# OUR PLACE IN THE ASIAN CENTURY

Southeast Asia as 'The Third Way'

**The Asialink Commission** 

Edited by Anthony Milner and Sally Percival Wood



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#### **FOREWORD** GARETH EVANS

This is a thoughtful, thoroughly researched and lucidly written report making a compelling argument: that in the present evolving and uncertain regional geostrategic environment, Australia would be wise to be a little less overwhelmingly preoccupied with the United States and China, and to become rather more focused on consolidating our position closer to home by developing stronger, closer and more multidimensional relationships with ASEAN and its key member countries.



The argument is essentially that Australia would be more comfortably placed to navigate a course between our superpower military ally and our emerging-superpower major economic partner if we had a stronger identity as a strategic and economic partner with our Southeast Asian neighbours, and could shrug off once and for all the lingering perception around

Asia that we see one of our central roles in the region as playing 'deputy sheriff' to the United States.

What the report proposes is really a natural continuation of the kind of role that Australia was building with ASEAN—and especially Indonesia—during the Hawke-Keating governments, but which diminished somewhat during the Howard years and has not yet fully recovered under Prime Ministers Rudd and Gillard. As Foreign Minister from 1988 to 1996—the period in which we played a key partnership role in such initiatives as the creation of APEC and the ASEAN Regional Forum, and negotiating peace in Cambodia—I had no counterparts anywhere in the world with whom I felt more close and comfortable than my ASEAN colleagues, despite the multitude of cultural and historical factors notionally dividing us.

I remember in particular one occasion during a break in a big Jakarta meeting on Cambodia when, looking for a quiet place in which to make a phone call, I inadvertently stumbled into a room where half a dozen ASEAN ministers were chatting over coffee: my profuse apologies were overborne by calls to stay and join them, with one colleague saying, memorably, 'Come on in. You're one of us.' One senses that on issues of current policy salience for Australia, like taking forward the Bali Process to put in place once and for all effective regional arrangements for the processing of asylum seekers, life would be a little easier if we could recreate something like that sentiment.

Any significant move to consolidate and strengthen—institutionally and personally—our relationship with Southeast Asia, and to make this a clearer and stronger element in the overall narrative of our foreign policy, certainly need not and should not come at the expense of our established relationships with the United States and China, and with Japan and South Korea, or of neglecting the need to rapidly further develop our relationship with India.

It is a matter simply of recognising that in the world as it is, and as it is becoming, nothing is static; that all of us need as many close friendships as we can; and that for Australia there is much to be gained, and nothing to be lost, by making much more of the friendships we already have with our immediate northern neighbours.

Professor the Hon Gareth Evans AC QC FASSA is Chancellor and Honorary Professorial Fellow at The Australian National University.

#### **FOREWORD** ALEXANDER DOWNER

If Australia's regional diplomacy is to continue to succeed, it needs to be built around a thorough knowledge of the region and a coherent plan for engagement. No serious commentator or observer of Australian foreign and security policy would quibble with the truism that Australia's engagement with Asia is a central priority.



All countries, with the possible exception of the United States, engage with their own geographical neighbourhoods as a matter of foreign policy priority. In Australia's case, our neighbourhood defines not just our security but has been a central driver of our economy.

Australia has done well in Asia over the past three decades. Our businesses have prospered in

all of Asia's growing economies and at every stage of their development. We have become important players in regional institutions from APEC and the ASEAN Regional Forum to the East Asia Summit and the Asia Europe Summit.

Australia should move past the glib generalisations about "engaging with Asia". Asia is not homogeneous. It has none of the cohesion which in recent times has brought Europe together in the European Union. There are still buried beneath calm exterior old rivalries that need to be tamed and gradually overcome. There are wide cultural differences not just between North East Asia, South Asia and Southeast Asia but within those regions.

Australia needs to understand this complex geopolitical environment when it sets its policies towards Asia.

Secondly, Australia should have a clear vision of what it wants from the region. When it comes to economics, diplomacy should focus on where the best short-to-medium-term trade and investment opportunities lie. These days, the public economic discourse is about China. That makes sense because it is our largest trading partner. But the largest Asian investor in Australia is Japan; yet its investments are less than half that of either the US or the UK. India and Indonesia may grow into major economic partners and Singapore already is. But as we discovered in 1997–8, if Asian economies dip, Australian companies will hunt for opportunities outside the region.

International economic policy should be opportunistic. We trade where we can, we invest where profits are good and we encourage foreign investment in a non-discriminatory way.

Australia's political and security policies on the other hand will always be built around Southeast Asia. The ASEAN countries are in our immediate neighbourhood. For them, Australia is a political and strategic factor as much as they are to us. For the major North East Asian countries, Australia is a bit player; a good economic partner, a solid ally of America's but not in and of itself an essential player in the security environment of the North West Pacific.

So first and foremost, outside of the world of commerce, Australia needs an ASEAN strategy. Already it has the essential foundations of a strategy. Australia has traditional links with ASEAN. Leading figures in Singapore and Malaysia have been educated in Australia, we enjoy the historic security link with those two countries through the Five Power Defence Arrangements, our relationship with Indonesia has the depth that neighbours need to accord to each other and we have a record of successful engagement in recent decades with Indo China. We are also an active participant in regional institutions that are driven out of ASEAN, institutions like ASEAN PMC, the ARF and the East Asia Summit.

Put another way, Australia will build influence and effectiveness in the region if it can first and foremost consolidate itself with ASEAN. All the great powers of the world are heavily engaged with fast-growing and populous China and India. For India we are an Indian Ocean littoral country but for China we are far away. Russia is next door, the EU is barely further than Australia and America is a superpower. But for ASEAN, we are the neighbour—Western, affluent, successful and on balance friendly and helpful. That's where our regional diplomatic strategy should start. From there we can more successfully build outwards.

Professor the Hon Alexander Downer is United Nations Special Envoy to Cyprus and Visiting Professor of Politics and International Trade at The University of Adelaide.

#### **EXECUTIVE SUMMARY**

The rise of China, also of India—and most of all the US-China dynamic—has dominated recent Australian commentary. These are vital developments, but ones where Australia acting alone is unlikely to have much influence. And in thinking of the 'Asian century', Australian public discussion has been mesmerised by China—deliberating on how best to balance our economic dependence on China against our alliance with the United States. We have tended to overlook the complexity of Asia.

This report argues that Australia's engagement with that part of Asia closest to us—Southeast Asia (Indonesia, Singapore, Malaysia and the other seven nations of ASEAN)—is fundamental to how we operate internationally. Knowing this region, working with it, debating with the different countries there—and being seen internationally to be focused in this way—enhances Australia's wider influence in Asia and beyond. Working from an Australia-Southeast Asia base will help us to adjust politically to the dramatic rise of China. It also makes Australia a more valuable United States ally.

The 'Asian century' is moving us into challenging territory—presenting enormous opportunities but also considerable risks and potential threats. This is true for all nations in the Asian region but perhaps especially so for Australia, given our particular history and culture. We have watched, as others have, the relative decline of United States power and the rise of China. Should the US attempt to counter the perceived Chinese challenge? Can the two powers agree to work together? How would the Asian region change with the return of an historic Chinese sway?

Faced with such uncertainty, many Australians continue to seek security in our long-established United States alliance. But a new era demands a new strategy—one that seeks to change our international personality, our international narrative. We need a strategy that changes the way we view ourselves and how others view us. Seventy years ago we looked beyond our British connection and towards the United States. Now we talk increasingly of a 'deeper and broader engagement' with Asia, to use the language of the 2012 Australian Government White Paper, Australia in the Asian Century. But how do we go about building such engagement?

This report, the product of an Asialink Commission that examined possibilities and challenges facing the Australia-ASEAN relationship, calls for an ASEAN (or Southeast Asian) strategy. This would augment the US alliance and equip and define Australia for an Asian century. While the Asian Century White Paper refers to 'initial priorities' in the region—and lists China, India, Indonesia, Japan and South Korea-it does not consider how one relationship might be leveraged to assist another. Foreign Minister Bob Carr has placed greater emphasis on the ASEAN region, certainly in the pattern of his ministerial visits. When he speaks of the 'need to ease into habits of consultation with ASEAN as a grouping and with its individual members',1 he prefigures an argument developed in this report. Gareth Evans and Alexander Downer as Foreign Ministers both tended to place Southeast Asia in the centre of our approach to wider Asia.

In highlighting the Australia-Southeast Asia connection, this report proposes that Australia adopt a 'third way' approach—a strategy of leveraging as well as deepening our relations with the region of Asia with which we are most familiar. This does not mean neglecting or diminishing our bilateral relationships with the US, China, or Southeast Asian neighbours such as Indonesia. But a strong Australia—ASEAN relationship cements us as part of Asia in the Asian century. The White Paper says surprisingly little about the value of our relationship with ASEAN, and there has been almost no mention in subsequent public discussion.

This report is the result of extensive collaboration and deliberation by analysts, academics, diplomats and business leaders from throughout Southeast Asia and Australia. It conveys Southeast Asian as well as Australian views, although its primary concern is to advance Australian interests. On the basis of the Asialink Commission's consultations with specialists and stakeholders in Southeast Asia, there is reason for confidence that an ASEAN strategy will attract strong support among ASEAN nations.

This report identifies a range of advantages that could flow from closer engagement with Southeast Asia. Some are specific to the Australia–ASEAN relationship; others relate to wider challenges, both Asia–Pacific and global. Region-specific gains are obvious enough: closer cooperation on non-traditional security problems such as the illegal movement of people, counter-terrorism and transnational crime; greater defence collaboration; closer economic ties including deeper educational links, regional connectivity, energy and environmental sustainability technologies, and food security.

Wider advantages include a greater involvement in Asia's regional institutions and Asian economic development, and enhanced diplomatic impact for both Australia and ASEAN, even with respect to influencing the vital United States-China dynamic.

Stronger engagement with ASEAN faces a number of obstacles, for the Asian region and for Australia. The latter include Australia's (largely unjust) 'deputy sheriff' image as spruiker for America, its perceived lecturing style, differences on free trade agreements, the reluctance of Australian business to invest in the region, the faltering state of our Asian language studies, erratic and sometimes hostile media coverage, and the fact that our leadership too seldom profiles the region as a national (and natural) partner. Many of these obstacles are addressed in the Asian Century White Paper.

The ASEAN institution, for all its strengths in assisting stable inter-state relations in Southeast Asia—and in leading a broader Asian regionalism—faces challenges to its development, and to its unity. The argument in this report, however, is not premised on the effectiveness of ASEAN as a regional entity. Even in a period of institutional turmoil, Australia's relations with the countries of ASEAN will bring strong benefits to our wider international relations.

Building Australia—ASEAN engagement will make Australia a more effective regional player, a clear objective of the *Asian Century White Paper*. From an Asian point of view, the Commission heard, it will help to counter the impression of Australia as a country somewhat at odds with the region—an outsider dependent on the support of a Western major power and uncertain of its long-term role in Asia.

Projecting a stronger connection with Southeast Asian countries—our ASEAN consultations suggest—would signify a further shift toward Asia, and in a way that enhances Australia's attractiveness to the United States as well as China. For Australia, a closer ASEAN involvement carries no obvious disadvantages.

The report acknowledges that over the years Australia has been making progress with ASEAN on many fronts—in some cases creatively—but a priority now is to give this relationship sharp and special focus in Australia's international narrative. It needs to be incorporated there, along with the United States alliance and our growing economic dependence on China.

This involves government, private sector and community action. It also requires domestic and international rethinking about how to define Australia's place in the world. Such rethinking calls for sustained political leadership and action.

### LIST OF RECOMMENDATIONS

- 1 Give the ASEAN region a central place in the Australian international narrative, as a natural partner and neighbour—a collaborative relationship compatible with Australia's strategic objectives as a United States ally.
- 2 Commit credible and sustained resources to lifting Australia's profile in Southeast Asian countries and the ASEAN region's profile in Australia—initiatives here may be in commercial, educational, tourist and many other practical areas as well as specific people-to-people projects. The pattern of ministerial visits should signal the importance we attach to ASEAN relations. Sustaining long-term political relationships is essential.
- 3 Take a whole-of-government approach to ASEAN cooperation, with a wide range of Departments seeking to establish constructive partnerships in Southeast Asia. In this respect, the Department of Defence and the Department of Foreign Affairs and Trade have established strong foundations over many decades. Particular attention should now be given to Australian collaboration with ASEAN countries in the wider regional and international spheres.
- 4 Establish an annual ASEAN+1/Australia–ASEAN meeting at leader level. Although Australia is recognised as ASEAN's first Dialogue Partner, it has not kept pace with some other countries in deepening leadership-level ties with ASEAN. An example of a leader-level initiative would be to participate in the meetings of the East ASEAN Growth Area (BIMP–EAGA)—involving Indonesia, Malaysia, the Philippines and Brunei—held on the sidelines of the annual ASEAN Summit.
- 5 Continue to develop bilateral relations with individual ASEAN countries recognising that ASEAN is not at this stage strongly consolidated as a regional community.
- Work closely with ASEAN where possible in our regional endeavours, including in such broader regional institutions as the East Asia Summit (EAS), Asia Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF) and the ASEAN Defence Ministers Meetings (ADMM–Plus). Strong Australian assistance to the new EAS creation, the Economic Research Institute for ASEAN and East Asia (ERIA), may also bring advantages. Give high profile to such ASEAN collaboration.
- 7 Formulate carefully Australia's approach to the East Asia Summit, noting that it is to a certain extent in competition with ASEAN Plus Three, which some see now as a more authentically 'Asian' grouping. While giving priority to working inside the EAS, it is critical to enhance Australia's credentials in other regional contexts, both multilateral and bilateral.

- 8 Explain more widely—in Australia and the ASEAN region—the opportunities offered by the ASEAN–Australia New Zealand Free Trade Agreement (AANZFTA). The Asialink Commission encountered a lack of understanding, or even knowledge, of the AANZFTA. Additional bilateral FTAs with ASEAN countries may bring real benefits in certain business areas: current FTAs with Singapore, Thailand and Malaysia (and the negotiating experience gained) are a foundation for such new initiatives.
- 9 Play a more active part in assisting ASEAN with the development of the ASEAN Economic Community (AEC). Such assistance is already underway through AANZFTA provisions but needs to be expanded, partly to demonstrate Australian governmental assertions about being a 'substantive power'. A stronger role in building the AEC will also help Australia gain a deeper knowledge of regional processes and valuable network connections.
- 10 Assist where possible the building of Australian investment in the ASEAN region, noting it is currently low when compared with the role of other key international investor nations (especially considering our advantage of proximity). The 2012 White Paper commits the Government to 'constantly striv(ing) to increase access' for Australian investment in Asian markets. This report suggests the task for Government and the private sector is both urgent and challenging.
- 11 Investigate the possibility of partnering the Asia region's Chiang Mai Initiative (CMI) by making a financial commitment to the CMI and assisting in establishing the mechanisms through which the CMI might be operationalised when required.
- 12 Expand and develop the Government's Special Visitor Scheme. It has a proven track record of giving future Southeast Asian leaders both understanding of, and access to, Australia.
- 13 Utilise Track Two dialogues that can help identify new areas for Australia–ASEAN collaboration and also help develop deeper network relations.
- 14 Review and then revitalise both language and non-language teaching relating to ASEAN countries—in the university as well as school systems. Indonesian is the only Southeast Asian language included in the *Asian Century White Paper*'s list of 'priority languages'. At least at University level it is in the national interest to have a number of departments or centres that take responsibility for the study of Thai, Vietnamese, Burmese, Tagalog and Khmer. These languages are taught in the United States and the United Kingdom. At the present time Australia's position as a world-leader in the study of Southeast Asian languages and societies is coming under threat.

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#### INTRODUCTION

Although the United States alliance has been vital to Australia for sixty years and will continue to be central in Australian foreign policy thinking, the relative waning of United States influence against a stronger Asia—and, in particular, a far stronger China—poses new regional challenges for Australia. If Australia is not to become a 'lonely country' in regional terms, we need to deepen our engagement with Asia—but what does a 'deeper engagement' mean?

How far has Australia gone in developing an 'Asia strategy'? The 2012 Government White Paper, Australia in the Asian Century, is quite clear about the need to strengthen relationships with 'countries across the region',2 and has quickly stimulated public discussion on the issue. At various times in our history, it should be recalled, we have sought ways to stress 'engagement with Asia' while giving priority to our British and US alliances—and we have sometimes used those alliances to advance our influence in Asia. Today Australia urges the necessity of a rules-based order to cope with regional shifts in power, and we debate whether shared US-China primacy in Asia could be an acceptable option for Australia and the world. But it is right that we now concentrate on what a stronger Australian engagement with Asia might involve—on how a specific, Australian 'Asia strategy' might be structured?

