

AUSTRALIA AND ASEAN

Challenges and Opportunities



**Report from the
Joint Committee on Foreign Affairs and Defence**

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

THE PARLIAMENT OF
THE COMMONWEALTH OF AUSTRALIA

Joint Committee on
Foreign Affairs and Defence

AUSTRALIA AND ASEAN
Challenges and Opportunities

TERMS OF REFERENCE

On 8 December 1983 the Joint Committee on Foreign Affairs and Defence resolved to inquire into, and report upon:

'Australia and ASEAN'

The Committee referred this inquiry to its Sub-Committee B, referred to in this Report as the Sub-Committee on Australia and ASEAN.

MEMBERSHIP OF THE COMMITTEE

**33rd Parliament
Main Committee**

Chairman - The Hon W.L. Morrison, M.P.
Deputy Chairman - The Hon M.J.R. MacKellar, M.P.
Senator R.C. Elstob
Senator R. Hill
Senator G.N. Jones
Senator A.W.R. Lewis
Senator D.J. MacGibbon
Senator K.W. Sibraa
Senator M.C. Tate
Mr G.N. Bilney, M.P.
Mr D.E. Charles, M.P.
Mr W.P. Coleman, M.P.
Mr M.D. Cross, M.P.
Mr R.F. Edwards, M.P.
Mr J. Gayler, M.P.
The Hon R.J. Groom, M.P.
Mr R. Jacobi, M.P.
The Hon R.C. Katter, M.P.
Dr R.E. Klugman, M.P.
Mr S.A. Lusher, M.P.
Mr R.F. Shipton, M.P.

Secretary to the Committee - Mr P.F. Bergin

Sub-Committee B - Australia and ASEAN

Pursuant to paragraph 8 of the Resolution of Appointment of the Committee, the Chairman the Hon W.L. Morrison, MP, and the Deputy Chairman the Hon M.J.R. MacKellar, MP, were ex-officio members of the Sub-Committee.

Chairman - Senator K.W. Sibraa
Deputy Chairman - Senator R. Hill
Senator R.C. Elstob
Mr G.N. Bilney, M.P.
Mr D.E. Charles, M.P.
Mr R. Jacobi, M.P.

Secretary to the Sub-Committee - Mr I.J. Booth

Specialist Adviser - Dr F.D. Frost, Legislative Research Service,
Commonwealth Parliamentary Library

AUSTRALIA AND ASEAN
Challenges and Opportunities

	Page
Terms of Reference	ii
Membership of the Committee	iii
Abbreviations	ix
Foreword	x
Conclusions and Recommendations	xiii
 CHAPTER 1 AUSTRALIA AND SOUTHEAST ASIAN REGIONAL COOPERATION: THE EMERGENCE OF ASEAN	
1. Imperatives for regional co-operation in Southeast Asia	1
2. The formation and development of ASEAN	4
3. Evolution of Australia's involvement in the Southeast Asian region	9
4. Australia and ASEAN since 1967	11
 CHAPTER 2 AUSTRALIA AND THE ASEAN REGION: POLITICAL AND SECURITY ISSUES	
1. Introduction	17
 PART A Recent Developments in ASEAN Co-operation	
2. The ASEAN Region and the Major Powers	18
3. Intra-ASEAN Political and Security Issues	26
(a) Internal stability and the ASEAN states	27
(b) ASEAN and intra-regional cooperation	32
(c) ASEAN and defence co-operation	34
(d) Conclusions	36
4. ASEAN and the Indochina Conflicts	37

PART B Political and Security Issues in Australia-ASEAN Relations

5.	Australia, ASEAN and Conflicts in Indochina	43
	(a) Australian policies towards Indochina: 1975-1982	43
	(b) Australian policies since March 1983	44
	(c) Australia, ASEAN and perceptions of the Southeast Asian region	46
	(d) Implications of recent Australian policies for Australia-ASEAN relations	49
	(e) Australia, ASEAN and policies towards regional security: constraints and prospects	54
6.	Australian Defence Interests and the ASEAN Region	57
	(a) Long-term significance of the Southeast Asian region for Australian security	57
	(b) Australian defence co-operation with ASEAN states	58
	(c) Australia's military association with the Five Power Defence Arrangements	60
7.	Migration and Refugees	63
	(a) Trends in migration from ASEAN countries	63
	(b) The refugee situation in Southeast Asia	66
	(c) Australian refugee policies	72
	(d) The Indochina refugee issue: future prospects	76
	(e) Australia's immigration and refugee policy and relations with ASEAN	77
	(f) Conclusions	83
8.	Bilateral and Multilateral Relationships	85

