to contribute at least equal shares but are unable to benefit much due to their size. Thailand's and Vietnam's contributions may be considered to be token amounts only given their size and development needs, while Cambodia and Laos are nominally represented at US\$100,000 apiece. (Myanmar is not a participant in the AIF.)

The unequal stakes in the AIF have distinct advantages and disadvantages. An advantage is that it allowed the Fund to be established in the first place. Insistence on equal shares or those based on a particular formula (which is even more controversial) have stymied many a resource pooling proposal. The AIF is an authentic 'rubber-meets-the-road' initiative to address a long-term challenge in ASEAN. It is a practical effort to address a long-standing challenge. By allowing unequal stakes, the AIF has the same structures that most corporations do, with larger and smaller shareholders participating according to interest and capacity.

For ASEAN, this has wider implications. For starters, the AIF is unlike most private equity funds as there is a requirement to invest in the countries or projects in which shareholders have interests. Many private companies and funds explicitly prohibit or discourage this because of the hazards of 'related party transactions' or where decisions are made to benefit certain parties at the expense of others. But even if there are no such practices, there is the very natural tendency to want to act in one's own interests at the expense of the greater good (the Prisoner's Dilemma).

Going by shareholdings structure, the AIF might equally be called the 'Malaysia-Indonesia ASEAN Fund', since the total of the rest of the AMS does not even come up to half of each of these two countries' contributions. While the Malaysian and Indonesian Co-Chairs have done the right thing by bringing in the ADB to manage the AIF, thereby injecting much needed objectivity and professionalism, it stands to reason that the AIF can still only move as fast as is dictated by its two major shareholders.

At this point in time, the need for proportionality of benefits does not appear to be all that binding. From the preliminary list of projects under consideration, it would seem that AMS are able to have projects considered regardless of their shareholder contribution. This is the right thing to do if the AIF is to have any chance at being a real success instead of being a mere symbol of ASEAN cooperation. Over time, however, it may be all but inevitable that the larger AMS would want to see some of the gains accruing to themselves either in financial or political terms.

One must not forget that the AIF is, in every respect, a business venture, with the need for performance and profits and the inherent risk of possible failure of projects and the inability to service loans. Like all shareholders, those of the AIF need to be prepared to incur losses and having to top up capital. The Fund is a much-needed catalyst to the goals of ASEAN Community and Connectivity. By all accounts, however, the challenges to the AIF will grow as it scales up its operations, not only in terms of the quality of its loan portfolio but the harmony of its shareholders.