One key issue is how to best engage concerns about where in Asia we ought to focus our efforts—how we ensure that initiatives in one direction assist (or at least do not damage) engagement elsewhere. Such deliberation about an 'Asia strategy' was the context in which this Commission was initiated and researched. This report—drawing upon close consultations with senior ASEAN representatives, as well as on a range of Australia-based advice—advocates a 'third way' approach. It puts the view that Australia ought to engage, building outwards from the foundation of our Southeast Asian relations. This might seem to be an obvious enough pathway, given the geographic proximity, but it is one strangely neglected in recent policy discussion.

#### METHODOLOGY AND THANKS

The Asialink Commission involved an Australia–ASEAN core research group and consultation with Australian officials and business people. Consultation with key ASEAN representatives included a series of intensive, high-level seminars in Kuala Lumpur.

The Malaysian seminars were conducted in cooperation with Malaysia's Institute of Strategic and International Studies, with the generous assistance of the Crown Prince of Perak, Raja Nazrin Shah, and the Australian High Commissioner to Malaysia, His Excellency Miles Kupa. (A list of Commission participants can be found in Appendix I.)

Closer involvement with the ASEAN region, the Commission heard, would be largely welcomed in ASEAN itself. What is stressed here, however, is that it is important not only for its own sake—though we note the prediction that several ASEAN economies are expected to equal or surpass the Australian economy in the next decades. The enhancing of relations with Southeast Asian countries—and the international profiling of this—ought to be the pivotal element in a broader approach to the region and the global community. Australia, it is argued here, ought increasingly to define itself not just as a valued United States ally, but also as a country working closely with its neighbours.

Australia's ASEAN relations have been examined from several perspectives over the last few years. In 2009 a Parliamentary Inquiry focused on free trade agreements and how they might advantage Australia's economic and other interests in the region. The Inquiry gave prominence to improved labour conditions and human rights, the role of Track Two processes in Southeast Asia, and non-traditional security issues, such as transnational crime, bio-security, counter-terrorism and climate change.3 In 2008 an Australian Parliamentary Research Paper noted the development of a more positive ASEAN attitude towards Australia, particularly in post-9/11 anti-terrorist collaborations and shared concerns about China's 'continued remarkable growth'. It then examined ways that Australia might 'help boost ASEAN's access to markets and relevant technical skills'.4 Earlier, in 2004, a Singapore-based study on closer collaboration between Australia, New Zealand and ASEAN, considered how Australian and New Zealand technology, expertise and capital might be better harnessed in the post-Asian Financial Crisis years (1997–98). The study argued for a regional free trade agreement and stressed the need for harmonising trade regulations.5

These reports contribute to thinking about Australia's ASEAN engagement, but the Asialink Commission was concerned to set ASEAN relations in a broader—regional and global—framework. It considered not just how to strengthen ASEAN relations, but also how to leverage these relations in a wider Asia strategy. The report's approach is also innovative in drawing specifically and systematically on expertise and perspectives from ASEAN countries. Although the Commission's research and analysis is explicitly Australia-centred—and concerned primarily to advance Australian interests—it is at the same time the product of close collaboration with Southeast Asian colleagues.

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### PART 1 THE NEED FOR AN 'ASIA STRATEGY'

# The economic and strategic shifts in the region are 'tectonic'...

Australian security expert at the Asialink Commission

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China is not an optical illusion. The Chinese economy has altered trading relationships with **all** countries and its presence is permanent.

Senior ASEAN economic analyst at the Asialink Commission

### Changing region, changing world

- 1.1 The 2012 Asian Century White Paper, which is eloquent in arguing the 'Asia' priority for Australia, stresses economic opportunity time and again. The idea of being 'a winner' in our region<sup>6</sup> certainly has an appeal for a sporting nation. The 'Asian century', however, brings challenges—and threats—which need equal attention. The new era has the potential to affect us more than many other countries in both positive and negative ways. In discussing the new era one European leader has observed that after two centuries in which Europe and America 'monopolised global economic activity, the West is now being out-produced, out-manufactured, out-traded, and out-invested by the rest of the world'. Key international companies announce that 'the majority of their growth will come from Asia'.<sup>7</sup>
- 1.2 Statistics highlight the profound shift faced by Australia. In the early 1950s only some 18 percent of Australia's exports went to the Asia region.<sup>8</sup> In 2012 our top four export destinations are in Asia—China, Japan, South Korea and India—and three of our top five import markets are Asian (China, Japan and Singapore).<sup>9</sup> In 2011 well over of a quarter of our exports went to China. A recently retired Australian Ambassador to Beijing has commented that it is 'hard to conceive the possibility of any other country on Earth ever replacing China as our top market.'<sup>10</sup>
- 1.3 Among the growing Asian economies, China's rise has of course been the most dramatic. The Economist predicts that 'given reasonable assumptions' China will overtake America as the world's largest economy within ten years. 11 Some even argue that the China 'mega-economy' is as ambitious as that envisaged by the 1940s Japanese 'Greater East Asian Co-Prosperity Sphere' because both ventures entail the reorganisation of 'the system of political economy in East Asia and Southeast Asia that had been set up by Westerners'. 12 Others are less effusive, cautioning that 'China's economic structure is flawed and fragile' and that 'its ability to support the global economic and financial system are overestimated'. 13 Either way, China's fortunes must have a deep impact on global economic power relations.
- 1.4 India has also experienced a spectacular economic surge (though here too there is scepticism). In 2011, India was the world's fourth largest economy after the United States, China and Japan and although China is predicted to surpass the US by 2020, the latest Wealth Report 2012 places India as the world's largest economy by 2050 with an estimated GDP of US\$89.57 trillion.<sup>14</sup>

- 1.5 China's research in science and technology has risen rapidly—it is now second in the world after the United States. 15 China's global share of high-tech manufacturing has surpassed Japan's, rising from 3 percent in 1995 to 19 percent in 2010. China now manufactures almost 50 percent of the world's computers. In both China and India, knowledge- and technology-intensive industries accounted for around 20 percent of overall GDP in 2010. 16
- 1.6 China and India are modernising their military forces—China building a ballistic and cruise missile arsenal and an aircraft carrier fleet, <sup>17</sup> and India successfully testing the Agni-5 long-range ballistic missile in April 2012. <sup>18</sup> Some forecast that in 2012, for the first time in modern history, Asia's military spending will have surpassed that of Europe. <sup>19</sup> The United States insists that the 'limited transparency in China's military and security affairs enhances uncertainty and increases the potential for misunderstanding and miscalculation'. <sup>20</sup>
- 1.7 The economic rise of China and India is not the only factor in the Asian economic renaissance. Japan remains the world's third largest economic power and has maintained a growth rate of 2.15 percent over the last thirty years. Much of its strength lies in its extensive global foreign direct investment (FDI) and in industrial and technological leadership. South Korea in the past forty years—1971 to 2011—saw average annual GDP growth of 7.40 percent, and economic growth in ASEAN continues (as discussed below).

# The shifting US-China dynamic

- 1.8 The changed dynamic between the United States and China—evident in economic statistics and military build-up—was dramatically illustrated in newspapers across Asia and the world in August 2011, when US Vice President Biden was reported as giving humble assurances to Beijing that the United States would meet its debt obligations to China and others.<sup>21</sup> The Los Angeles Times reported simultaneously that a Chinese official was described as chiding the United States to 'learn to live within its means'.<sup>22</sup>
- 1.9 Doubt has been communicated about the United States' future military capacity. In 2009 Defence Secretary Robert Gates told the Shangri La Dialogue that 'the US commitment to the region was as strong, if not stronger, today as it had ever been' and in 2011 reiterated this assurance.<sup>23</sup> In January 2012, however, it was announced that the US



General Secretary of the Chinese Communist party Xi Jinping with US Vice President Joe Biden, February 2012. Formerly the leading export destination for ASEAN, in 2009 the US slipped to third place, behind China and Japan.

defence budget would be reduced by US\$487 billion over the next ten years,<sup>24</sup> and a few months earlier Secretary of State Clinton's expressed concern about the ability of the United States to 'project power in the Asia-Pacific' also shed doubt on the United States' capacity to commit to the region.<sup>25</sup>

- 1.10 The United States remains a serious trade and investment partner in Asia, but in relative terms it is clearly reduced in importance. A decade or so ago, the United States was the leading export destination for ASEAN but by 2009 it had slipped to third place (behind China and Japan). In 1996 the United States took 18.4 percent of ASEAN's exports; by 2009 it took only 10 percent. The US has also slipped in its significance to Japan. Having taken 27 percent of Japan's exports in 1995, It was taking only 15.4 percent in 2010, falling behind China. Consider as well the change in FDI into ASEAN. In 2001 US FDI was 30.7 percent of total ASEAN FDI; in 2010 it had dropped to 11.3 percent. China's share tripled over the same period.
- 1.11 The Asian Financial Crisis of 1997–98 damaged Western prestige—while the Clinton Administration responded with 'little more than platitudes', Chinese leaders 'visibly supported' their Asian neighbours, demonstrating a commitment to the region.<sup>31</sup> The Global Financial Crisis commencing in 2008 has done further harm to the United States' international standing. There is little talk today of a United States-led unipolar world—but rather a growing (and often exaggerated) focus on American 'declinism'.
- 1.12 Although it continues to be widely accepted that the United States will remain a key player in the Asia region, the Commission heard numerous comments consistent with recent opinion polling. The Pew Global Attitudes project reported in 2011, for instance, that in 'most countries for which there are trends, the view that China will overtake the US has increased substantially over the past two years'.<sup>32</sup> This is supported by the Lowy Institute's Indonesia Poll 2012, which found that 29 percent of Indonesians surveyed believed that China was 'the current leader of Southeast Asia'; only 18 percent thought that the US led the region.<sup>33</sup>

1.13 Shifts in power are likely to result in the reshaping of regional political structures. Although there will be elements of strategic continuity in the next decades, the point was stressed at the Asialink Commission that references to a 'new era' signify more than a rise in fortune on the part of one country, and a fall on the part of another. Such change is likely to challenge institutions, values and probably our way of thinking about state-to-state relations. In a sense the last half-century of United States predominance gave Western imperialism in Asia a long twilight period.

Today, regional institutions that China favours (for instance, the ASEAN Plus Three process) are rising in importance, while those where the United States has been dominant—such as APEC—are less central for many Asians. For example, the increasing importance of ASEAN to Southeast Asians was demonstrated in the Lowy Institute's Indonesia Poll 2012, which found that 40 percent of Indonesians believe that ASEAN is the most important grouping to Indonesia, while only 7 percent thought APEC important.<sup>34</sup>

1.14 Whether traditional patterns of China relations in Southeast Asia—stressing the centrality of what was historically the Middle Kingdom—will influence the region of the future is a question preoccupying analysts in ASEAN and elsewhere. The Commission encountered further questions about how long the United States dollar and the English language can be expected to remain dominant in a confident new Asia. It was recently reported that 24 percent of global internet traffic is now in the Chinese language and could overtake English by mid-2014. Will Western values and approaches to human rights, democracy, business culture and governance also become less influential?

# Australia's international positioning

1.15 Putting aside predictions about the future, compare Australia's international context today with what we faced sixty years ago, when the United States alliance was forged under the ANZUS Treaty (1951). China was emerging from civil war and embroiled in the Korean struggle, Japan was beginning to recover from comprehensive military defeat, India and most of the countries of Southeast Asia were in the early stages of nation building. Australia was prosperous and stable—a relatively old nation state, with a long experience of democratic institutions, a comparatively strong post-war economy, a winner in the recent World War, and a close friend of the new super-state, America. Despite our positive circumstances, some Australians did pause to contemplate the long-term significance for their country of the end of Western colonialism and the rise of a range of independent Asian nation states.36

1.16 What of Australia's international context in 2012? As described above, our United States ally remains a major power—but not a hegemonic power. It knows it must negotiate with China in particular. In regional terms, Australia is weaker today. Even two decades ago the Australian economy was larger than the GDP of the combined ASEAN states. Today, our GDP in Purchasing Power Parity (PPP) terms is less than that of Indonesia and the Philippines; Thailand and Malaysia have economies predicted to reach Australia's size over the next decades (see 2.2). Australia has become dependent on Asian markets, and engaged in all manner of practical ways with the region (see 1.2)—enmeshed more deeply, to be sure, than any other 'Western' country. We are on the front line economically and strategically. Compare Australia with the United States and Germany: while a quarter of our exports went to China in 2010, only 7.2 percent of US exports and 5.7 percent of German exports went to China in the same period.37 In comparison with most other Western countries, our military, police and other official interaction across Asia is already deep-especially with Japan, Malaysia, Singapore, Thailand, Indonesia and South Korea. In 2011 there were more Southeast Asian higher education students enrolled in Australia than in the United States;38 and more Southeast Asian tourists came to Australia as well.39

Australia's 2009 Defence White Paper acknowledged Australia's changed position, especially with respect to the rise of China. Concerning the 'pace, scale and structure of China's military modernisation' it stressed the need to 'build a deeper understanding of China's security policies and posture'. 40

1.17 Despite the intensity of practical interaction between Australia and Asia, the Commission heard that Australia still seems uncomfortable in geostrategic and cultural terms in its regional positioning. The Asian Century White Paper seeks to address this concern and the research for this report highlights some specific issues. Our multi-level practical interaction with Asia is not profiled strongly enough in the way Australia projects itself to the international community. For long closely identified with the major Western powers in Asia (the United Kingdom and the United States), and known to be preoccupied over time with the building of a deliberately Western nation state on our continent, Australia's current international persona does not reflect sufficiently the real change that has taken place in the country's Asia engagement. When former Prime Minister Rudd, for instance, declared (on 4 June 2008) that Australia's 'alliance with the United States is the first pillar of our foreign policy and the strategic bedrock of our foreign and security policy', he chose to capture only one critical dimension of Australia's international positioning. His statement played into the narrow and unjust labelling of Australia as a 'deputy sheriff'. It was suggested to the Commission—particularly by Southeast Asian participants—that although Australia's Western liberal institutions and values are often considered attractive by people in the Asia region, a more explicit image of Australia in its regional role needs to be projected internationally.



Naval ships from India, Australia, Japan, Singapore and the United States break away after a joint manouvre during Exercise Malabar on the Bay of Bengal in 2007. (COURTESY OF MARION DOSS VIA FLICKR)

The portrayal of Australia as a collaborator and partner with Asian countries, it might sensibly be added, ought also to be communicated more clearly to the Australian public. Broadening the definition of Australia's 'strategic bedrock' needs to be an all-of-nation undertaking.

1.18 Does Australia have an alternative to deeper Asia engagement? It might be hoped that the Asian Century White Paper will have settled the issue, but it would be unwise to underestimate the importance of gaining consensus in the wider Australian community. Over the years, there has been debate about whether the United States alliance or Asian relationships should be given priority. Today it needs to be argued that this distorts our national options. There is no real alternative. Australia, most would claim, is committed to the United States relationship—committed in our defence and economic cooperation, in our intelligence sharing, in our common values, and in the high public support the alliance attracts. Even when the alliance is given this priority, however, our relationships in Asia remain paramount. To ensure the alliance has substance, one priority for Australia is to be effective in the Asia region. That is what the Americans and others expect of us.41

### Options for an 'Asia strategy'

1.19 The issue is not whether, but how to strengthen our position in the region. Here it is necessary to recognise the diversity and complexity of 'Asia' and assess how closer engagement with one country can affect the relationship with another. Diplomacy, it is true, requires a degree of pragmatism and flexibility—but a strategic framework is likely to facilitate not hinder successful response to unexpected change.

ASEAN—the oldest regional grouping in this part of the world—is now accepted as central in the broader 'Asian' regional planning and institution building that is taking place at the present time (though questions are persistently asked about how well ASEAN 'drives' these wider processes).

The Asialink Commission

1.20 Given Australia's growing economic relationship with China, some Australian commentary suggests Australia ought to move closer to China-become 'China's long-run partner'.42 There can be little doubt that Australia should increase the non-economic substance in its China relations (something the Gillard Government has been addressing in 2012) but policy-makers—and the Australian public—will be wary of any initiative that might disrupt Australia's longterm United States alliance. On the other hand, the Asialink Commission noted—and heard reservations about—the option for Australia of a strong enhancement of relations with other regional countries close to the United States, especially Japan, South Korea and (increasingly) India.

We have a long record of governmental cooperation with Japan, and until recently Japan was also Australia's major trade partner. In 2007 Australia signed the Australia-Japan Joint Declaration on Security Cooperation (JDSC), paving the way for a new level of security cooperation. The seriousness of the suspicion operating between Japan and China, however, should not be underestimated<sup>43</sup>—and one consequence is that China must inevitably view a further firming of Japan-Australia relations with suspicion. Given South Korea's less antagonistic relationship with China, and its smaller size, the tightening of our Korea relationship is less problematic. The new, rapidly growing India has been moving toward the United States in recent years—and we have already declared India to be 'in the front rank' of our 'international partnerships'44—but again, current rivalry between India and China would influence Chinese responses to closer Australia-India cooperation, especially if this had a distinct security dimension.