CHAPTER 3	AUSTRALIA AND THE ASEAN REGION: ECONOMIC ISSUES	
PART A - Overview		98
PART B - Economic Developments in the ASEAN region		101
1. The National Economies		101
(a) Regional overview		101
(b) Individual country economies		104
(c) Summary outlook		113
2. ASEAN Economic Co-operation		114
(a) Machinery and objectives		114
(b) Assessment of ASEAN economic co-operation		120
3. ASEAN in the World Economy		125
(a) ASEAN trade relations with third countries		126
(b) ASEAN involvement in international trade issues		127
(c) ASEAN and 'Pacific Community' proposals		129
PART C - Australia and the ASEAN Economies		133
1. Aggregate Regional Trade Flows		133
2. Bilateral Trade Flows and Prospects		135
(a) Brunei		135
(b) Indonesia		136
(c) Malaysia		138
(d) Philippines		139
(e) Singapore		141
(f) Thailand		142
3. Trade in Services		143
(a) Existing trade flows		143
(b) Prospects for trade in Australian services		146
(c) Financial services including banking		149
4. Australian Direct Investment in ASEAN		151

5.	Australia-ASEAN Shipping Services	154
	(a) Australia's shipping interests	154
	(b) Shipping costs and export competitiveness	155
	(c) ASEAN shipping policies	160
6.	Market Access and Trade Barriers	162
	(a) Australian market access: an issue for ASEAN	162
	(b) Lower Australian trade barriers?	170
	(c) ASEAN trade barriers	172
7.	Trade Performances and Prospects	174
	(a) Australian export performance	174
	(b) Current export promotion efforts	179
	- including "mixed credit" schemes	181
	(c) Prospects for Australia's ASEAN trade	186
	. opportunities	186
	. challenges	188
	(d) Recommendations on Australian Exports	192
PART D	Australian Development Assistance	193
	Aid and Trade	195
CHAPTER 4	PROMOTION OF MUTUAL AWARENESS AND COMMON INTERESTS	
1.	The Importance of Promoting Mutual Awareness	203
2.	Asian Studies in Australia	204
	(a) Overview	204
	(b) Asian studies: the 1984 ASAA report	206
	(c) Asian studies and the business sector	210
	(d) The Asian Studies Council proposal	213
3.	Information Exchanges	215
4.	Human Rights Issues	218
5.	Media Relations	222
6.	Consultation, Coordination and Planning in Australia's ASEAN relations	226

7.	Australian Assistance to ASEAN Education especially ASEAN students in Australia	230
	(a) Benefits of education in Australia	230
	(b) ASEAN education needs	231
	(c) Foreign affairs implications for Australia	233
	(d) Domestic implications for Australia	236
	(e) The Jackson and Goldring Reports	237
	(f) Factors for consideration in reviewing overseas student policy	244
	(g) Conclusions: the Committee's own approach to overseas student policy	247
	(h) Other forms of education assistance	249
	(i) Assistance to education in ASEAN countries	252
CHAPTER 5 AUSTRALIA'S PRESENT AND FUTURE ROLE IN THE ASEAN REGION		
	(a) ASEAN: trends and prospects	257
	(b) ASEAN and Australia: the present relationship	258
	(c) ASEAN and Australia: future prospects	260
Appendix 1	Conduct of the Inquiry	265
Appendix 2	Witnesses who Appeared at Public Hearings	266
Appendix 3	Submissions Presented to the Inquiry	268
Appendix 4	List of Exhibits	270

ABBREVIATIONS

AABC	ASEAN-Australia Business Council
AAECP	ASEAN-Australia Economic Co-operation Program
ACTU	Australian Council of Trade Unions
ADAB	Australian Development Assistance Bureau
AIJV	ASEAN Industrial Joint Venture (or scheme)
AIP	ASEAN Industrial Project (or scheme)
ANL	Australian National Line
ASAA	Asian Studies Association of Australia
ASC	Australian Shippers' Council
ASEAN	Association of Southeast Asian Nations
ASTP	Australian System of Tariff Preferences
AUIDP	Australian Universities' International Development Program
AVCC	Australian Vice-Chancellors' Committee
CGDK	Coalition Government of Democratic Kampuchea
China	People's Republic of China
DC	Developing countries
DIFF	Development Import Finance Facility
DK	Democratic Kampuchea
EC	Countries members of the European Communities
EFIC	Export Finance and Insurance Corporation
FPDA	Five Power Defence Arrangements
Foreign Affairs	Department of Foreign Affairs
GDP	Gross domestic product
Goldring Report	Report of the Committee of Review of Private Overseas Student Policy
IAC	Industries Assistance Commission
ICAP	International Civil Aviation Policy
Immigration	Department of Immigration and Ethnic Affairs
Jackson Report	Report of the Committee to Review the Australian Overseas Aid Program
KPNLF	Khmer Peoples National Liberation Front
PRK	People's Republic of Kampuchea
PTA	(ASEAN) Preferential Tariff Agreement (or scheme)
Trade	Department of Trade
Transport	Department of Transport
Treasury	Department of the Treasury
UK	United Kingdom
US	United States of America
ZOPFAN	Zone of Peace, Friendship and Neutrality.