1.21 The degree to which Australia's regional alliances must be handled with care was demonstrated when a 'quadrilateral initiative' between Australia, Japan, India and the US was mooted in 2006. In September 2007 these states carried out joint naval exercises in the Bay of Bengal, arousing 'encirclement' fears in China, whose foreign ministry approached each of the governments involved, demanding to know the purpose of the initiative. 45 China's anxieties were evident again in November 2011, when an enhanced Australia-United States military relationship was proclaimed with an anticipated 2,500-strong American military force to be stationed in Darwin on a rotational basis by 2016 and an increased presence of US B52 bombers visiting Darwin. The state-owned China Daily warned that Australia should recall its economic dependence on China, adding: 'If Australia uses its military bases to help the US harm Chinese interests, then Australia itself will be caught in the crossfire'.46

### Conclusion—the Southeast Asia path

- 1.22 Turning to ASEAN (the ten states of Southeast Asia), Commission deliberations—including both ASEAN and Australian representatives—noted that a deeper Australian engagement with this part of the Asia region presents real advantages, and certainly less disadvantages, as an Asia strategy for Australia. Enhancing and leveraging our relations with that part of Asia where Australians have been most deeply involved would be a 'third way' strategy. While Australia's cooperation with ASEAN and ASEAN countries will not necessarily sharpen inter-state suspicions, it offers concrete advantages.
- 1.23 As this report explains, some gains will be specific to the Australia-ASEAN relationship itself; other gains relate to wider, regional challenges.
- 1.24 The possibility of closer Australia–Southeast Asia relations—of an Australia-ASEAN collaboration—the Commission heard, bears strongly on the question of how Australia might best be positioned with respect to the emerging Asia. It is arguably the key to an effective Australian 'Asia strategy'.

### PART 2 WHY SOUTHEAST ASIA

#### What is ASEAN?

- 2.1 In this report 'ASEAN' is used to refer to the countries of the ASEAN region (Southeast Asia) as well as to the ASEAN organisation itself. The proliferation of regional institutions in Asia, some including 'ASEAN' in the name, can be confusing. The Association of Southeast Asian Nations consists of ten states situated between the Indian sub-continent and China. They differ from one another in striking ways but are gaining skill at working together. There are the majority Muslim countries, Indonesia, Malaysia and Brunei; the Theravada Buddhist nations, Thailand, Myanmar, Cambodia and Laos; the strongly Chinese-influenced Vietnam; the Chinesemajority Singapore; and then the largely Christian Philippines. Thailand, Malaysia, Cambodia and Brunei are monarchies (though of very different types); Indonesia is a new and vibrant democracy; Vietnam and Laos are still ruled by communist parties; and Myanmar is experimenting with a limited form of civilian government after decades of military rule.
- 2.2 ASEAN was initiated in 1967 and at that stage included only five states: Thailand, Indonesia, Malaysia, Singapore and the Philippines. Brunei was the next to join in 1984, Vietnam in 1995, Myanmar and Laos in 1997, and finally Cambodia in 1999. Today these ten countries have a combined population of 613 million (India has just under 1.2 billion; China 1.3 billion), and their total GDP is US \$2.1 trillion (India's is US\$1.8 trillion, China's US\$6.98 trillion).<sup>47</sup> In 1988 the Australian GDP continued to be larger than that of ASEAN (then including only five states). By 2050, according to the recent HSBC 'The World in 2050' report, both the Philippines and Indonesia will have larger economies than Australia—and Malaysia and Thailand will be close behind.<sup>48</sup> Indonesia has already passed us in Purchasing Power Parity (PPP) terms.
- 2.3 As a regional grouping, ASEAN has decided not to emulate the European Union (EU). ASEAN has limited institutionalisation and a strong respect for national sovereignty; and the so-called 'ASEAN way' stresses informality, mutual consultation and consensus in relations between member states. Often criticised as slow-moving—and vulnerable to serious divisions—ASEAN might nevertheless claim to be the most successful regional body after the EU. It has been a legal entity since 2008—when the ASEAN Charter came into force—and many countries (including Australia and the United States) now have Ambassadors to ASEAN. One product of ASEAN's flexibility has been the successful incorporation of new member states of differing political orientation—in particular, Vietnam, Laos and Myanmar. While the ten member states do not always agree, a point of overwhelming convergence seems to be the necessity of ASEAN. No country has expressed a desire to withdraw.
- 2.4 Despite ASEAN's growing economies, there is still a great deal of economic unevenness within the group. Singapore is ASEAN's richest nation, ranked seventh in the World Bank's 'Gross National Income per capita 2011' list in PPP terms, while Cambodia ranks 173 and Myanmar is not ranked at all. Australia ranks 33.<sup>49</sup> The World Bank's annual 'Doing Business' rankings, which measure ease of doing business



Singapore ranked number one in the one in the World Bank's 2012 'Doing Business Rankings.' (COURTESY OF JB LONDONG VIA FLICKR)

around the world (in terms of the regulatory environment), placed Singapore as number one for 2012; Malaysia and Thailand were ranked 12 and 18; Brunei was 79; Vietnam was 99; and the remaining ASEAN countries come in at 128 and lower.<sup>50</sup> Australia ranks 10. Consider also that Transparency International's 'Corruption Perceptions Index 2011' ranking countries from the least to the most corrupt found that of the ASEAN countries, Singapore was the least corrupt in fifth position (Australia was number 8) and Malaysia was ranked 60, Thailand 80, Indonesia 100, Vietnam 112, the Philippines 129, Laos 154, Cambodia 164 and Myanmar 180.<sup>51</sup>

In 2003 ASEAN made an ambitious commitment to create an ASEAN Economic Community, an ASEAN Political-Security Community and an ASEAN Socio-Cultural Community by 2020. Then in 2007 ASEAN leaders resolved to bring forward to 2015 the establishment of the Economic Community, which includes a single market and production base. The Commission was told that there are strong doubts about whether this can be achieved. The Political-Security Community is hindered by carefully-guarded state sovereignty and suspicion between member states, but the fact remains that the ASEAN region has been remarkably peaceful despite the existence of troubled borders and long-term national rivalries. The recent military action between Thailand and Cambodia over the long-running Preah Vihear Temple dispute is a rare example of inter-state armed conflict in Southeast Asia. The temple itself, a UNESCO World Heritage site dating back some ten centuries, is also a reminder of the civilisational significance of the regionextraordinary by any international standards.

ASEAN has, by far, the most developed regional architecture (albeit hub-and-spoke) within Asia—especially through its +1 partnerships. Building up engagement with the ASEAN 'hub' in this line of thinking makes definite sense, especially since it is broadening out to include security and defence matters, which have been hitherto taboo.

ASEAN-ISIS specialist at the Asialink Commission

# The Chinese genuinely want ASEAN to take the lead.

ASEAN participant at the Asialink Commission

2.6 ASEAN is now widely acknowledged as a leader in developing broader regional planning and institution building. ASEAN prominence in this regional architecture arises partly from the fact that a claim to regional leadership from either China or Japan—both of which possess a population and economic base larger than ASEAN's—would be seen as provocative by the other. It is also the case, however, that ASEAN has shown skill in region building—and that skill must be taken into account in a discussion of ASEAN's attractiveness as a partner or collaborator.

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# Working closely with Southeast Asia —a natural choice for Australia

2.7 Working closely with the ASEAN region is unlikely to be seen as provocative by anyone, including China. Although there have been tensions (including military action) over the years between some Southeast Asian countries and China—Vietnam is the most important example historically—in general these countries have displayed much diplomatic skill in handling China. Like every major power the Chinese, on their part, probably value having 'a footing in their own region'52 and may feel relatively comfortable in Southeast Asia partly because of the superior position China has held in the regional hierarchy. In modern times in the difficult period following the Tiananmen Square massacre of 1989, China was grateful to encounter a degree of sympathy in Southeast Asia and was subsequently active in courting Southeast Asia. 53 In 2004,

#### IN THE BOX SEAT

ASEAN has been central in regional architecture over the last twenty years:

- 1994 ASEAN Regional Forum (ARF)
- 1996 Asia–Europe Meeting (ASEM)
- 1997 ASEAN Plus Three (APT)—China, Japan and South Korea
- 2005 East Asia Summit (EAS)—ASEAN Plus Three, plus Dialogue Partners India, Australia and New Zealand
- 2010 ASEAN Defence Ministers Meetings Plus (ADMM Plus)—all 16 EAS members
- 2011 The United States and Russia officially joined the East Asia Summit and the ADMM Plus, taking membership to 18 states

Chinese Premier Wen Jiabao described China's attitude towards Southeast Asia as that of a 'friendly elephant'.<sup>54</sup> When the Asian Financial Crisis occurred in 1997–98, China demonstrated its commitment to Southeast Asia—and exceeded ASEAN expectations—by extending generous bilateral support (\$1 billion to Thailand; for Indonesia, \$400 million plus \$200 million in exports credits), refusing to devalue the Renminbi, and subsequently matching Japan's \$38.4 billion contribution to the Chiang Mai Initiative (aimed at managing short-term liquidity issues faced by countries in the region).<sup>55</sup> In 2010 China signed a free trade agreement with ASEAN, and earlier (in 1999–2000) cooperation framework agreements were put in place with all ten ASEAN countries.<sup>56</sup>

- 2.8 China is ASEAN's major trading partner. As at February 2012, ASEAN's exports to China were US\$113 billion; imports were US\$119 billion.<sup>57</sup> For the period 2008–10 China's FDI into ASEAN was US\$89 billion, accounting for 5.5 percent of FDI into the region.<sup>58</sup> While this is less than Japan and US investment into ASEAN in the same period, it is growing. China, the Commission heard, needs new regions in which to invest to counter its over-exposure to United States debt, and is always looking for secure natural resources supply as well. In addition, Southeast Asia needs the infrastructure and long term, low interest loans that China can provide.
- 2.9 There are certainly anxieties in the ASEAN region about the rise of China—as discussed later in this report (2.34–2.37). Nevertheless, China's espousal of the idea of a 'harmonious world' along with its 'no strings attached' approach to regional affairs—both initially promoted by Hu Jintao to foster 'an Asian spirit in the region' and 'promote East Asian integration with ASEAN'<sup>59</sup>—has underpinned its positive approach to the ASEAN region, and to the ASEAN organisation. Also, China has often (though not always) exercised skilful diplomacy in Southeast Asia—taking into account the priorities of the different governments (in a number of cases simply to retain power) and more often than not also identifying the personal interests of leaders.<sup>60</sup>
- 2.10 In July 2012, Chinese pressure on Cambodia was seen widely to damage ASEAN unity at the ASEAN Foreign Ministers meeting in Phnom Penh—when there was failure to produce a consensus view on the serious territorial disputes in the South China Sea (see 4.46). In general, however, the China–ASEAN relationship has been viewed in a more positive light in ASEAN countries. On numerous occasions ASEAN representatives at the Asialink Commission referred to Chinese support for ASEAN in wider region building: "China genuinely wants ASEAN to take the lead. So they are dismayed about ASEAN divisions". The Commission was told too that "ASEAN and China tend to see issues and values the same way".

One reason cited to explain China's support of ASEAN-led regionalism, would appear to be the belief that this has the potential to 'help China deal with its sensitive relations with Japan and Korea as well as help its wish to bring Taiwan back into its fold'. 61 In general China has surprised many by its support for ASEAN62 and for regional multilateralism in general. 63 As one observer has noted, it suits China to have ASEAN play a key part in developing regional institutions. As a 'third party', ASEAN leadership is seen by China to be preferable to a United States 'attempt at building an Asia–Pacific security mechanism'—a mechanism that might, from a Chinese point of view, be interpreted as 'a US-dominated strategic straightjacket'. 64

2.11 Although there is a wariness of China in Southeast Asia today, China knows it faces there nothing like the suspicion that exists in Japan, and even India. A senior Singaporean's view was that, "If we see China as a threat it will be self-fulfilling". Another comment was that many in ASEAN see attractions in a strong China: it is when China has shown weakness, some note, that there has been 'chaos in Asia. When China has been strong and stable, order has been preserved'. Even those who are keen for other major powers to help balance China's power are likely to observe (in the words of an Indonesian official) that "we need China—its market, its technology—there is no alternative but to work with China".

2.12 This relatively positive engagement between China and ASEAN is significant in making ASEAN an attractive partner for Australia. Summing up the ASEAN strength, a Malaysian commented: "Usually when one grouping or another in East Asia comes out with suggestions or ideas, hidden motives are immediately suspected. A closer Australia—ASEAN grouping would not be able to escape such charges totally. However it would have a better chance than most, because neither Australia nor ASEAN is a major power or perceived by China as a serious challenge".



The offical emblem of ASEAN was adopted in July 1997.

2.13 With respect to China's perception of Australia, we do not appear to be treated with immediate suspicion—even accepting the special relationship between Australia and the United States. The Commission heard the view that China's relations with Australia are not as positive as they generally are with ASEAN countries; nevertheless, as one senior Singapore official put it in 2011, there is "an advantage for ASEAN in working with Australia in that while China sees many bogeymen, Australia is not one of them". The role Australia has taken in the 2011–12 United States 'pivot' toward Asia, it must be said, may have served to modify to some extent this judgement.

# Other nations see value in strengthening ASEAN engagement

2.14 At the present time Japan, South Korea and the United States have all been enhancing their relations with ASEAN. Japanese involvement is longstanding, including as a major investor and aid donor—but in 2011 there was also an affirming commitment in the announcement of a 2 trillion yen aid package to ASEAN for 'development projects to strengthen regional integration'.66 Korean government ministers have been making more frequent visits to the region, an ASEAN-Korea FTA was signed in 2006, trade has increased greatly and there is far more Korean than Australian investment in the region. From 2009 to 2010, two-way trade between South Korea and ASEAN increased 31 percent from US\$74.7 billion to US\$97.29 billion, and ASEAN is now the second-biggest trading partner of South Korea after China.<sup>67</sup> Korean popular culture, it should be added, is highly influential in Southeast Asia.

2.15 The United States' agreement to join the East Asia Summit conveyed America's acceptance that ASEAN is a 'fulcrum for the region's emerging regional architecture', to quote Secretary of State Clinton. 68 Following the November 2011 Summit the United States was busy building relations with Myanmar-recently viewed as a rogue state, but now scheduled to take over the Chair of ASEAN in 2014. The United States has also been promoting the Trans Pacific Partnership (TPP)—begun in 2006 as the Trans-Pacific Strategic Economic Partnership Agreement, involving Malaysia and Vietnam as well as Singapore and Brunei. The TPP aims to further free up both trade and investment among member countries, and could be seen to rival specifically East Asian economic regionalism led by ASEAN, China or Japan. The TPP is seen in some quarters as having significance well beyond the economic sphere. In the words of a Japanese newspaper headline 'joining TPP is essential to counter expanding China'.69



Australia has a positive track record with ASEAN countries

2.16 Although forging closer engagement with the ASEAN region will meet competition from other nations, Australia has a strong (though not often highlighted) network of relationships with ASEAN in both the government and non-government sectors. As set out in the Parliamentary Inquiry into Australia's Relationship with ASEAN (2009), this interaction operates on both a bilateral and a multilateral basis, and has been taking place over a long period. The Australia-ASEAN record includes supporting Indonesia's independence struggle in the 1940s, and then assisting in various ways in the establishing of Malaya/Malaysia over the next decade or so. Australia's lead role in the Colombo Plancommencing in 1950 and focusing on human resources development—is recalled in influential ASEAN circles; and we are remembered positively in some quarters in Thailand and the Philippines for our partnership in the Southeast Asia Treaty Organisation (SEATO) (1954). Apart from our aid and educational role in Vietnam, Laos and Cambodia in recent decades, Australia is recognised as having been effective in 1991-92 in leading the military component of UNTAC (United Nations Transitional Authority in Cambodia)—the body tasked with restoring civil government to Cambodia.

2.17 Australia was ASEAN's first Dialogue Partner, meeting with the then five states in Canberra in 1974. We were also a founding member of the ASEAN-led organisations, the ASEAN Regional Forum (ARF), the EAS and the ADMM Plus. There was an ASEAN-Australia Development Cooperation Partnership (AADCP) from 2002 to 2008, which addressed development issues on a regional basis, aiming to strengthen ASEAN as a regional grouping.

Left: A young Malaysian student looks on in class. There has been a steady flow of Southeast Asian students into Australia over decades. (COURTESY OF ASIAN DEVELOPMENT BANK VIA FLICKR)

The more recent ASEAN-Australia Comprehensive Partnership (signed in 2007, and covering the period 2008-13) has been described as a 'roadmap for future political and security cooperation, economic cooperation, socio-cultural cooperation and development cooperation at regional and international levels'. 70 The Partnership focused not only on deeper economic integration, but also on cooperation in environmental conservation, disease control, disaster preparedness and counter terrorism. It sets out to 'promote deeper mutual understanding of the political systems and historical, social and cultural traditions ... through increasing people-to-people contacts'.71 The ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA), brought into operation in January 2010, is considered by the Australian Government to be our most ambitious trade deal to date. It is the first time ASEAN has embarked on FTA negotiations covering all sectors including goods, services, investment and intellectual property simultaneously. Australia appointed an Ambassador to ASEAN in 2008 and the Asian Century White Paper has announced that the Ambassador will now be stationed in the ASEAN headquarters in Jakarta.

2.18 In the education sector, apart from the educational component of the Colombo Plan, Australia has been an Associate Member of the Southeast Asian Ministers of Education Organisation (SEAMEO) since 1974. Australia has established seven Australian university campuses in Vietnam, Malaysia and Singapore, and there has been a steady flow of Southeast Asian students into Australia over decades. In student numbers, the Australian Department of Foreign Affairs and Trade confirms that Australia is today the major provider of Western education to Vietnam, Thailand and Malaysia; we possess a 35 percent share of the Indonesian market, with less than half as many Indonesian students going to the United States. Overall, as noted already, there were substantially more Southeast Asian students in Australia than in the United States in 2010.

2.19 Australia's two-way trade in goods with ASEAN accounted for 13.9 percent (\$64 billion) of Australia's total merchandise trade in 2011. This compares with our twoway trade in goods with China at 23.1 percent (\$106 billion) and just 7.6 percent with the United States (\$30 billion).72 The ASEAN figures have fluctuated greatly: in 2007-09 the region—taken as a whole—was Australia's largest trading partner.73 China overtook ASEAN in 2009 and further extended its lead in 2010; nevertheless, as the annual Asialink Index (2011) reports, trade with ASEAN increased 5 percent in real terms and was valued at \$80.6 billion in 2010.74 Business services trade with ASEAN currently surpasses our two-way services activity with China, Japan, New Zealand or the United States.<sup>75</sup> We are the ASEAN region's sixth-largest trading partner in terms of exports and ranked eighth in terms of imports.76 As explained below, Australia is in particular ASEAN's principal source for key agricultural products.

#### PART 2 WHY SOUTHEAST ASIA CONTINUED

- 2.20 With respect to defence relations. Australia has been closely engaged with Malaysia and Singapore through the Five Power Defence Arrangements (FPDA) since 1971. We engage in the Cobra Gold exercises, which the United States holds regularly with Thailand, with participation from Singapore, Japan, Korea, Indonesia and Malaysia. Australia also conducts exercises with Vietnam and Brunei, and engages in officer training programs with these and other ASEAN countries. The Lombok Treaty was signed with Indonesia in 2006 and provided for bilateral exchanges and cooperation on terrorism, transnational crime, law enforcement, intelligence-sharing, and maritime and aviation security. In 2010 the Treaty was upgraded to include peoplesmuggling, and it was resolved to hold bilateral Australia-Indonesia meetings annually. Australia holds regular defence consultations with Vietnam—as well as with Indonesia, Malaysia and Singapore.
- 2.21 Counter-terrorist cooperation was boosted following the 2001 Bali bombings, and it has developed in a way that demonstrates a genuine deepening of Australia's engagement with Southeast Asian partners. Counterterrorist Memoranda of Understanding have been signed with Indonesia, Singapore, the Philippines, Malaysia, Cambodia, Thailand and Brunei—and the Jakarta Centre for Law Enforcement Cooperation (JCLEC) (established in 2004) is an Australia-Indonesia bilateral organisation that is now a regional centre for law enforcement with a claim to be a global model. The Australian Federal Police (AFP) have representatives stationed in Malaysia, Indonesia, Thailand, Cambodia, Vietnam, Myanmar and the Philippines, and in a number of cases (including Indonesia) there is a systematic sharing of intelligence. Australia became a dialogue partner with ASEANAPOL (the Chiefs of ASEAN Police) in 2008 and each year senior Australian police officers meet with their counterparts at the ASEAN Chiefs of Police Conference.77 Since 2005, the AFP has also jointly sponsored and run the annual Asia Region Law Enforcement Management Program in Hanoi (in partnership with the Royal Melbourne Institute of Technology) for ASEANAPOL countries.78
- 2.22 The Australian Government has established bilateral Institutes—aimed at fostering people-to-people links and broader understanding—with Indonesia (1989), Malaysia (2005) and Thailand (2005); and there are bilateral business councils with all ASEAN states except for Cambodia, Laos and Myanmar. As well as the multilateral AANZFTA, bilateral FTAs are in operation with Singapore (since 2003), Thailand (2005) and Malaysia (2012), and FTA negotiations are underway with Indonesia. In 2012 the Australian Government has been industrious in building relations with the reformist government of Myanmar.



Asialink CEO Jenny McGregor with Dato' Seri Mohd Annuar Bin Zaini at the Track 2 Asialink Conversations in Yangon, Myanmar, (COURTESY OF ASIALINK)

- 2.23 To give an idea of the breadth of interaction between Australia and ASEAN countries, the Australian cultural heritage network AusHeritage has a formal relationship with the ASEAN Committee on Culture and Information (COCI) and deals with ASEAN states on a one-on-one basis. Australian trade unions maintain relations with ASEAN states through the Australian Council of Trade Unions (ACTU) and the ASEAN Trade Union Council (ATUC). Australian unions conduct training and capacity building programs through Public Services International (PSI), which has offices in Singapore, Indonesia and Malaysia. Science and technology organisations such as the Australian Academy of Science, CSIRO (Commonwealth Science and Industrial Research Organisation), ANSTO (Australian Nuclear Science and Technology Organisation) and Engineers Australia tend to have bilateral links in the region, some of which are supported by the Australian aid program AusAID, or through such multilateral institutions as the International Atomic Energy Agency (IAEA) and APEC.
- 2.24 With respect to Track Two engagement—which is highly valued by ASEAN for its capacity to generate both key personal relationships and new ideas—Australia interacts with the ASEAN–ISIS through CSCAP (Council for Security Cooperation in the Asia–Pacific) and PECC (Pacific Economic Cooperation Council), and since 2008 there has been an annual ASEAN–Australia–New Zealand Dialogue convened by ISIS Malaysia (and supported by Asialink). The Asialink Conversations have brought together influential leaders from ASEAN countries and Australia since 2002. As regards academic expertise on the ASEAN region, Australia has a high international reputation with important specialist concentrations at the Australian National University, Monash University, the University of Melbourne and a number of other universities.
- 2.25 In all these areas and more Australia interacts in a concrete manner with the ASEAN region—and yet the ASEAN–Australia relationship has a high profile neither in the region nor in the Australian community. This was the impression gained from the consultation with ASEAN representatives, and in Australia there can be no doubt that when 'Asia' is discussed the focus is on China and (less often) India, rather than ASEAN and the Southeast Asian countries. The Australian Asian Century White Paper is the most recent demonstration of such prioritising.

# 'Socializing' refers to the way a group can bring in an outside country, encouraging that outsider to internalize the 'values, roles and understandings' of the group.

Alastair Johnston, 'Socialization in International Institutions', 200385

Most Australians would not see ASEAN as critical to Australia's geopolitical future, and the Commission gained the impression that ASEAN leaders know this. One senior ASEAN comment to the Commission described ASEAN's relations with Australia as being akin to a "long dependable marriage"—an observation that carries more of a warning than a reassurance.

# ASEAN would work more closely with Australia

- 2.26 The Asialink Commission encountered a range of ASEAN-region interests in working more closely—in immediate practical areas as well as in terms of geostrategic diplomacy. In the case of the former, the Commission often heard the concern to attract Australian investment and the expectation that Australia might help the region's quest for energy and food security. Initiatives in these areas should bring their own rewards—but they are also important in assisting the process of building a comprehensive and visible ASEAN partnership offering a wider regional advantage.
- 2.27 With respect to economic concerns, it was a constant complaint that Australian investment in ASEAN is strikingly low, given our proximity to the region—and also at odds with our trade levels. ASEAN ranks Australia eighth in FDI for the period 2008–10<sup>79</sup> and the overwhelming majority of that investment goes to Singapore. Korea provides a sharp contrast to Australia. With an economy roughly the same size as Australia's, in 2010 South Korea's share of FDI flow into ASEAN was US\$5 billion, while Australia's FDI flow into the region was US\$2.3 billion<sup>80</sup> (\$1.163 billion of which went to Singapore).<sup>81</sup> When compared to our far larger investment flows into the United States and the UK in 2010, this raises questions for both Australia and ASEAN.
- 2.28 A crucial area where Australia's contribution is sought, so the Commission was told, is infrastructure development. By 'infrastructure' we mean essential facilities, services and organisational structures—including the whole range of communication utilities—and capacity deficits in these areas can of course undermine economic growth. Infrastructure development in Southeast Asia was described as "low-hanging fruit" by one Australian businessman.<sup>82</sup>
- 2.29 Energy security is a further high priority area in which a greater contribution from Australia would be welcomed. "Energy security", a leading ASEAN figure told the Commission "is the big issue pushing down through China to Southeast Asia, and a diversification of sources is desirable". Energy security is perceived to be paramount for sustaining economic development in Southeast Asia, and its power demand is expected to triple over the next decade. \*Australia is well positioned as a source for uranium to Southeast Asia where the commitment to develop nuclear power (for peaceful means only) remains strong.

- **2.30** With respect to food security, the Commission heard that Australian agriculture is highly regarded not just to satisfy immediate food security needs, but in terms of technological transfer.
- 2.31 The building of the ASEAN Economic Community is seen to be moving slowly and here again a greater Australian involvement is sought. Current assistance linked into AANZFTA—Australia provides a financial contribution for technical assistance, especially for the weaker ASEAN economies—is appreciated as a concrete contribution, at least by those who are aware of AANZFTA.
- 2.32 From the perspective of developing regional institutions, the Commission was often told that ASEAN welcomes Australian support. This was especially valued now in the East Asia Summit context, because ASEAN is nervous about the developing consequences of Russian and United States entry in 2011. It is in such institutions as the East Asia Summit that ASEAN seeks to 'socialise' China and now, presumably, the United States. This is seen as a vitally important process, and one in which Australia could become a valuable collaborator. In thinking about cooperation with Australia in regional institutions, a number of ASEAN representatives suggested that Australia has an advantage in that it is perceived to be "less intrusive, less likely to dictate". The comparison was with the United States in particular. Pleasingly, the Asian Century White Paper sees the EAS as a forum in which "trust and transparency" can be promoted.84
- 2.33 In other aspects of the broader regional context, ASEAN thinking about ASEAN-Australia cooperation was again of interest. Australia's close relationship with the United States is often perceived to offer advantages (as well as some difficulties). The Commission heard that in some circumstances our access to Washington and to the United States business community is viewed as highly useful in ASEAN—in particular when ASEAN countries are seeking to curry favour with the United States. Also, in enhancing Australia's defence capacity, the alliance—if carefully managed—can reinforce our stature in the region. The United States-led counter-terrorist campaign that followed the September 11 attacks (at least before the invasion of Iraq) offered an opportunity for Australia to tighten security relations with many countries in the region. The fact that a number of ASEAN countries—concerned especially about how to handle Chinese concerns and demands—are today seeking to maintain a serious United States presence in the region, again provides circumstances in which our American experience and contacts will be welcomed. It is a mistake, therefore, to judge that an Australia without the United States alliance would be a more effective operator in the Asia region.

'Hedging' refers to 'behaviour in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high uncertainties and high stakes.'

Kuik Cheng-Chwee, 'The Essence of Hedging', (2008)

- 2.34 The China factor—which was constantly discussed in the Commission consultations—presents strong opportunities for Australian engagement. The Commission heard much ASEAN comment about hedging and socialising with respect to China—and Australia is perceived to have a potential role here. There is anxiety at present about the dramatic rise of China; as noted already, this does not usually involve open hostility, but there is an expressed concern about the possible extent of Chinese dominance. The contest in the South China Sea is important—with Chinese claims conflicting with those of Vietnam, the Philippines, Malaysia and Brunei-and there is tension in the Mekong region, with China announcing in November 2011 its intention to send armed river patrols into Laos, Thailand and Myanmar.86 There is also a degree of nervousness—in some countries more than others—about growing Chinese investment in ASEAN. In Cambodia, China accounts for 50 percent of inward investment and its 'vast presence' is seen by some to risk 'turning the country into a vassal of the Middle Kingdom'.87
- 2.35 Chinese-funded transport and energy corridors also cause concern, and lead ASEAN countries to look for additional partnerships. China is poised to provide much more funding to the region in this area. In November 2011, Chinese Premier Wen Jiabao offered Southeast Asia US\$10 billion in infrastructure loans, extending the US\$15 billion worth of loans offered to the region in 2009. The ASEAN—China Free Trade Agreement (ACFTA) will also stimulate Chinese infrastructure development in the region.

Chinese infrastructure projects, however, tend to be oriented towards China. The Kunming-Shanghai railroad is a muchcited example. It is planned to reach down—vertically—from Kunming to Singapore through Myanmar, Thailand and Malaysia—and then extend east, through Vietnam into Laos and Cambodia. Australian involvement in infrastructure development, it is argued, can help create 'horizontal' corridors across the region.

- 2.36 The great increase in ASEAN–China trade—especially following the ACFTA implemented in January 2010—has caused concern rather than celebration in some ASEAN quarters. It has been reported in China that under the ACFTA, the two-way China–ASEAN trade had by August 2010 already leapt 47 percent, reaching US\$185.4 billion. Be The Chinese vice minister of commerce has expressed confidence that by 2015 ASEAN–China trade will reach \$500 billion. A senior Thai diplomat told the Commission that in his country there are a "lot of complaints about Chinese products flooding the market". The same complaint is heard from Indonesia, where local companies find it difficult to compete with such imports that 'sell at lower prices and with reasonable quality'. If Greater trade with Australia would assist ASEAN's search for balance.
- 2.37 It was in the security context that the Commission frequently heard the terms 'hedging' and 'socialising' in reference to Southeast Asian responses to China—and here again Australia is perceived as being able to play a greater part. The decision of Brunei, Singapore, Vietnam and Malaysia to engage with the United States in the Trans Pacific Partnership (TPP) could be seen as an example of hedging. Bringing the United States into the East Asia Summit is another example. The fact that Malaysia has begun to join multi-nation military exercises with the United States is a further case. <sup>92</sup> Security relations with Australia can be understood to enhance this hedging action.
- 2.38 Closer ASEAN–Australia cooperation, the Commission heard, would broaden ASEAN's international ties without being directly provocative toward China. Enhancing Japanese engagement, for instance, can be more problematic. At one level the November 2011 Japanese financial commitment to infrastructure development is welcomed—but it is almost inevitably viewed in terms of a direct contest with China,<sup>93</sup> something which tends to trouble ASEAN representatives. The Japanese involvement seems to go beyond hedging—especially when (as happened) the Japanese announcement sets such funding assistance in the context of freedom of navigation in the South China Sea, and Japanese media commentary makes a further direct link to Japan–China tension in the East China Sea.<sup>94</sup>



The Old Siam Plaza, Bangkok. Southeast Asian trade is oriented more toward China than the United States today. (COURTESY OF MARK PARKINGTON VIA FLICKR)

2.39 By contrast, ASEAN-region commentators have tended not to see Australia as specifically anti-China—nor do they see China as directly hostile towards Australia. We have had success, they consider, in being able to foster a strong relationship (particularly in the economic sphere) with China, while maintaining a critical, long-term United States relationship. Such perceptions, it must be said, changed somewhat in November 2011, with the Australian—United States agreement to deepen military relations—an announcement that provoked vigorous criticism from China.

2.40 In supporting a closer engagement with Australia, ASEAN representatives spoke with an enthusiasm that surprised some of the Australians involved. A Vietnamese participant saw Australia as being "more ready than the United States to listen to Asia". There was the suggestion too that Australia has the potential to be "a bridge to the US (and the EU) in helping to understand ASEAN, and in seeking common ways to deal with China".

The 'bridge' concept has often been alluded to in the past—but the novelty here was that it was stated with sincerity, and by ASEAN participants. A Thai observation was that the United States, unlike Australia, has not been "indigenized with the region". ASEAN participants also speculated that where ASEAN and Australia are able to "come to a common position" they might join together in effective "dialogue with China". Such Commission comments chime with a recent observation from ASEAN Secretary General Surin Pitsuwan that 'Australia has identified with us more and more ... it is warm and cordial, much less distant now, no longer viewing itself as a European country stranded in the Pacific'.95

#### PART 3 STRENGTHENING AUSTRALIA-SOUTHEAST ASIAN COLLABORATION

ASEAN and Australia are entities that command international respect. Australia is a developed country with an excellent record of maintaining democracy and human rights. ASEAN is developing as a credible regional grouping and is showing good progress in economic development.