AUSTRALIA AND ASEAN:
CHALLENGES AND OPPORTUNITIES

FOREWORD

1 As a grouping of Australia's neighbours, the ASEAN countries - Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei - are of vital political and strategic importance to Australia. While Australia will be affected by developments in other regions of the world, and by the global interests of the 'super powers', no other part of the world promises to be of more consistent importance to Australia than the region of East and Southeast Asia. The ASEAN countries form a significant part of this most economically dynamic region. The average economic growth rate of ASEAN countries (in terms of real annual increase in GNP) more than doubled the average for industrialised countries (including Australia) between 1970 and 1981.¹ Assuming such trends continue, Singapore's per capita national income will exceed Australia's by the year 2000.² The future of the ASEAN countries, both individually and collectively, and the implications for Australia, warrant the early and close attention of all Australian decision-makers, across the spectrum of diplomatic, commercial, education and migration sectors, if Australia is to define and pursue an appropriate national role in the region.

2. This report on 'Australia and ASEAN' distinguishes, as appropriate, between individual ASEAN members and their ASEAN grouping: Australia's interests are affected, but in different ways, by developments in each. The emphasis in the report, at least in its political and strategic aspects, is towards ASEAN as a grouping. ASEAN was established primarily to promote stability in an insecure region, and has largely succeeded in this conflict resolution role. (see Chapter II) It has not yet been successful in its secondary designated role of promoting intra-regional trade and investment, although the region's international trade and investment has benefitted from the political stability promoted by ASEAN co-operation. (Chapter III). While ASEAN

members have preferred a group approach to major political and security issues of common concern, they transact most of their foreign trade and investment bilaterally. Australia's relations with ASEAN countries are conducted primarily on a bilateral basis; nevertheless Australia needs to be mindful of the sensitivities and issues shared by the ASEAN group. In particular, the quality of Australia's multilateral or group relations may be affected by the health of its bilateral ties, increasingly so if ASEAN solidarity on political issues is maintained at its present high level.

3. Similarly, Australia must be perceptive in identifying and distinguishing policies which appear to be shared by ASEAN as a group and those in which there is a divergence among ASEAN members opinion. Some issues, e.g. ASEAN opposition to Australia's International Civil Aviation Policy in the late 1970's and its approach to the problems of Vietnamese occupation of Cambodia, are presented in terms of ASEAN solidarity. This solidarity or "ASEAN spirit" is regarded as important by all ASEAN countries and has been central to improving the region's cohesion. In practice, differences of interest and opinion invariably do exist; they result from the very plurality of cultures and geopolitical and historic factors in the region. Appeals to or displays of ASEAN solidarity may be just that, and Australia must be able to distinguish the regional from the individual interests. At the same time, uncritical assumptions by Australia that a particular issue is bilateral may result in ASEAN group sensitivity - that one of its members is being singled out for special treatment. For example, the ICAP dispute gave rise to ASEAN charges that Australia was seeking to split the group.

4. It is evident that Australian dealings with its ASEAN neighbours, whether at the political, economic or social levels, must - if they are to be effective - be supported by a well-developed and accurate perception of the region's interests and concerns. (The Committee sought in its inquiry to obtain perspectives from the ASEAN region - see Appendix 1 'Conduct of

the Inquiry'). Australian failures to appreciate ASEAN sensitivities, and sometimes ASEAN misunderstanding of Australia's policies and contributions to the region, have aggravated a number of bilateral and multilateral disputes. The evidence taken by the Committee suggests that mutual misunderstandings of political and cultural values, or at least stereotyped images of the other's values, are common in both Australia and the region. This problem may even affect how ASEAN and Australian leaders and the Australian people perceive an appropriate role for Australia in the region. It has potential therefore to undermine the very development of more productive relations with ASEAN. Better mutual awareness is a priority need, detailed in Chapter IV.

5. It is self-evident that the ASEAN region's continuing security and economic well-being are of vital concern to Australia's future. Australia needs to define and plan for an appropriate long-term role in its neighbourhood, taking account of the views of ASEAN members, the needs of the region, and its own capacity to contribute. Suggestions from some ASEAN sources³ that Australia's political, security and economic contributions may no longer be regarded as so 'relevant' to the region as during ASEAN's formative years, reflect in the main ASEAN's growing self-reliance since those years when Australia's supportive role was more pertinent and, in a way, more needed. They also reflect a greater 'maturity' in the relations and dialogue between ASEAN countries and Australia, with ASEAN countries now more realistic about Australia's necessarily more limited, but nevertheless positive role in the region. In Chapter 5 of its report, the Committee emphasises the need for Australia to plan an appropriate role for itself in the ASEAN region, in the light of the changes that are taking place.

ENDNOTES

1. Evidence, p.S690 (Treasury).
2. Evidence, 6 April 1984, p.80, (Trade).
3. Evidence, Centre for Strategic and International Studies, Jakarta, (submission) pp.S153-162; Institute for Strategic and International Studies, Kuala Lumpur (submission) p.S302.