Senior Malaysian scholar at the Asialink Commission

# Identifying areas of mutual strategic importance

- 3.1 Engaging more deeply with ASEAN countries means, first of all, being increasingly busy. The list of practical initiatives of mutual benefit can grow and grow when Australian and ASEAN representatives focus on possibilities. Certain proposals are of clear strategic importance, especially those that entail cooperating with ASEAN countries to shape developments in the wider region. There is an overriding need here to remember the importance of presentation, rhetoric and symbolism. The vital significance of Australia–ASEAN engagement needs to be projected both to the Australian public, and to the entire international community.
- 3.2 In identifying initiatives that might add substance to Australia–ASEAN interaction, there will always be room for deeper cooperation in handling the illegal movement of people, counter-terrorism and transnational crime, as well as in intelligence sharing, professional military training, joint military exercises and the standardisation (or at least the promotion of mutual understanding) in legislation and legal procedures relating to cross-border issues. Good foundations for cooperation have already been established in these areas.

#### Energy

3.3 ASEAN representatives see energy security as paramount for sustaining economic development and see the need for ASEAN to diversify its sources. The Asian Century White Paper gives attention to oil and gas as future ASEAN imports.96 Nuclear power plants, a Lowy Institute report found in 2010, are being developed or contemplated in Vietnam, Malaysia, Indonesia, Thailand and the Philippines. Russia is assisting Vietnam in developing its first nuclear reactor at Ninh Thuan and the United States has also affirmed its commitment to Vietnam on civil nuclear power.97 A nuclear Southeast Asia offers opportunities and challenges for Australia, which has 31 percent of the world's uranium. However Southeast Asia might also go to Kazakhstan, which has 12 percent of the world's uranium supply, or Canada or Russia (which each have 9 percent).98 The Lowy Institute report argued that, aside from Australia's option to apply conditions to uranium exports, 'it can also encourage and assist safe development and operation of nuclear power in Southeast Asia through international and regional organisations and established bilateral relationships.'99

- 3.4 It is suggested that coal will dominate ASEAN's energy market by 2020 as gas reserves decline<sup>100</sup> and Australia is the world's largest coal exporter (250 million tonnes in 2008). Coal, however, is not among Australia's major exports to ASEAN—in 2008–09 Japan imported 39.8 percent of Australian coal compared to 1.3 percent to Thailand and 1.0 percent to Malaysia.<sup>101</sup> Indonesia is not far behind Australia as a coal producer (just over 200 million tonnes in 2008) but its reserves are expected to be exhausted in eighty years.<sup>102</sup> In comparison, Australian black coal has more than 100 years, and brown coal more than 500 years, of supply.<sup>103</sup>
- 3.5 Juxtaposed with the argument that coal will dominate in fulfilling Southeast Asia's energy needs is the growing move against fossil fuels, accompanied by discussions about phasing out Australia's aging coal-fired power plants by 2030. How, then, can Australia justify selling coal to Southeast Asia? One proposed strategy is, rather than investing in upgrading ageing coal-fired power plants in Australia, to link Southeast Asia and Australia in a vast high-tech energy grid to create 'pan-Asian energy infrastructure' that works towards replacing dependence on polluting 'dirty energy' sources. This energy grid would utilise a variety of forms of energy including solar energy and gas.<sup>104</sup>
- 3.6 In January 2007 the ASEAN Plus Six countries (which includes Australia)—signed the Cebu Declaration on East Asian Energy Security, an agreement setting out to improve energy efficiency and affordability. One priority of the Declaration was to encourage 'the private sector and introduce more investments for energy explorations and extraction'. 105

# Food security

3.7 The Commission heard that Australian agriculture is highly regarded not just to satisfy immediate food security needs, but in terms of technological transfer. Proximity and established relationships are an Australian advantage in the agricultural sector, but our leadership in the sector cannot be taken for granted. For example, in the wake of Australia's suspensions of its live cattle trade to Indonesia in 2011, Indonesia is seeking to reduce its dependence on Australian beef.<sup>106</sup> Brazil now hopes to 'supplant Australia's position as Indonesia's major source of beef, as well as in other agricultural cooperation efforts in providing husbandry genetics and degraded soil re-utilisation'.<sup>107</sup>

# Energy security is the big issue pushing down through China to Southeast Asia, and a diversification of sources is desirable.

ASEAN participant at the Asialink Commission



In the wake of Australia's suspension of live cattle trade to Indonesia in 2011, Indonesia is seeking to reduce its dependence on Australian beef. (COURTESY OF JOHAN DOUMA VIA FLICKR)

3.8 Technological transfer is certainly underway in agriculture. For example, CSIRO informed the Inquiry into Australia's Relationship with ASEAN (2009) that its recent work with ASEAN focused on 'sustainable agriculture, including animal diseases and natural resource management issues'. 108 This included assessing the impact of climate change on water resources and the productivity of the Mekong Basin, and collaborating on diseases such as foot and mouth.

Funding for CSIRO's work, the Inquiry was told, came from AusAID and the Australian Centre for International Agricultural Research. Austrade is also actively pursuing avenues for technical exchange. In 2012 it hosted its second ASEAN Services and Technology Mission to Southeast Asia for Australian businesses with expertise in areas such as genetics and breeding, herd management, livestock exporting and veterinary services. The first mission in 2011 visited Indonesia and Thailand, and the 2012 mission will take in the Philippines and Malaysia. Agricultural research and training is clearly an area for increased Australia-ASEAN cooperation. It is also important that Australia find ways to promote the work it does in technology cooperation. China, the Commission was told, has far more success in obtaining profile.

- 3.9 AANZFTA has removed tariffs on imports of some live animals, grains, and fertilisers into several ASEAN countries. According to Austrade, this means that Australia now has 'greater access to increasingly linked supply chains', 109 although challenges remain in overturning domestic regulatory policies in some ASEAN countries.
- 3.10 Agricultural exports to Southeast Asia accounted for 19 percent of Australia's market in 2010, making ASEAN Australia's top agriculture export market, ahead of Japan, China and the United States. 110 The value of Australian food exports to ASEAN increased 16 percent in 2010-11 to \$5.7 billion.111 At present, wheat is among Australia's top exports to ASEAN (A\$1.452 billion in 2010) and overall, grain exports were valued at A\$1.7 billion, meat A\$654 million and dairy products A\$646 million. Other key commodities were live animal exports, sugar, cotton, beverages and malt. ASEAN imports of agricultural products from Australia and New Zealand dominate to the extent that ASEAN relies on Australia/New Zealand for over 90 percent of key agricultural products—live sheep and goat imports, rye and oats—and about 89 percent of its beef. 112 Australian food imports from ASEAN also significantly increased in 2010-11-up 28 percent to \$2.34 billion. 113 These are already impressive figures, and deserve to be given high profile in official communication regarding Australia-ASEAN relations.
- 3.11 There is good reason for anxiety about any suspension or reduction in the live cattle trade. Of the 800,000 live cattle exported from Australia each year, an estimated 500,000 go to Indonesia.114 The Australian Centre for International Agricultural Research (ACIAR) is supporting Indonesia in a three-year pilot project, launched in April 2011, to improve cattle production in East Java and Sumatra. 115 The Northern Territory Cattlemen's Association is also engaging in capacity building with Indonesia, announcing in April 2012 that it was training eight Indonesian agriculture students in animal husbandry, animal welfare practices and management techniques over six weeks in remote cattle stations. 116
- 3.12 Given the comments made by ASEAN representatives in the Asialink Commission process it is surprising that the Joint Statement of the ASEAN-Australia Summit in Hanoi in October 2010 made no mention of agriculture as a priority and that no specific recommendations on agriculture were made in the 2009 Parliamentary Inquiry. The Commission was reminded, however, of the 2009 pledge made under 'ASEAN Integrated Food Security Framework and Strategic Plan of Action on Food Security in the ASEAN Region 2009–2013' (established in 2008) to embrace food security as a matter of permanent and high priority policy. Under this commitment the ASEAN leaders agreed to encourage partnerships with concerned institutions, agencies, dialogue partners and international organisations.

# Infrastructure development in Southeast Asia is the low-hanging fruit for Australian investors.

Australian businesman at the Asialink Commission

#### Infrastructure development

- **3.13** The Asian Development Bank claims infrastructure development is the number one priority for the region and that Asia is lagging behind the rest of the world (see 2.28). The Commission was told that this is a critical area where Australian support is welcome.
- 3.14 The October 2010 Joint Statement of the ASEAN– Australia Summit announced Australia's investment of A\$132 million on major infrastructure projects in mainland Southeast Asia. AusAID already provides A\$57.3 million (2011–12) to Cambodia, which includes infrastructure development as a priority area, and A\$18.83 million (2007–11) to Laos; Vietnam receives A\$102.4 million (2011–12). These represent joint projects with international organisations such as the ADB, the World Bank and UNICEF.<sup>118</sup>
- 3.15 The question which might be asked here is whether the level at which Australia currently engages in such initiatives is appropriate. Australian governmental rhetoric can raise high expectations—for instance, when Australia's Ambassador to the United States, Kim Beazley announces to the world (in November 2011) that Australia is 'a substantial power ... an increasingly important power.'119 When one turns from such claims to compare the Australian assistance projects listed here with the recent Japanese initiative (Y2 trillion), or note that Korea has offered infrastructure assistance of \$500 million to the Philippines alone 120—and when we take into account the size of the Australian economy—our commitments do not appear substantial, or likely to enhance Australian influence.
- 3.16 The Commission heard the argument that Australia should engage in more Private Public Partnerships (PPPs)—which involve contracts between a public sector authority and a private partner—in the infrastructure area. Initiatives have already been taken in this regard. For example, in the Philippines, Australia is providing approximately A\$15 million over three years (2011–13) in a co-financing arrangement with the ADB (contributing US\$7 million), the International Finance Corporation (IFC) (up to US\$4.5 million) and the World Bank (up to US\$4.5 million). The Philippines is keen to secure PPPs to develop airports—the Ninoy Aquino International Airport, a city terminal for its Diosdado Macapagal International Airport, the new Daraga international airport and two domestic airports. New expressways and upgrades to existing expressways are also slated for 2011 to 2014.



The outskirts of Ho Chi Minh City, Vietnam. In 2006, less than 60 percent of Southeast Asia's roads were paved. (COURTESY OF EMILIO LABRADOR VIA FLICKR)

# INFRASTRUCTURE CAPACITY IN SOUTHEAST ASIA

- An Asian Development Bank report in 2010 noted that of the ten ASEAN nations, only Singapore and Malaysia could be considered adequately developed.
- Less than 60 percent of Southeast Asia's roads were paved in 2006.
- As at December 2011, 77.2 percent of Singaporeans and 61.7 percent of Malaysians had access to the internet, compared to only 33.7 percent in Vietnam, 27.4 percent in Thailand and 3.1 percent in Cambodia.
- In Australia, 89.8 percent of the population has access to the internet

Free trade agreements ... can be substantive or strategic. Substantive FTAs are primarily to increase trade volume; strategic FTAs serve a diplomatic function. High-income countries can make deep substantive headway, while lesser income countries need strategic FTAs. If FTAs are asymmetric, they can be unworkable. ASEAN is striving for substantive FTAs.

Southeast Asian economist at the Asialink Commission

#### Education

- 3.17 Australia has a respected and established education presence in Southeast Asia but there are opportunities to strengthen our engagement. These include introducing more on-shore educational institutions into the region and increasing the number of Australians studying and researching in Southeast Asian universities. The Commission also heard there would be strong interest in Australian involvement in establishing regional universities, identifying two specific opportunities:
- The Nalanda University project, which has secured the support of the Indian Government under the East Asia Summit to promote academic interaction between India, China and Southeast Asia, might welcome Australian support
- The CIMB ASEAN Research Institute (CARI) (established by CIMB, one of Southeast Asia's largest banks) is promoting an ASEAN University, which again, would welcome Australian involvement.
- 3.18 The developing vocational market in Southeast Asia provides obvious opportunities. Although Australia already has a strong foothold in this market, it is currently crowded and unnecessarily complicated by the fact that there are some 142 different providers. Demand in this area continues to grow and, with better sector coordination, Australia could be even better positioned in future than it is at present. 122

#### Free trade agreements

3.19 The AANZFTA is described as the most comprehensive FTA yet negotiated by either Australia or ASEAN. Although Australian officials say the agreement sends a clear message to Southeast Asia that Australia wants to work with the region, AANZFTA needs to be given prominence and to be widely utilised. It offers greater liberalisation and standardisation in such areas as import tariffs, rules of origin, investment rules, transport arrangements, education standards and qualification recognition, as well as increased mobility for skilled labour. Despite strong government support for the AANZFTA, the Commission was told that business utilisation—and even awareness of its existence—is patchy. Promotion of this agreement is clearly a priority not just for Australia and New Zealand, but also for the ASEAN governments.

- 3.20 Although AANZFTA is subject to the criticisms levelled at all FTAs—that they are a diversion away from true multilateral reform, that the growing number of FTAs simply over-complicates economic relations, and that they favour certain sectors—it does appear to bring substantive and strategic advantages to Australia. In substantive terms, taking into account the way ASEAN is rapidly deepening economic ties with China and India, it has the potential to help open a 'pan-Asia' market to Australian businesses. Leveraging AANZFTA—so the Commission was told—Australians can gain access to China via the favourable terms of the ASEAN—China FTA. Austrade points out that some Australian businesses are already establishing bases in Southeast Asia—particularly in Singapore and Thailand—for this purpose.
- 3.21 One way in which AANZFTA makes clear Australia's commitment to the region is through its Economic Cooperation Support Programme. Though small, this Australian financial commitment of up to \$20 million over five years, 123 includes technical assistance in areas such as developing intellectual property regulations and conformity assessment procedures, and focuses on the weaker ASEAN economies. It is an indication of what might be done at a more ambitious level. Such Australian initiatives are welcomed, the Commission was told, partly because Australian involvement is not seen by China as provocative.
- 3.22 Apart from the multilateral AANZFTA, bilateral FTAs are in operation with Singapore, Thailand and Malaysia (see 2.22), and it is argued that these agreements have a particular advantage in addressing country-specific issues. Also, the process of negotiation itself deepens understanding between the countries concerned. Current FTA negotiations with Indonesia deserve high priority—especially given the strikingly low level of economic activity between Australia and Indonesia. New options would obviously be with Vietnam and the Philippines.

#### The contest between regional agreements

3.23 There are a number of initiatives—CEAPEA, EAFTA, TPP, RCEP—to create broader regional economic partnerships, and Australia's response to these competing plans is carefully watched. Attention is now focused on the new Regional Comprehensive Economic Partnership (RCEP), but from the perspective of Australia's 'Asia narrative' it is likely to be an advantage that the Comprehensive Economic Partnership of East Asia (CEPEA) (which had strong Japanese support) was identified by Australia as an important initiative in 2010.

At the EAS Summit of that year, Prime Minister Gillard announced the tasking of Australian officials to consider further the recommendations of a Track Two Study Group on the CEPEA. The Study Group's Phase II Report, which had been released in July 2009, concluded that developing the three pillars of the CEPEA—economic cooperation, facilitation and liberalisation, and institutional development would generate solid benefits for the region. The Asialink Commission encountered influential ASEAN support for the CEPEA—but the proposal faced the competitive opposition of China, which was advocating an East Asia Free Trade Area (EAFTA). The latter would be restricted to ASEAN Plus Three countries (ASEAN states plus China, Japan, and South Korea). China sees the CEPEA 'as a Japan driven effort to undermine China's position in East Asia by bringing in India.'124 The CEPEA had originally been intended to cover the original members of the EAS (including Australia, New Zealand and India), and it pre-dated the United States and Russia joining the EAS.125 The Asialink Commission was also told that since the entry of the United States and Russia into the EAS, China's sensitivities towards a CEPEA had increased.

3.24 Many see the Trans Pacific Partnership (TPP) as a strategic rather than a substantive trade agreement, whereby the United States seeks to regain greater economic leverage in Asia and attempts to counter China's already formidable economic clout. For Australia, this has posed a challenge in terms of where to commit support. One ASEAN economist concluded bluntly, "Australia can and should continue to back the CEPEA knowing full well that both [the CEPEA and the TPP] are non-starters, at least for now. China's opposition could be eroded somewhat as it is feeling a bit at sea, not being in the TPP." As it has turned out, both China and Japan now seem to back the Regional Comprehensive Economic Partnership (RCEP), an ASEAN-led initiative that tries to build on both CEPEA and EAFTA, and would include India, Australia and New Zealand. 126 Australia has expressed warm support for the RCEP,127 and this will be seen as an important contribution to building Australia-ASEAN collaboration.