CONCLUSIONS AND RECOMMENDATIONS

CHAPTER II

AUSTRALIA AND THE ASEAN REGION: POLITICAL AND SECURITY ISSUES

1. The ASEAN region and the major powers

At present, the balance of major power interests in the ASEAN region is relatively stable. While the Soviet Union has increased its military presence in Vietnam and Indochina this has not so far brought commensurate political influence for it in the ASEAN region. In military and strategic terms, the United States continues to be the predominant influence. Indeed it is arguable that the political status of the US in the ASEAN region is considerably more favourable than it was in the era of mass military involvement in Southeast Asia. However, the ASEAN members are acutely aware of the potential for change in major power policies and relationships, and of the possible implications for the region. They continue to be concerned that changes in the present power balance through greater direct involvement of the Soviet Union and changes in the direction of Chinese foreign policy could affect adversely the security of the region. (para. 2.21).

2. Intra-ASEAN political and security issues

- a) ASEAN as a regional grouping has contributed substantially to the security and stability of the Southeast Asian region. It has effectively reduced the likelihood of inter-state discord or conflict amongst its members by establishing a framework for the peaceful resolution of disputes. It has built trust and confidence among the leaderships and governments of its members and has produced a climate of stability which has itself

enhanced prospects for economic growth. The continuation and further development of these achievements are in Australia's interests (para. 2.46).

- b) ASEAN members have pursued military and security cooperation on a bilateral basis and the scale of cooperation has increased since 1975. The members, however, are determined to preserve ASEAN's non-military character (para. 2.47).
- c) The Committee considers that an important aspect of ASEAN's ability to maintain effective cooperation has been the fundamental compatibility of its member regimes. It is at present difficult to predict a substantial change in the character of any of the existing regimes. The extensive economic and political problems facing the Philippines are likely to make it the focus of considerable attention for some time. The reaction of ASEAN to any new government in one of its members would be a most important factor in the way that government was viewed regionally and internationally (para. 2.48).

3. Australia, ASEAN and conflicts in Indochina

- a) The Committee concludes that Australia has sought to pursue policies towards the Cambodia conflict from the perspective of a concerned neighbouring state located close to the ASEAN region. Australia shares ASEAN's opposition to the violation of Cambodia's sovereignty and joins with ASEAN in calling for a Vietnamese withdrawal. Australia, like ASEAN, is concerned about the destabilising problems and burdens imposed by the mass movement of refugees from the Indochina states. Australia, like ASEAN, is also concerned about the degree of instability and heightened major power competition

posed by the Cambodia conflict. Australia is also concerned at some further aspects of the conflict, particularly the ongoing role of the Khmer Rouge forces in the Coalition; the dangers of military escalation arising from the continuing fighting; and the long-term problems arising from Vietnam's international isolation and its dependence on the Soviet Union (para. 2.86).

- b) In the Committee's view, Australia has not sought to alter fundamentally its policies towards ASEAN. It has seen its efforts to explore bases for dialogue as being pursued in the context of a close relationship with ASEAN. As a state located close to the Southeast Asian region Australia is especially concerned at problems of insecurity and major power competition in the whole region (para. 2.87).
- c) The evidence heard by the Committee suggests that the Australian policy initiatives in relation to Indochina since 1983 gave rise to critical responses from some ASEAN governments about precisely what direction Australia was seeking to pursue in attempting to explore bases for dialogue over Cambodia. The reactions to Australia's initiatives underline the sensitivity for ASEAN of policy towards Indochina. The reactions also underline the fact that Australian attitudes towards regional security issues are regarded as important by the ASEAN states and that ASEAN expects consistent support from Australia on these issues (para. 2.88).
- d) That some uncertainty has arisen in ASEAN suggests to the Committee that Australia's regional policies have not been consistently propounded and explained as extensively as might be desirable. This makes consultation of prime importance. It is in both Australia's and ASEAN's interests to avoid major discord between them over

policies towards regional security issues. This should not preclude Australia drawing attention to points of principle which it holds strongly (for example, Australia's concern at the continuing role in the Coalition of the Khmer Rouge forces). The evidence does suggest, however, that if Australia wishes to take a consistent interest in the security of the Southeast Asian region overall, it will need to emphasise very clearly that in seeking to explore ways of enhancing prospects for regional security the cautious development of policies towards Indochina will not be pursued at the expense of long-term relations with ASEAN (para. 289).

4. Australian defence interests and the ASEAN region

The Committee considers that there is value in continuing defence cooperation programs, provided they are monitored regularly to ensure that they serve Australia's interests and fulfil valid local defence requirements. The Committee notes the reservations expressed by some witnesses as to the continuing utility and relevance of the Five Power Defence Arrangements and Australia's RAAF involvement. Re-evaluation of Australian involvement may be desirable, but any rapid contraction of Australia's involvement in FPDA might lead to concerns in some ASEAN countries about Australia's commitment to regional security at a time when it would appear to be in our interests to underline our continuing strong commitment to the security of ASEAN (para. 2.102).

5. Migration and refugees

- a) The refugee situation in the region at present is substantially less serious than it was in 1978-1979, but the Committee notes that major problems persist for the ASEAN states. Australian policies towards Indochinese refugees (including resettlement) have undoubtedly been an area of extensive and successful cooperation with ASEAN and its member states. Because of declining rates of refugee acceptance by other major resettlement countries, Australia's role, on a proportional basis, has recently increased in significance (para. 2.157)
- b) The Committee notes the reiterations by the ASEAN Foreign Ministers that their countries' willingness to grant temporary asylum to arriving refugees is conditional on continuing commitments by third countries to resettlement. The Committee also notes the statements by the Department of Immigration and Ethnic Affairs that 'The resolution of problems associated with displaced people in the Indochinese region will ... be an important element in Australia's relations with ASEAN (and concurrently the countries of Indochina) in the foreseeable future.' (para. 2.158).
- c) The migration of ASEAN nationals has, by comparison, attracted much less attention, no doubt because of the success of most migrants from ASEAN countries in settling in Australia and because of the limited numbers involved. The Committee considers that the immigration which has so far taken place from the ASEAN region has helped both promote Australian contacts with the ASEAN states and allay the image of Australia as a country practising discriminatory policies in this area (para. 2.159).

- d) The Committee concludes that Australia's immigration and refugee policies are an important part of our relations with ASEAN. The adoption and maintenance of non-discriminatory immigration policies have contributed towards overcoming the formerly hostile perception of a White Australia. Australia's immigration and refugee policies in relation to the ASEAN region need to try to accommodate at least two important sets of interests:
- i. the capacity and willingness of the Australian community to welcome and accept immigrants and refugees arriving into Australian society, bearing in mind that the rate and volume of intake should be seen as being at the discretion of the recipient country.
 - ii. the interests of Australia's ASEAN neighbours, who wish to continue the process of regional and international co-operation pursued since 1978 which has helped substantially to alleviate the burdens imposed on the countries of ASEAN (para. 2.160).
- e) It is in both Australia's and ASEAN's interests that efforts be continued to alleviate the refugee situation in the region. Longer-terms solutions must depend on several factors, including changes in Vietnam's internal policies and actions which gave rise to the mass departures; economic and political stability in Indochina including resolution of the conflict in Cambodia; and partly on measures including international aid and resettlement of refugees in third countries, and on non-resettlement solutions, especially voluntary repatriation (para. 2.161).

- f) Efforts should also be made in Australia to promote awareness of the importance of Australia's immigration and refugee policies in Australia-ASEAN relations. Additional efforts may also be required within Australia to help refugees and immigrants arriving from ASEAN countries adapt into the Australian community and to promote community acceptance (para. 2.161).
6. Bilateral and multilateral relationships
- a) In the context of regional and bilateral relationships, the Committee notes the emphasis placed by the Department of Foreign Affairs on relations with Indonesia - and the Department's reference to bilateral strains which have arisen over the East Timor and Irian Jaya issues. Problems or tensions arising in relations between Indonesia and Papua New Guinea could have the potential to affect Australian interests, given Australia's important relationships with both countries and with both ASEAN and the South Pacific regions (para 2.174).
- b) The Committee considers that the problems arising from the situation in Irian Jaya appears to have the potential of being long-term and of possibly greater future significance than those arising over the East Timor issue, particularly because the situation in Irian Jaya may impinge not only on relations between Indonesia and Papua New Guinea but also between Indonesia and some of the Melanesian states of the Pacific. This in turn could affect ASEAN's relations with the countries of the South Pacific, with potentially important implications for Australia (para. 2.175).

- c) The Committee concludes that the state of bilateral relations will be one important component factor in the maintenance by Australia of productive relations with ASEAN as a group. ASEAN has shown an extensive capacity for solidarity and mutual support; the Association's members have, for example, in recent years supported Indonesia's position on East Timor, in the United Nations. ASEAN has also demonstrated on several occasions a capacity to cooperate effectively in pursuing issues with Australia on a joint basis that might not necessarily have been of equal salience to each individual ASEAN member (para. 2.176).

CHAPTER III

AUSTRALIA AND THE ASEAN REGION: ECONOMIC ISSUES

1. ASEAN Economic and Trade Prospects

- a) The recent slowdown in ASEAN countries' economic activity is already showing signs, except in the Philippines, of giving way to resumed growth. Overall opportunities in the region (including East Asia) for Australian exporters, investors and advisers are still likely to be brighter than other regions of the world. The ASEAN region is likely to maintain a high level of demand for imported minerals, foodstuffs, metals and sophisticated manufactures including machinery, and for investment capital and expertise for its industrial development (para. 3.32).
- b) At the same time, ASEAN countries will be seeking to expand markets, including Australia's, for their growing export industries. Australian manufacturing industry is likely to face increasing competition over a widening range of more capital-intensive merchandise (para. 3.32).