# Working within regional institutions

3.25 The Commission consultations devoted much attention to how Australia might work more closely with the ASEAN organization and ASEAN countries in developing regional institutions (including the East Asia Summit). ASEAN participants noted that China (at least since 1998) has operated astutely in supporting ASEAN, 128 sometimes seeking a degree of compromise in return. In 2012 there has been much reporting on China–ASEAN tensions, but it needs to be recalled that China does not question ASEAN's leadership of regional institutions and it has made a strong commitment to the ASEAN Plus Three process, engaging actively in its large number of initiatives.



A private from the Australian Army assists in Banda Aceh following the massive 2004 Indian Ocean earthquake and tsunami. (COURTESY OF AUSTRALIAN CIVIL-MILITARY CENTRE VIA FLICKR)

Australia, the Commission was told, ought to follow China in working closely with ASEAN in such wider regional processes as the East Asia Summit, the ASEAN Regional Forum, ADMM Plus and APEC—engaging seriously, for instance, in preliminary deliberations with ASEAN (especially in formulating agendas). Australia should proceed in this way, and be seen to do so. Based on this highly visible collaboration—so ASEAN representatives told the Commission—Australia could expect substantial ASEAN support for its own policy preferences.

3.26 In the case of the EAS, Australia wants to gather more substance to this institution, leaving less activity in the hands of the ASEAN Plus Three (APT), where Australia is not a member. The relationship between the EAS and APT—and the challenge this presents—is discussed below (4.49–4.54). Some countries, including China, have shown greater support for the more narrowly 'Asian', APT grouping. Whether the inclusion of the United States and Russia in the EAS (in 2011) will eventually strengthen or weaken the competitiveness of the EAS is as yet unclear. One argument suggests that the United States' presence will strengthen the resolve of China and others to resist the moving of important business from the APT to the EAS.

Australia can best influence the development of regional institutions such as the EAS, not by discussing ideal types of architecture but by proposing mechanisms that can translate discussions into action. Australia should work on these mechanisms with strategic ASEAN partners such as Thailand, Singapore, the Philippines and Malaysia.

ASEAN participant at the Asialink Commission

With respect to Australia, an ASEAN representative with significant experience in regional architecture told the Commission: "Australia can play a special role in the EAS—China is certainly setting the pace elsewhere." He pointed out that there is no other forum for Australia, but "here Australians can raise any issue they like. Use the EAS strategically."

3.27 One initiative Australia has taken to add substance to the EAS is to join Indonesia in a disaster relief initiative—an Australia-Indonesia Disaster Reduction Facility in Jakarta, launched in July 2010, with a contribution from Australia of \$67 million over five years. This is the type of collaborative substance building that Australia is well equipped to introduce. Another area for action is the building of regional economic integration. The Economic Research Institute for ASEAN and East Asia (ERIA), established at the 3rd East Asia Summit (2007) and already involving Australia, was described by one senior ASEAN representative as an excellent "opportunity for strategic consolidation of Australia's relations with ASEAN and other Asian countries." ERIA is a research institute that can be "utilised to tie up the wider dimensions of deliberating trade liberalisation and cross-sectoral policy innovations, including how to tap into resources from the private sector to strengthen Track Two economic work."

#### Sub-regional initiatives

3.28 Subregional arrangements in the ASEAN region may offer opportunities to Australia. 'Growth areas' are where a number of countries agree to work together to accelerate development in an area where each has sovereign territory, and which is geographically distant from their respective national capitals. The BIMP-EAGA—launched in 1994 and involving Brunei Darussalam, Indonesia, Malaysia and the Philippines—is geographically close to Australia, and the Commission was told it would welcome Australian assistance, including in the cultural and social sphere. The Australian Prime Minister could call into the meeting of the leaders of the BIMP-EAGA nations, which is held on the sidelines of the annual ASEAN Summit. One senior ASEAN official stressed that such a contribution to "ASEAN integration and community building" would "yield lasting results for ASEAN-Australia relations."

# Deepening geostrategic cooperation

3.29 The point was driven home in Commission deliberations that working together Australia and ASEAN countries could exercise more influence in Washington and Beijing (and perhaps Tokyo, New Delhi and Brussels). To a striking extent Australia's international connections complement and enhance the already substantial diplomatic assets of ASEAN countries. Other collaborators might be enlisted in certain circumstances—South Korea's potential contribution was stressed here—but already an ASEAN—Australia combination would attract considerable international legitimacy. Such collaboration would almost certainly be to the benefit of the EAS and other regional organisations, but it would also bring advantages at a broader global level. It could reinforce, for instance, the influence of Australia and Indonesia at G20 meetings (where both these countries are members).

3.30 In the broadest sense (so the Commission was told) Australian assistance will help ASEAN in the task of 'enmeshing' China and the United States in the Asia region, identifying every practical opportunity—in areas from trade and education and disaster relief to promoting people-to-people links to raise these countries' interest in the continued stability of Southeast Asia. 129 The Commission heard the aspiration that these major external powers will start seeing themselves as part of a common regional venture, rather than as competitors or potential adversaries.

#### Conclusion

3.31 Australia's bilateral and multilateral relations across the Southeast Asia region are already broad and complex in scope, but there are further opportunities in such areas as energy, food security, infrastructure development and education. In general, current Australian business investment in ASEAN is strikingly weak—certainly compared with trade figures. The AANZFTA has considerable potential, but is so far much under-utilised. In the diplomatic realm the possibilities for Australia-ASEAN collaboration are great, both in existing regional institutions (such as the EAS) and more broadly. Working together we may have a greater chance of influencing for the better the evolving Washington-Beijing dynamic. But what perhaps is of most immediate importance—so the Asialink consultations suggested—is the strong profiling of this Australia-Southeast Asia collaboration. It needs to be made highly visible in the context of regional institutions and geostrategic relations more generally, and also in the Australian domestic sphere.

### PART 4 CHALLENGES TO STRONGER ENGAGEMENT

#### **AUSTRALIAN ISSUES**

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#### Australia's Asia skills

- **4.1** Given Australia's geographic proximity to the region, our 'Asia' skillset is lacking, in both the government and the private sectors. This observation is confirmed and addressed in the 2012 *Asian Century White Paper*.
- 4.2 In government, we have a respected depth of ASEAN knowledge and experience in our Department of Foreign Affairs and Trade (DFAT), Austrade and the Department of Defence—though DFAT, according to a recent study, 130 is strikingly under-funded by world standards. Although Australia has representation in all ASEAN countries, it is only within the last two years that DFAT has invested heavily in Asian language-learning after finding (in 2008) that the department's language skills 'had been in decline for two decades.'131 A lack of 'Asia' skills in government is not surprising given that language teaching in Australian schools has been dwindling not growing. For example, currently available statistics show the number of schools teaching Chinese fell from 569 in 2000 to just over 380 in 2008; those teaching Japanese fell from 2,276 in 2000 to 1,921 in 2008; and schools teaching Korean virtually remained the same, a paltry 42 in 2000 and 46 in 2008. 132 In Victoria alone, learning Indonesian plummeted from 82,000 primary students learning the language in 406 schools in 1999, to 39,049 primary students in 195 schools in 2010.133 This is reflected in the national statistics, which show that the learning of Indonesian fell a dramatic 40 percent from 2000 to 2008 and, if that trend continues, Indonesian will disappear entirely at Year 12 level within five years. 134 Learning Indonesian at university level has also fallen dramatically—by 37 percent between 2001 and 2010.135



A lack of 'Asia' skills' in government is not surprising given that language teaching in Australian schools has been dwindling not growing. (COURTESY OF ASIA EDUCATION FOUNDATION)

- 4.3 With respect to the failure of the Australian school system to provide an effective foundation for our ASEAN or wider Asia engagement, it needs to be pointed out also that there has been little opportunity for Australian students to take non-language courses dealing with the Asian region. This is currently being addressed by the implementation of a new National School Curriculum—in the final stages of consultation and implementation. While there has been a declared intent to increase Asia content in the curriculum, it is yet to be seen how much of this content will be compulsory—and where it is not, whether students will choose the Asia options.
- 4.4 Although Australian universities have a strong international reputation for research on ASEAN countries, the number of students taking Asia-related courses is low. Asian language enrolments in Australian universities appear on the surface to be increasing, but this is largely due to increases in the numbers of native speakers studying their own languages. At La Trobe University a 65 percent increase in Chinese language enrolments since 2001 was reported, but 62 percent of students are native Chinese speakers. 137 Less widely taught ASEAN languages, such as Vietnamese found only at the Australian National University and Victoria University (Melbourne)—are similarly dominated by native speakers. For example, Vietnamese enrolments at Victoria University have quadrupled since 2001, but this is largely due to a sizeable Vietnamese population in the university's vicinity. Thai is taught at only one university. Most worrying was the 2010 finding about the decline of Indonesian, with university enrolments declining every year since the mid-2000s. 138
- 4.5 Business also faces a skills challenge. In 2011 Asialink and the Australian Industry Group conducted a survey of nearly 400 businesses—74 percent of these businesses reporting interest in engaging or further engaging with Asia, with China as the clear priority. Less than half of businesses with dealings in Asia, however, reported having any Board members or senior executives with Asia experience or language ability. Survey results also revealed a positive correlation between senior in-house Asia experience and business performance in Asia. 139

#### The investment 'blind spot'

4.6 The relatively low level of Australian investment in ASEAN countries—highlighted already in this report (and note the recent indication of improvement)<sup>140</sup>—suggests there is a basis for concern about the degree of 'Asia literacy' in business. The issue must be whether the investment level is a consequence of Australian commercial prudence, or of a lack of Asia skills? The Commission noted the comparison of ANZ Bank investment strategies over recent years, pointing to the fact that a former CEO had the opportunity to buy the Thai Military Bank six years ago for some \$190 million, but bought the Bank of New Zealand for \$5 billion instead.

Today the Thai bank is 'worth multiples of the purchase price' and the New Zealand bank 'is going nowhere soon.'141 Under new leadership the ANZ Bank is now engaging in a comprehensive and pioneering regional strategy that is widely considered to set new directions for Australian business. Among other companies that are increasingly focusing on the region, the Insurance Australia Group decided to enter the Asian market in 2003 and has since established wholly-owned and joint-venture operations in Malaysia and Thailand (as well as India and China), with well-developed plans for Vietnam and Indonesia. This expansion has been overseen by a senior member of the Executive Committee with Asia skills and experience.

- 4.7 Despite Australia's proximity to Southeast Asia, the Commission did not encounter a strong view in ASEAN that Australian business people at this stage 'understand the ASEAN region' better than their European or American counterparts. A well-placed Australian businessman noted that a "major problem for Australia investing in Southeast Asia is ignorance of opportunity." There is "a misunderstanding of the risk and a lack of confidence in our ability to manage risk." The US, another Australian participant argued, "is just as risky an investment market—Australian investors can get brutalised there." But Australians, he said, have a different perception of risk in America. Americans are seen to be 'people like us'. Australian business expertise with respect to ASEAN countries is already assisted in various ways by the Australian Government (including through Austrade) and by such privatesector initiatives as the PwC 2012 publication, South East Asia, Investment Opportunities, Tax and Other Incentives (a detailed analysis of the tax and other incentives offered to investors in all of the ASEAN countries). The Asian Century White Paper notes that Australia's under-performing trade and investment in Southeast Asia might be due to a 'misalignment between business perceptions'.142
- 4.8 Australians certainly see investment challenges in the ASEAN region, including a perception of a high level of corruption (in some countries more than others), and concerns about legal issues, market regulations, and a difficult or confusing range of regulatory differences in the insurance area. Corruption troubles many Australians: in the view of one Australian addressing the Commission, corruption is "the unutterable barrier to investment, no one wants to talk about it or identify it directly." China is seen to have some advantage over ASEAN for investment purposes, because it is not burdened by the inter-state complexity of rules and practices that characterise ASEAN when it is approached as a single market.
- 4.9 Another investment impediment for Australians, the Commission was told, was that it can be "very difficult to get your money out." Superannuation funds are a strong, potential source for Australian investment in ASEAN, but an expert Australian commented that fund managers are "looking for safety in investments" and currently "would not invest more than, say, 5 percent of a portfolio in Southeast Asia."



Ten Malaysian Ringgit. The Commission was told that superannuation funds are a strong potential source for Australian investment in ASEAN.

(COURTESY OF CHEE MENG AU YONG VIA FLICKR)

- 4.10 Profitability is a further concern. Australian fund managers do not like Australian banks investing offshore, it was said, as they believe this brings a lower return on capital. The memory of the Asian Financial Crisis (1997–98) has also damaged Australian confidence in the ASEAN region. As discussed below, there are solid grounds for some of these Australian anxieties about the business context in the ASEAN region.
- 4.11 The nature of the Australian economy was identified as a factor in the low investment into ASEAN. We are primarily a services and resources exporter, with only a small manufacturing base. Southeast Asian countries tend to be protective of their services sectors and although manufacturing is strong in the region—and offers potential for investment—Australia's manufacturing sector is not well equipped to back up an investment strategy in manufacturing. The Asian Century White Paper has expressed a determination to promote Australian participation in Asia's manufacturing value chains. An area where we do have expertise, and a competitive advantage, is in logistics—and here we see Linfox, for instance, operating in twelve countries through the Asia—Pacific, including in Thailand.

# The Australian media's understanding of ASEAN is in general very poor and negative. It undermines Australia's role.

Southeast Asian journalist at the Asialink Commission

### Australian domestic politics

- 4.12 Australian domestic politics can be detrimental to our foreign relations, including in Southeast Asia. One recent episode (2011-12) was the denigration of Malaysia by those critical of the Australian government's initiative to manage illegal refugee flows through a swapping arrangement with Malaysia. In August 2012, Malaysia's High Commissioner to Australia was reported in Malaysia's Straits Times objecting to Australian parliamentarians 'bringing down and tarnishing the good name of another country' in their domestic debate. 145 A regional solution will have to involve 'many countries in the neighbourhood'—however, most countries in the region (including Malaysia) are not signatories to the United Nations Refugee Convention. 146 Whatever the rights or wrongs of the proposed arrangement with Malaysia, close regional cooperation is obviously essential in handling international people movement, and the manner in which some politicians and sections of the Australian media portrayed Malaysia's handling of refugees therefore has the potential to undermine future refugee management.
- 4.13 Australian domestic concerns similarly disrupted relations with Indonesia in 2011 when Australia suspended live cattle exports due to the treatment of animals in Indonesian abattoirs (see 3.7; 3.11). The Australian government faced strong pressure from sections of the Australian community, particularly advocates of animal rights, but was also criticised for the damaging way the matter was handled with our closest neighbour. The Similar domestic outcries about an inhumane Indonesia have occurred when Australians have been imprisoned there for drug-related crimes—although Australian legal specialists have expressed the view that 'there is a growing trend towards human rights' in Indonesia. While Australians cannot be asked to put aside core community values, the manner in which disagreement is handled is vital.
- 4.14 Community perceptions at a more general level have the potential to be damaging. Polling –by the Lowy Institute, Roy Morgan and others—suggests that a large number of Australians see Indonesia, in particular, as a country likely to cause difficulty for Australia, and the fear of Islamic terrorism is a factor. Indonesians tend to be somewhat more positive about Australia: Lowy's 2012 Poll found that Indonesians felt more warmly towards Australia in 2011 than they did in 2006—however only 13 percent 'strongly agreed' that Australia is an important country in the region. 149 Polling also points to contrasts in perspectives and values between Australians and Indonesians. For Australians climate change has begun to be seen as a major security issue; in Indonesia what is feared most is the break-up of their nation. 150

- 4.15 More generally, community thinking about 'Australia and the world' tends to be limited in Australia to support for the United States alliance. In 2011, 82 percent of Australians saw the alliance as 'very or fairly important for Australia's security' and 77 percent of Australians believed Australia would not be able to defend itself without the assistance of the United States. Looking around the world, when polled in 2012, Australians felt most warmly about New Zealand (85°) and the United States (71°), followed by Japan (70°). While warm feelings towards Japan have increased steadily since 2006 (when Lowy first measured Australia's feelings towards other countries), Australia's feelings towards Indonesia have only ever peaked at 54°, China's and South Korea's at 61°, and India's at 62°.151
- 4.16 Negative or ill-informed public-perception trends are a matter of concern as they suggest a community orientation that will lag behind a government attempt to profile a creative partnership with ASEAN countries, and they point to the need for careful political leadership. It is well known that political capital can be gained from exploiting rather than calming popular anxieties—but in respect to the ASEAN region, it is difficult to think of anything that would be more damaging to Australia's future prosperity and security.
- 4.17 Media representation of Southeast Asia is an area of serious concern. The Commission heard numerous complaints from regional participants about both negative portrayals and the relative neglect of Southeast Asia in Australia's media. There is frustration that too often 'Asia' is construed as China and India—a criticism levelled not only at Australia, but more broadly. There are a number of specialist journalists in Australia whose writing on ASEAN issues has been exemplary, but the Commission discussions suggested that in general there is a need for journalists to be better briefed. It showed some lack of understanding of Australian media traditions, it must be said, when the observation was made by one ASEAN representative that "China is good at using ASEAN news to present itself as a constructive player—Australia could also do this."
- 4.18 Information communication technologies (ICTs) have changed the way news is delivered and consumed across Australia and the Asia region. There are now greater opportunities—including social media platforms and streamed video—for the large-scale promotion of messages that bypass traditional media outlets.