2. ASEAN Economic Co-operation

- a) While the strong economic performances and prospects for most ASEAN countries have benefitted from the relatively stable political and strategic environment engendered by ASEAN co-operation, they are not due to ASEAN economic co-operation as such; which has not yet resulted in any significant expansion of trade and investment within the ASEAN region or in a rationalised development of the region's resources and industries (para. 3.49).
- b) Efforts to seek reduction of trade barriers among ASEAN countries and promotion of industrial complementation have to date been largely outweighed by ASEAN governments placing greater emphasis on national self-reliance, on development of policies of import substitution and industry protection and on continuation of strong extra-regional trade flows (para. 3.52).
- c) There appears little possibility that ASEAN will develop into any form of free trade area or customs union (para. 3.52)
- d) ASEAN's role in external economic diplomacy is generally regarded as much more successful than in intra-regional economic co-operation. The ASEAN group of countries has enjoyed relative success and increasing influence when negotiating international trade issues of common interest. ASEAN's group criticisms of inadequate trade access for its exports to developed countries, especially its 'dialogue partners' including Australia, are taken seriously by those countries (para. 3.60)

3. Economic Institutions in the West Pacific Basin

- a) There are some signs of readiness by ASEAN countries to discuss more limited concepts of Pacific Basin co-operation [among ASEAN dialogue partners] (para. 3.66)
- b) The Committee considers that regular discussion of Pacific Basin co-operation among ASEAN, Australia and the other ASEAN dialogue partners will assist longer-term planning for trade and investment in the region, and in the development by Australia of an appropriate economic strategy and role in the region (para. 3.68)
- c) The Committee is encouraged by the Australian Government's recent initiative - and the ASEAN responses - for a regional approach to the next round of multilateral trade negotiations (MTN), an approach which would emphasise common Australian and ASEAN concerns over protection and subsidy of commodities and other primary products (para. 3.191)

4. Prospects for Trade in Australian Services

- a) It is likely that ASEAN countries will continue to welcome transfers of technology and expertise in the services sector (para. 3.105).
- b) The Committee notes with approval the Foreign Affairs submission that 'governmental initiative is highly desirable [in] the development and implementation of policies which facilitate Australia projecting itself as a regional services centre', especially since several of

the promising areas are largely within the government sector, e.g. Telecom. Areas of particular promise include medium and high technology (such as computer technology, telecommunications - including Australian satellites and distance education, and specialised medical services), business consultancy, accountancy and information services, energy technology and industrial processes, engineering and construction services and tourism. The Committee notes that the Department of Trade has made a start by expanding its services trade establishment, and is continuing to receive and disseminate advice from the Trade Commissioner (Projects and Consultancy), Manila, about opportunities for Australian firms to bid for Asian Development Bank-funded projects. The Committee considers, however, that more needs to be done, in consultation with key business representatives such as the ASEAN-Australia Business Council, to communicate services trade opportunities to the services industries (para. 3.108).

- c) The Committee considers that the potential for, and the financial and cultural advantages from, promoting tourism from the ASEAN countries should be thoroughly investigated by relevant public and private sector bodies (para. 3.107).

5. Banking Services

The Committee considers that expanded access for both ASEAN and Australian banks to provide more effective financial services would be a desirable adjunct to the expansion of Australia-ASEAN trade and investment which the Committee anticipates. It suggests that improved access be considered on a reciprocal basis by ASEAN and Australian Governments in close consultation with the banking industry (para. 3.112).

6. Australian Direct Investment in ASEAN Countries

The Committee anticipates that, with the deregulation of Australian overseas investment, a generally encouraging investment climate in ASEAN and the comparative advantages for some businesses of operating within the highly competitive ASEAN market, Australian direct investment in the region will enjoy increasing opportunities which, on balance, will be beneficial to employment and economic activity in Australia. This should also enhance ASEAN economic development and recognition of Australia as an effective economic partner (para. 3.117).

7. Shipping Services

- a) While the Committee considers it unlikely, on the basis of the evidence given to it, that the present level of freight rates is harmful to the competitive position of Australian exporters to the ASEAN region, it considers that better data is needed before definite conclusions can be reached.
 - The Committee notes that the results of research into Australia-ASEAN shipping services, being conducted by the ASEAN-Australia Research Project, are expected to be published later this year; also that the Australian Government is continuing its own investigations of shore-based components of shipping costs (para. 3.129).

- b) The Committee recommends that the Australian Government, on the basis of this research and any further independent investigation that may be necessary, seek to isolate the significance of shipping and related transport costs for

Australian exporters and to develop and implement transport-related measures designed to improve the competitiveness of Australian exports, especially in Asian markets (para. 3.129).

- c) The Government's research mentioned above should also question whether any expansion of ANL's services would significantly reduce Australia's invisibles deficit, and whether any such reduction would be desirable overall taking into account any effect which such expansion might have on freight rates and the competitiveness of Australian exports (para. 3.130).
- d) Assuming the extensive over-tonnaging on ASEAN routes is resulting, or could result, in higher freight charges and the shipping industry continues to be unable or unwilling to rationalise its services accordingly, the Australian Government should consider consulting with ASEAN Governments with a view to persuading shipping lines (including governmental lines) to reduce their tonnage on Australia-ASEAN routes (para. 3.132).
- e) The longer term possibilities of expanded ASEAN national fleets and reduced participation by non-national flag carriers in regional shipping warrant the Australian Government's close attention. There could be cause for concern to Australia's export competitiveness if over-tonnaging was thereby to worsen or if a commercially competitive transport environment were threatened. These concerns should be considered carefully by the Government in its deliberations on whether to accede to the 'United Nations Liner Code' and in consulting with ASEAN Governments on future shipping developments in the region (para. 3.135).

8. Market Access and Trade Barriers

- a) While ASEAN's exports of labour intensive manufactures to Australia have improved despite quotas and relatively low tariff preferences - largely it seems because Australian products are losing market share - this improvement has not matched the strong performance of competitive products from East Asian industrialising countries (para. 3.147).
- b) In the longer term, however, it is likely that present Australian restrictions will meet increasing ASEAN opposition as ASEAN competitiveness and import prospects are enhanced (para. 3.151).
- c) The Committee notes the need for greater Australian efforts to promote ASEAN awareness of the Australian market (para. 3.150).
- d) From the perspective of Australia's political and economic relations with ASEAN countries, mutual benefits will result from freer two-way trade flows. Australian manufacturing industry must become more technology- and capital- intensive and more export-oriented if it is to be revived to its proper potential.
- In respect of protection for the Australian textiles, clothing and footwear industries, the Committee considers that any increase in access for overseas importers - additional to the scheme included in the current seven year plan - would not at present be justified, at least in the context of Australian relations with ASEAN countries, given that they would not likely be among the significant overseas beneficiaries (para. 3.155).

9. Australia's Export Performance and Prospects

- a) Despite steady increases in the value (and often volume) of Australian exports to the ASEAN region, Australia's shares of that market for most export types have steadily declined. Australia's export performance in the ASEAN region needs improvement. First, Australia's export pattern has not been well matched to the changing sectors of greatest ASEAN demand. Second, Australian exports have experienced increasing price competition from foreign exporters. A third reason is a lack of export orientation within (secondary) Australian industry. Fourth, insufficient attention has been given to the promotion of Australia in ASEAN (paras. 3.168-171).
- b) The Committee generally shares the aid- and trade-related concerns of the Jackson Committee about mixed credit schemes. At the same time, it is mindful of the prejudice to Australian manufacturing exports and industry resulting from the extensive use of mixed credit schemes by foreign competitors. The Committee therefore urges the Government to call for and participate fully in multilateral attempts to regulate and enforce tighter rules for the operation of such schemes. The Committee would prefer that any Government assistance to Australia's manufacturing export sector be not funded from the overseas aid budget. If however extensive use of mixed credit schemes by foreign competitors persists, the Government should consider alternative sources of support. (para. 3.182).
- c) The prospects for Australia-ASEAN (two-way) trade are good. Substantial expansion of ASEAN's population and per capita income is likely. Development of heavier and more capital-intensive industry will also increase ASEAN demand for imports. The most likely sectors include commodities and food products, minerals and metals for industrial processing, machinery, technology, foreign investment and consultancy and financial services. ASEAN

demand for such requisities for its economic development is likely to continue at levels sufficient to predict increases in Australian exports, if Australia maintains its present levels of competitiveness. However, relative improvements in Australia's performance, especially a better matching between Australian export production and developing sectors of ASEAN demand (eg. for machinery), should bring much greater benefits to Australia (para. 3.183).

- d) There are limits, however - both political and economic - for any increases in Australian exports which might threaten trade imbalances unacceptable to ASEAN countries. Trade imbalances as well as Australian market access are critical issues which could be raised again by the ASEAN countries as a group (para. 3.185).
- e) The Committee emphasises the importance ... of promoting better understanding of industrial relations as they may affect trade between Australia and ASEAN. The Committee recommends that the Australian Government again consider the desirability of appointing a Labour Attache for the ASEAN region, along the lines proposed by the Senate Committee in 1980, to: liaise with the ASEAN Governments and with employer, industry and union groups; to report on labour developments in the region; and to promote bilateral exchanges in the industrial relations area. (para. 3.192)
- f) The Committee emphasises the need for Australian Governments, industry and trade unions to foster a national awareness of both the importance of export opportunities in ASEAN (and other East Asian) countries and of ASEAN business and cultural affairs and economic interests (para. 3.193).

- g) To more effectively identify and promote Australian exports in the ASEAN region, the Committee recommends that:
- . the Australian Government continue to give appropriate priority and resources to Australian trade representation and promotion efforts in ASEAN countries;
 - . the Australian Government intensify its efforts, through the Department of Trade, to research and promote ASEAN markets, targetting particularly on geographic and product areas of greatest value or potential to Australia;
 - . the insurance and credit facilities provided by the Export Finance and Insurance Corporation to Australian exporters and investors be continued at levels appropriate to any increases in Australian export and investment opportunities in the ASEAN region.
 - . Australian firms (especially smaller firms lacking their own market research capacity) be assured convenient access to trade information and statistics, by well-publicised government services maintained in close consultation with appropriate business organisations
 - consideration should be given to combining the information and statistics held by the Department of Trade and the Australian Bureau of Statistics with those held by the ASEAN-Australia Business Council and individual Business Co-operation Committees and by the ASEAN-Australia Research Project, so that an Australian exporter can obtain all available trade and market information through a single, well-known agency, a

xxx

'one-stop-shop', with branches in all major industrial centres and with expert staff or consultants experienced in regional business.