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# Australia has to change its narrative, and demonstrate willingness to consult with ASEAN.

Southeast Asian journalist at the Asialink Commission

#### Australia and the US alliance

- 4.19 Although Australia's United States alliance can assist our relations in the Asian region, the 'deputy sheriff' label is damaging. Australian participants in the Commission tended to believe the label is unwarranted in that it suggests Australian governments do not make independent policy judgements to advance specifically Australian national interests.<sup>152</sup> But the 'deputy sheriff' tag is potent in ASEAN. One contributor from Indonesia commented that it tends 'to represent the whole image of Australia, especially in its relations with ASEAN.' Also, the Commission frequently encountered the observation that the tag undermines us because it suggests that Australia fails to differentiate itself sufficiently from the United States in terms of regional policy. The image of 'deputy sheriff' was reinforced again in November 2011—according to a range of reports from ASEAN to the Asialink Commission—with the announcement with some fanfare of an upgrading of United States-Australian defence relations.153
- 4.20 Apart from Chinese criticism of Australia's strengthened military arrangements with the United States, the Indonesian foreign minister (as reported in the Asian media) expressed anxiety about 'reaction and counter reaction' and 'a vicious circle of tension and mistrust or distrust.'154 A Bangkok Post editorial noted that the announcement 'cements long-standing bonds between Americans and Australians.' The two countries, the editorial continued, are 'placed at the far corners of the Pacific' and have 'sometimes been fervently involved in Asia, but usually in wars.'155 The Japanese government declared that it welcomed the US-Australia move<sup>156</sup> but one Japanese newspaper featured a cartoon portraying Prime Minister Gillard as a small dog, dragged along by the collar by US Secretary Clinton. A lead commentary in the British Financial Times made the disturbing observation that: 'Historians will look back and ask whether November 2011 marked the moment when tensions with China, the superpower-in-waiting, escalated irreversibly."157
- 4.21 As the 'deputy sheriff' discussion indicates, the Commission heard that the manner in which Australia manages its United States alliance matters greatly in our regional relations. An Australia building a special role for itself in the Asia region, bringing as one of our assets a strong United States relationship—deploying that asset on behalf of the region as well as Australia—is attractive to many in ASEAN. An Australia that is perceived as having submerged its individuality in United States global power has to be less influential in regional terms and thus, it must be stressed, a less useful ally to the United States. One obvious way to mitigate the 'deputy sheriff' image would be through greater and well publicised ASEAN-region collaboration.

# Australia's interactions with regional institutions

- 4.22 Australia has displayed a talent for domestic as well as international institution building, and this is known and respected in some quarters in Asia. Australian interest in regional institutions, however, can be damaging as well as attractive. The Commission recognised Australia's long record of promoting regional institutions (both government-togovernment and Track Two), but also noted difficulties such as the failed Asian and Pacific Council (ASPAC) of the 1960s and, more recently, the Asia Pacific Community.
- 4.23 Australia has also attracted criticism for a tendency to advocate 'Asia Pacific' regionalism in competition with 'East Asian' institution building. 'Asia Pacific' initiatives, it is sometimes said, are more about locking the United States into the region than contributing to the evolution of a new 'Asia'. Australia has received positive comment on its diplomacy, for instance, in the early 1990s when its foreign minister eventually began to work with key regional groups in the building of the ARF. 158 The relaxed Australian response to the creation in 1997 of the ASEAN Plus Three (which excluded both Australia and the United States) also won respect, as did its decision in 2005 to join the EAS—at the time an ASEAN-led organisation which did not include the United States. The Australian 2008 proposal for an 'Asia Pacific Community' (APC), on the other hand, was resented in influential quarters in ASEAN—partly because it was seen to challenge ASEAN leadership. The fact that the Australian Government then listened to regional advice—dropping the APC and beginning to focus support on ASEAN regional initiatives—was again well received.
- 4.24 The Commission heard the view that Australia gains most regional influence when cooperating with Asian states, usually Japan or ASEAN countries. An oft-cited example is the initiating in 2002 of the Bali Process—aimed at combating people smuggling, trafficking in persons and related crimes in the Asia–Pacific region—chaired by Australia and Indonesia.
- 4.25 The point was reiterated time and again during Commission discussions that Australia should not attempt to work around ASEAN. Even if ASEAN moves slowly, the best way to achieve more substance, in the EAS for instance, is to work with the ASEAN countries in the first instance. Australia gains influence by being seen to support ASEAN 'in the driving seat', not by trying to remove it. Attempts to bypass ASEAN—and the Asia Pacific Community proposal was seen as doing just that—provoke opposition in Southeast Asia and may cause suspicion in Northeast Asia. They are likely to frustrate rather than promote Australia's regional ambitions.

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### Australian views of free trade agreements

- 4.26 The debate around free trade agreements suggests a difference between Australian and ASEAN positions. In general FTAs appear to be viewed less warmly in Australia than in ASEAN. A study of the effectiveness of FTAs undertaken by the Australian Industry Group in 2009 found that around two-thirds of Australian exporters believed 'FTAs had little or no effectiveness in assisting their export activities.' When rating the effectiveness of FTAs to their export activities 75 percent of businesses reported 'low or not effective' for the Australia–Thailand FTA, and 82 percent for Australia–Singapore FTA. 160 The report concluded that there is a 'serious disconnect' between the level of government investment into FTAs and the benefits they deliver to business. 161
- 4.27 Some of the criticism of FTAs in Australia is quite generalised. Economist Ross Garnaut was recently quoted in *The Australian* as saying that preferential trade agreements 'on balance and in general, damage overall trade.' An Australian Productivity Commission Research Report, *Bilateral and Regional Trade Agreements*, published in November 2010 did not find that FTAs damage overall trade, but among its key findings the report noted that there was 'little evidence' to indicate that they provide any substantial commercial benefits, and that processes for assessing their value tended 'to oversell the likely benefits.'
- 4.28 Some Australian business people say that FTAs do not focus sufficiently on sectors outside the traditional and more established area of goods—and trade in goods is considered to be a much simpler area to negotiate than services and investment. Also, as one Australian businessman put it to the Commission: "FTAs are not as useful to Australia because resources, our major export, do not form a part of a value-added supply chain. New Zealand, on the other hand, has had great success with FTAs because of its dairy exports, which are transformed into other products."
- 4.29 Australia, the Commission was told, needs to develop FTAs that concentrate on services and investment sectors as areas of enormous growth potential. This may not be easy. As discussed, there is resistance in some ASEAN countries to opening up to offshore competition in the services sector, and some Australian business people are in any case sceptical about FTA opportunities. For example, the Commission was told that a company like Linfox would not utilise an FTA because it already has a competitive advantage in transport logistics, while an insurance expert in the region noted that: "Not one FTA has improved insurance relationships between Australia and Asia."

- 4.30 In consultations with ASEAN representatives, the Commission encountered a greater degree of support for FTAs. The view is more often encountered there that FTAs provide a mechanism for state-to-state contact on a regular basis and this at least helps to build relationships. FTAs are also seen to be helpful to the process of implementing domestic reform: in the ASEAN context where regulatory development is uneven, and where corruption can undermine business confidence, FTAs can be used to implement reforms aimed at regional uniformity that would otherwise be difficult to push through domestically. That is, the implementation of reforms can be rationalised as part of a state's FTA responsibilities.
- 4.31 Within the ambit of FTAs—so ASEAN participants told the Commission—there is also scope for capacity building, especially in the services sector where foreign lawyers, accountants, bankers and insurance brokers engage with their Southeast Asia counterparts, facilitating the transference of knowledge and expertise in the less institutionally-developed ASEAN nations. It has been argued that ASEAN's interest in drawing Australia into closer relations after 2004, and in entering into FTAs, was influenced by the assumption that Australia and New Zealand 'would help boost ASEAN's access to markets and relevant technical skills.'

#### Multilateralism vs bilateralism

- 4.32 Whether priority should be given to bilateral or multilateral relations is an issue for Australians. Australia is often seen as bilateralist—taking a country-by-country approach—and that can be a problem. The *Inquiry into* Australia's Relationship with ASEAN stated that several government bodies—Foreign Affairs and Trade, Immigration and Citizenship, and the Australian Federal Police—approach regional relations on a mostly bilateral basis: that is, issues that are raised with the ASEAN Secretariat are also raised with each of the ASEAN member states on a bilateral basis. 165 The new Asian Century White Paper also puts a stress on 'country strategies'. 166 Just how bilateralist Australia is in practice, however, is unclear. The last Coalition Government insisted on giving priority to bilateralism but was an active supporter of APEC and led Australia into the new East Asia Summit in 2005; the current Labor Government has certainly concentrated on strengthening our role in the EAS.
- 4.33 The issue of bilateralism/multilateralism arises particularly in the case of FTAs. Although Australia's largest multilateral agreement is the regional AANZFTA, its size—so the Commission was told—condemns it as a slow moving and overly complex arrangement. Some Australian trade officials see bilateral agreements as more agile in their ability to make adjustments relatively quickly to keep driving momentum.

- **4.34** With respect to the approach adopted by the business sector, the Commission heard a range of views. Some argued that the sector took an increasingly 'pan-Asian' attitude; others said they favour bilateralism. The facts are best examined sector by sector. For example, in the case of the insurance industry, the Commission was told that ASEAN's economic integration "is a waste of time—we take a bilateral approach because the markets are so different due to the nature of the industry." A senior Australian from the financial services sector commented that his business also "prefers bilateral relationships," adding that he and others saw "limited use" in FTAs. Other sectors, however, are turning to the multilateral approach: education, for instance, is developing networks of Australian campuses, tertiary education partnerships, vocational course delivery and accredited university courses across the Asia region.
- 4.35 Whatever the truth of the matter, the perception that Australia is essentially bilateralist causes a degree of damage in ASEAN. "As a bilateralist", a Southeast Asian Commission participant asked, "does Australia want to deal with ASEAN as a whole or not?" Bilateralism is the traditional strategy of major powers, and in Southeast Asia it is remembered as the 'hub and spokes' attitude long adopted by the United States in the region. When Australia opts for bilateralism this tends to feed into the 'deputy sheriff' trope. Australia, ASEAN representatives advised, needs to differentiate itself from this type of 'divide and conquer' approach—to distance itself from the perceived arrogant Western behaviour of the past.
- 4.36 Australians are encouraged to recognise that ASEAN countries favour multilateralism: as one senior Singaporean told the Commission, "overlapping groups are seen as a virtue in Asia; we incline to strategic promiscuity." This proliferation of overlapping groups is a reflection of the 'enmeshment' strategies outlined earlier with respect to China—strategies whereby a multiplicity of arrangements are entered into, compelling cooperation and commitment between the larger and smaller states in the region. In urging Australia to adhere to such a multilateral approach for strategic reasons, Southeast Asian participants told the Commission that Australia might actually learn something from ASEAN. Here one can detect a desire to 'socialize' not only China but also Australia.

### Refining the Australian narrative

- 4.37 Australia has an advantage in not being seen to adopt a lecturing style in Southeast Asia, at least when compared with the United States. We are most effective when we work collaboratively, and this observation should be highlighted. Australian aid is valued—for instance, in the case of the less developed ASEAN states of Cambodia and Laos—and should be given greater publicity. But careful attention needs to be paid to how the Australian role is portrayed.
- 4.38 Australia is bound to have interests and perspectives that diverge from time to time from those of ASEAN countries, but some differences may be best set aside. To defend Australian 'national interest' is one matter—every government in the region makes that claim—but Australian initiatives to assist and advise other countries, or bring reform to them, have to be handled with utmost diplomacy. Even Australia's initiatives with respect to regional architecture have been met with the hostile comment: 'who do you think you are, coming to the region and trying to impose new institutions on us?'
- 4.39 To take some examples of useful collaboration with ASEAN countries, working with Indonesia was vital in Australia's initiative to achieve a peace settlement in Cambodia in the early 1990s. 167 In 2002 Australia collaborated with Indonesia again to institute the 'Bali Process', which brings governments together to combat people smuggling and other transnational crimes in the Asia Pacific. Australia today is joining with Indonesia in the East Asia Summit to create stronger regional cooperation toward 'disaster rapid response'. In such Track Two ventures as the Council for Security Cooperation in the Asia Pacific and the Asialink Conversations, Australia consistently works with ASEAN partners. 168 This report, as explained already, is a product of Australia-ASEAN collaboration—and the ASEAN contributors stressed time and again that such interaction is the ideal in Australia-ASEAN relations. The Asian Century White Paper supports "strong Australian participation" in Track Two. 169

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#### **ASEAN ISSUES**

# **Business disincentives**

- 4.40 There are genuine disincentives for Australian business in ASEAN, as the World Bank's 'Doing Business' rankings and 'Corruption Perceptions Index' outlined earlier suggest (see 2.4). The Asialink Commission confirmed that a major obstacle in all but Singapore and Malaysia is getting credit and protecting investors—significant concerns for business. We also heard frequent references to a lack of openness in some sectors due to nationalist concerns and protective attitudes towards sovereignty. This is particularly the case in the financial services sector where problems tend to overshadow investment potential. Australia has much to offer in the services area—with our experienced lawyers, accountants, actuaries and strong institutional frameworkbut ASEAN countries need to open their economies to encourage our greater involvement. One difficulty is that these countries tend not to encourage large foreign banks, especially US banks, often seeing them as being tainted by the GFC. Australia is so closely associated with the US, one Australian businessman suggested, that our banks—despite being among the most secure in the world—are also seen to be tainted. In some service industries—insurance is one of them—Australian firms are simply perceived in ASEAN as competitors, and for this reason have trouble gaining access.
- 4.41 A 'structural obstacle' in the insurance, investment and other service industries concerns their social interface—the fact that people depend upon insurance and banking in a very personal way, and see them as central pillars of their domestic economies. These industries—and airlines and telecommunications as well—have a direct crossover between business and the wider community, and are often heavily and centrally regulated in the name of 'national interest' and 'national identity'. As one Australian businessman explained to the Commission, "service sectors include highly-connected groups—some heads of finance institutions with strong political connections." In all these ways Australian investors can face resistance which needs to be tackled by governments, possibly in an FTA process.

### **ASEAN** integration?

- 4.42 ASEAN has not yet become an integrated regional body, although it has developed further than other regional institutions around the world, with the exception of the European Union. ASEAN's achievements have been noted in Part 2 of this report, but the weaknesses of the regional institution also need to be confronted in an initiative to strengthen Australia engagement with Southeast Asia. In particular, ASEAN has a long distance to go before it can be considered a single market for investment and trade. It is also the case that a good deal of distrust continues to influence security relations within the region.
- 4.43 Although the ASEAN organisation in 2003 adopted an ambitious agenda, committing to create an ASEAN Economic Community (AEC), an ASEAN Political-Security Community and an ASEAN Socio-Cultural Community, the Commission encountered much concern about the progress achieved. An official ASEAN Scorecard registers progress toward the Economic Community at 73.6 percent achieved as at 2010, 170 but there is considerable scepticism (including among Asialink Commission participants) about the 2015 deadline. 171 "The AEC won't be in place by 2015", one regional economist said candidly. There is no political will for integration, he added—no relocation of production, no currency coordination, and no ASEAN banking framework. Anecdotal evidence also suggests there is surprisingly little awareness of the AEC in the business community. The Commission heard that the AEC idea is undermined by lingering questions about the rationale behind ASEAN's economic integration, and by confusion about what type of community the AEC should actually be. Will it encompass the services sector and how much integration needs to be achieved to encourage external investment? Such a lack of clarity will not only be a major challenge for ASEAN—a group of ten nation-states with vastly different regulatory systems, political systems and national interests—but also for external partners such as Australia which look for economic harmonisation to boost confidence in regional investment.
- 4.44 With respect to the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community objectives, there is again need for balanced assessment. It is true that the ASEAN region has been remarkably free of inter-state violence—remarkable in particular because of the complex border situations that are largely a consequence of the period of European colonial rule in the region—but suspicion still operates between many of the component states. ASEAN member countries tend to have closer security relations with states outside the region than with one another, and there are even signs of rivalry in the pattern of weapons modernisation.<sup>172</sup>

Indonesia is becoming a special case in ASEAN from numerous perspectives. Given its comparative size—its population is roughly the size of the Philippines, Vietnam and Thailand combined—and its growing economy, Indonesia is showing signs of thinking beyond ASEAN. As a member of the G20, for instance, it plays a role on a world not just a regional stage—and some key Indonesians are beginning to ask how far a preoccupation with ASEAN benefits Indonesian objectives.<sup>173</sup>

4.45 Some commentators have warned that one consequence of the economic and military rise of China may be to promote a rift within ASEAN, in which most Mainland Southeast Asian countries (Vietnam would almost certainly be an exception) gravitate toward China while ASEAN's Island region seeks to maintain greater strategic flexibility. 174 There is certainly variation in the way different ASEAN states are responding to China, 175 and a divergence of aspiration is also evident in the range of approaches to regional development on the part of ASEAN countries. Today Indonesia continues to support a wider, more inclusive view of regional development—emphasising the need to foster the East Asia Summit (now including the United States and Russia as well as India, Australia and New Zealand). Many of the Mainland states, and Malaysia, seem to be relaxed with the more narrow ASEAN Plus Three process favoured by China. As stated above (in Part 3), one opportunity Australia could pursue in helping ASEAN moderate this possible ASEAN rift is to inject investment into more horizontal infrastructure to promote connectivity.

4.46 The failure of the July 2012 ASEAN Foreign Ministers' meeting to issue an official communique—the first time this has happened in ASEAN's history—has been cited as a demonstration of the growing division in ASEAN. The Philippines had wanted to include a reference to its dispute with China with respect to the Scarborough Shoal in the South China Sea, but Cambodia—as chair of the meeting refused. Those critical of this development argued that China, which has consistently sought to avoid multilateral rather than bilateral negotiations regarding such disputes as those relating to the South China Sea, is Cambodia's largest investor and is a substantial aid donor, and that Cambodia had consulted China. The Cambodia meeting's failure can certainly be seen as a demonstration of the weakness of ASEAN, but faced with the determined intervention of a major power such a faltering of ASEAN unanimity is not surprising. It should also be noted that following the meeting Indonesia's Foreign Minister carried out an impressive shuttle-diplomacy initiative. After a series of meetings with his counterparts, all ASEAN Foreign Ministers agreed to a 'Six Principle' plan for approaching South China Sea issues. Indonesia, though not currently the ASEAN chair, showed leadership here—and may continue to assist ASEAN's effectiveness in this way. 176



Downtown Phnom Penh. China is Cambodia's largest investor and a substantial aid donor. (COURTESY OF NEWPORT PREACHER VIA FLICKR)

4.47 The Commission also received anxious comment about the progress of the ASEAN Socio-Cultural Community. Although the 2003 official statement referred to cultivating 'regional identity' and 'people's awareness of ASEAN', people in ASEAN countries have not yet begun to use the terms 'ASEAN' or 'Southeast Asian' in the way 'European' might be used in the EU region. It is true that bringing together all ten Southeast Asian states in 1999 gave the ASEAN leadership the opportunity to proclaim 'One Southeast Asia';177 and, since an ASEAN 'People's Assembly' was first held in 2000, there have been various ASEAN initiatives in the arts, as well as a lively Track Two network (particularly the ASEAN ISIS network). Nevertheless, commentators continue to be wary about the prospect of a 'supra-national, ASEAN-wide common identity.'178 Creating regional glue has been a formidable task in a region that lacks a common religious or legal heritage and must use English as a 'common working language' rather than 'an emotive common language' that might express some 'regional cultural content.'179

4.48 These cautionary considerations about the progress of ASEAN are important, but should not be exaggerated. They are a reminder that Australia must continue to give priority to bilateral as well as multilateral engagement in the ASEAN region. Nevertheless, ASEAN as an organisation has achieved a good deal, and the adoption of the ASEAN Charter and other initiatives of the last few years are promising developments.

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#### The East Asia Summit vs ASEAN Plus Three

4.49 ASEAN-led wider regional institutions also need to be viewed realistically. Australia is at present expressing much faith in the East Asia Summit—and to do so makes diplomatic sense. The Prime Minister has pointed to the EAS as an arena where she hopes to make a mark in foreign relations, noting the Summit is 'becoming a much more important part of the way our region comes together.'180 At present, however, the EAS Leaders' meeting is exceptionally brief—less than a single day—and there is no strict agenda. A Foreign Ministers' meeting has been added to the Summit, but there is still no institutional machinery supporting the EAS process. The idea of establishing an EAS Secretariat has been rejected as potentially diminishing ASEAN's role but consideration is being given to expanding the capacity of the ASEAN Secretariat to accommodate the growing importance of the EAS. Initially the Summit had five priority areas—finance, education, energy, disaster management and avian flu prevention—but this was refined in 2011. Connectivity was added as a priority, while avian flu was replaced with communicable diseases, and energy security was replaced with food and water security. Implementation of work programs for each of these areas is still at an early stage. The Asialink Commission, it should be stressed, heard some tough assessments of the EAS, including from ASEAN insiders—one declaring that "nothing concrete" would come from the EAS process; it is, he said, "an empty shell."

4.50 As noted in 3.26, one challenge the East Asia Summit faces is competition from the ASEAN Plus Three (APT) process—a process in which Australia is not a participant—and this competition is shaped by regional strategic dynamics. The complexity of regional institutional architecture, it should be kept in mind, reflects the complexity of competing and changing national interests and perspectives. Far from being inclusive in tone, the 1997 creation of the APT was influenced by disappointment with the West at the time of the Asian Financial Crisis (1997-98). The APT is also backed strongly by China—as indicated at a China-ASEAN meeting in 2003, where it was agreed to 'make the ASEAN Plus Three mechanism the main channel to move forward cooperation and regional economic integration in East Asia and Asia as a whole ... '181 ASEAN Plus Three currently has far more substance than the EAS, with sixty-five mechanisms (one summit, seventeen ministerial, twenty-three Senior Officials, one Directors-General, seventeen technical level meetings and six other track meetings) covering such areas as finance, transnational crime, tourism, health, labour, social welfare, energy, telecommunications, agriculture and the environment.

As well as the annual Leaders' Summit, there are annual meetings for Foreign Ministers, Environment Ministers, Ministers of Agriculture, Ministers for Telecommunication, Tourism Ministers and Labour Ministers. Beneath this strata are Senior Officials Meetings (SOM) and a wide range of other official meetings. ASEAN, the Commission heard, seems reluctant to replicate this sort of complexity in the EAS—and, in any case, some ASEAN leaders take the view that the EAS should continue to be a high-level summit, while the APT operates as a vehicle for functional cooperation.

4.51 The Commission was warned that promoting the EAS would require much diplomatic skill. This is not just because of the energy already invested in the APT. There is a range of views, including within ASEAN, about the way the EAS and the APT should be related to one another. In a sense these two processes represent competing regionalisms. From an Australian perspective, it has been considered necessary to bring as much substance as possible into the EAS, expanding on the EAS's five priority areas and resisting the claims of APT. In some ways the presence in the EAS of the United States—with all its vast resources and influence—may be an advantage, offering the opportunity to argue that this broader body has the right membership to handle most practical challenges. But this ignores the identity dimension of regional institutions, which may tend to favour a process that is more explicitly 'East Asian' over one that could be dismissed as being essentially 'Asia Pacific'.

4.52 One influential position—associated with the Chinese leadership and with former Malaysian Prime Minister Mahathir, but supported more quietly by many others in Malaysia and elsewhere—is that the APT is the real core group. It possesses a stronger cultural foundation than the EAS on which to build a 'regional community'. APT, the Commission was told, "has a geographical identity, it is building a 'vision group'. With the EAS you lose identity." And again, from a senior ASEAN official: the EAS "is not a community" and it is "not where some Southeast Asians wish to place their energy". The APT, by contrast, was described as "established and long term". Singapore and Indonesia, it should be noted, have shown more sympathy toward the EAS—but one reason for this in the Indonesian case seems to be that the EAS is a looser grouping and is considered to be less likely to threaten Indonesian national sovereignty. Indonesia, having the largest market in ASEAN, also fears the greater quantities of Chinese imports that accompany the enhancing of China-ASEAN economic relations—a relationship that is promoted more specifically by the APT than the EAS arrangement.

- 4.53 For those states especially wary of China (which does not include Malaysia or Thailand) the EAS—with the United States, India, and Australia as members—is seen as having a capacity to counter the potentially dominant position of China in the region.<sup>182</sup> In such a context, China can be expected to be even more committed to the APT rather than the EAS, attempting to keep major activities within the former process. Whether China will show even greater determination now that the United States is in the EAS is not yet clear. The Commission heard some negative views from ASEAN, including the perception "that the US will not be good for the EAS." Given the presence of such anxiety about the entry of the United States, it could be argued that Australia should not trumpet the United States entry as an Australian achievement, but rather try to work quietly to assist American participation in the EAS process. In November 2011 it was difficult to adopt this strategy—with the United States President visiting Australia just before the meeting, and the Australia-United States announcement about an enhanced military relationship being presented as 'the most important expansion of strategic ties since the joint facilities in the Cold War nuclear era."183
- 4.54 Faced with the competition between the EAS and APT, Australia ought to avoid putting all our eggs in the EAS basket. What can be done outside the EAS structure? The report has already referred to a range of organisations and processes, offering opportunities for engagement in both multilateral and bilateral contexts. There is the ADMM Plus, as well as APEC and the wide-membership security organisation, the ASEAN Regional Forum. There are also the Australia-ASEAN meetings—the official ASEAN–Australia Forum (held every eighteen months to two years), the leaders-level ASEAN-Australia Summit (last held in Hanoi in 2010)—as well as the bilateral governmental Institutes with three individual ASEAN countries, and various Track Two meetings (as set out in 2.24 and 4.39). The Commission was told that one way for Australia to engage directly with ASEAN Plus Three is to contribute directly to the currency-swapping Chiang Mai Initiative—but this is something for the ASEAN Plus Three to decide, and the initiative also needs to overcome practical problems before becoming an effective mechanism. The recent Asia Century White Paper says 'we remain interested in participating' in this initiative. 184

### Conclusion—Overcoming the challenges

- 4.55 With respect to ASEAN issues and its own organisational problems, Australia will need to be realistic about what can be achieved, and how quickly. With careful diplomacy—stressing a 'collaborative' rather than 'donor' style—Australia may be able to help the integration of ASEAN itself, as well as support any attempts ASEAN may make to strengthen wider regional processes such as the EAS, ADMM Plus and the ARF. In these wider processes it is especially important to be seen to be supportive.
- 4.56 ASEAN may not succeed in its goal to establish ASEAN communities by 2015, but this will offer opportunities as well as disappointment. Working alone or in cooperation with other ASEAN neighbours (such as Japan, South Korea and India) Australia may be able to assist ASEAN integration. Success will not only make ASEAN a more attractive economy but also a more confident negotiator with China. It will also require patience, and sensitivity to the fact that there are today competing types of regionalism in the Asia region.
- 4.57 In considering regional institutions and free trade agreements, we need to listen to (and be seen to listen to) ASEAN voices—press our own views certainly, but remember that a compromise that ensures a united front with ASEAN countries will usually be the best option.
- 4.58 In the case of the specifically Australian issues, the impediments to closer engagement with the ASEAN region need to be dealt with head-on. The matter of the Australian community's knowledge of Southeast Asia and ASEAN requires immediate, comprehensive attention—and this will take political will and authority. The importance of Australia being skilled-up on Southeast Asia—given the proximity of the region and its obvious importance for Australia's future—ought to be obvious, but it seems not to be.
- 4.59 The idea of an 'Australia–ASEAN region' partnership needs to be projected in the Australian community—and doing this effectively will create a more conducive climate in which to handle Australia–Asia practical issues in such areas as investment, trade, immigration, refugee control, drug-trafficking, media representation and regional institution building.
- **4.60** Our United States alliance, when managed carefully, can be a major asset in Australia's ASEAN endeavours. The 'deputy sheriff' label, however, is damaging.

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### CONCLUSION SOUTHEAST ASIA AS AN 'ASIA STRATEGY'

Major power rivalry in the Asian region has been a topic of passionate debate in Australia in 2012, but what action can Australia take? For all its strengths in focusing Australians on the opportunities offered by the economic rise of Asian countries, the Australian Government's 2012 White Paper, *Australia in the Asian Century*, has not concentrated on this strategic issue. The issue will reportedly be central to the new Defence White Paper, scheduled for 2013.

Although it may appear a modest response at first glance, a Southeast Asia strategy offers a 'third way' for Australia to make a contribution to regional stability. The Asialink Commission confirmed that the ASEAN relationship—the relationship with specific states in ASEAN as well as the ASEAN regional grouping—already has much substance in its security, economic and people-to-people dimensions. We have a firm basis for creating a deeper collaboration— and the Commission also found strong Southeast Asian support for such a development. The Australia—ASEAN connection, however, does not currently have a high profile internationally or within Australia—and it is the wider international significance of the connection which is the principal concern of this report.

Looking into the next decades, taking into account the extent to which many ASEAN countries are predicted to grow economically (including in comparison with Australia), the substance of Australia–ASEAN relations has the potential to expand dramatically. This report suggests ways in which to further that expansion, and examines the economic and other gains a stronger engagement will bring to both Australia and ASEAN countries. It has endeavoured to do this in consultation—to gauge what the region wants and what Australia is in a strong position to deliver. It also focusses on issues of style and presentation in Australia–Southeast Asian interaction.

In arguing the case for Australia–ASEAN collaboration in the wider Asian region—for Southeast Asia to be positioned as central to an Australia 'Asia strategy'—the report (itself a cooperative Australia–ASEAN initiative) suggests Australia would as a result be in a position to project a modified image. Such a growing intimacy with ASEAN countries would convey the sense of a less lonely—less defensive—country. Such an Australia—labelling itself in a sense as 'US-ally Plus'—would be a bigger country, a country able to communicate a greater civilisational reach. Understood internationally in this way, Australia would also have more to bring to its relationships both with the United States and China.

Consolidating such an ASEAN orientation for Australia will be achieved firstly, by promoting even more practical cooperation, building on the many arrangements already in place. Enhanced defence and police cooperation; new levels of collaboration in combating transnational crime; a deeper investment role; the maximum utilisation of AANZFTA; a higher Australian profile in energy and food supply; and the development of connectivity infrastructure—all are initiatives that benefit both Australia and our ASEAN partners.

The process of building such collaboration—acquiring deeper interpersonal understandings and accumulating habits of consultation and cooperation—will also strengthen the foundation for working more closely together in the wider region and international contexts. Perhaps most important, however, to implement such a national ASEAN strategy will require projecting the ideal of Australia–ASEAN engagement to the Australian domestic community, as well as internationally.

As one ASEAN commentator put it to the Commission, we need to alter the Australian national narrative—highlight imaginatively Australia's ASEAN dimension, show how it has become increasingly important over the years, how the Australia-Southeast Asian partnership operates in international forums, regional and global contexts. The aim would be to make the Southeast Asian priority part of the 'strategic bedrock of our foreign and security policy'—make it a taken-for-granted thing, just as the United States alliance has become the starting point for thinking about how Australia positions itself in the world. Critically, an embedded Australia-ASEAN connection might be deployed to bring a degree of reassurance to the Australian community still anxious about the challenge of 'Asia'—a promise that Australia is not destined to become a country at odds with its region, but a nation that can (in the words of the new Government White Paper) be 'a winner' in the Asian century.

This report identifies obstacles to a closer involvement in Southeast Asia—problems within ASEAN, and also with present-day Australian attitudes and habits. The White Paper will help on the Australian side—promoting a deeper self-understanding as well as a greater awareness of Southeast Asian perspectives. A cautious assessment of the institutional development of ASEAN would be wise—but the progress of both peace and prosperity in the region demands respect. The argument in this report, it should be stressed, is not dependent on the achievement of a trouble-free ASEAN. The problems of the region—including the threats to ASEAN's organizational unity—are a reminder, however, that Australia must continue to give priority to bilateral as well as multilateral engagement.

The overriding argument in this report, informed by both ASEAN and Australian advice, is that strengthening Australia—Southeast Asian relations—and being seen to do so—ought to be regarded as a key to developing an effective 'Asia strategy' for Australia. The report acknowledges that this is an ambitious strategy, requiring the understanding and support of the Australian public.. The Southeast Asian option, however, appears to have distinct advantages over any other. It is a strategy we can adopt immediately—and with few risks. It is a 'third-way' response to the question—United States or China? In the long term, the ASEAN choice could well be vital to Australia's prosperity and security.

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