- this important service could be based on, or developed from, the Department of Trade's offices in each of the states. (para. 3.194)

CHAPTER IV

PROMOTION OF MUTUAL AWARENESS AND COMMON INTERESTS

1. The Importance of Promoting Mutual Awareness

The level of mutual awareness and understanding in Australia of ASEAN is inadequate and the reverse is also likely to be so. (para. 4.2). Improved levels of awareness would enhance Australia's abilities to maintain effective political, social, and commercial relationships in the ASEAN region. (para. 4.5).

2. Asian Studies in Australia

- (a) It has become commonplace in Australia to declare rhetorically that Australia's future is likely to be 'bound up' or 'enmeshed' with the ASEAN region. The Committee points out that such views are not reflected in Australia's present level of commitment to Asian studies in general and the promotion of awareness of the ASEAN region in particular. (para. 4.6)
- (b) The importance of a more concerted and coordinated commitment to the promotion of Asian studies was emphasised ... 'A central task of the Australian government if it wishes to promote long-term, mature

Australia-ASEAN relations must be an educational program in Australia about the ASEAN countries'. (Asian Studies Association of Australia's submission.) (para. 4.22)

- (c) The Committee endorses the concept of an Asian Studies Council, with resources adequate to co-ordinate nationally initiatives in Asian studies, and recommends that a working party as proposed by the Asian Studies Association of Australia in 1981 be established at the earliest opportunity, to consider and report on the feasibility of establishing the Council under Commonwealth auspices. (para. 4.26)

- (d) The Committee notes with approval that steps are being taken by the ASEAN-Australia Business Council and its associates to promote business awareness of the ASEAN region, and that some tertiary colleges are beginning to increase emphasis on business-oriented Asian studies courses. (para. 4.20)

- (e) The Committee notes with approval that one of the guidelines from the Minister for Education and Youth Affairs to the Commonwealth Tertiary Education Commission for the 1985-1987 Triennium is that attention should be given to: 'The importance of equipping Australian industry with the knowledge, attitudes and skills necessary to exploit effectively the potential opportunities presented in the Asian and Pacific regions'. The Committee urges the Commission to give priority to this guideline. (para. 4.21)

3. Information Exchanges

- (a) The Committee notes with concern the effects of recent staff cutbacks [at the National Library's Indonesian Acquisition Office in Jakarta] on the maintenance of acquisitions of contemporary Indonesian materials. The Committee notes with approval that the Library is seeking to have the position up-graded again to that for a National Library officer. (para. 4.29)

- (b) The Committee considers that the Bibliographic Information on Southeast Asia (BISA) project constitutes the nucleus of a valuable database of relevance to government, business, education and the community generally. It supports BISA's request for sufficient on-going Commonwealth funding to enable it to consolidate its database and provide comprehensive coverage of Australia's library holdings on the Southeast Asian region. (para. 4.32)

4. Human Rights

- (a) The Committee recognises the widespread interest in Australia in human rights issues and the continuing role which these issues may play in Australian relations with the ASEAN region. The level of influence which Australia can exert on human rights issues will depend partly on the overall quality of Australia's multilateral and bilateral relationships in the region. (para. 4.42)

- (b) Australia will need to continue to approach human rights issues in ASEAN countries with sensitivity. Attempting to draw direct associations between the extension of aid and human rights performances of regional governments would not, except in unusual circumstances, be appropriate. (para. 4.43)

5. Media Relations

- (a) Effective communication through the media is of obvious importance for the promotion of mutual awareness and understanding between Australia and the ASEAN region. Australian media relations with ASEAN countries have encountered some tensions, notably with Indonesia. The potential for some difficulty in this area is likely to continue given the somewhat differing roles of the media in Australia and most ASEAN members. (para. 4.44)
- (b) The Committee considered that it did not have sufficient evidence to determine how successfully Radio Australia performs the function of promoting awareness of Australia in the ASEAN region. The Committee is therefore unable to confirm that Radio Australia is performing this function as successfully as the organisation itself claims. (para. 4.49)
- (c) Radio Australia also broadcasts in Asian languages news and commentaries on developments in the countries of ASEAN. It is this aspect of Radio Australia's activities which has caused some embarrassment to Australia in its foreign relations particularly with Indonesia. The Committee considers that the implications of this activity of Radio Australia have not been specifically addressed in recent years. (para. 4.49)
- (d) The Committee is also concerned about the extent to which ASEAN governments and listeners may associate Radio Australia with the Australian Government, and assume that views or news analyses broadcast to the region reflect government attitudes or policies. (para. 4.50)

- (e) The Committee recommends that in view of the important implications of Radio Australia's activities for Australia's foreign relations in the ASEAN region, the Parliament should conduct a review of Radio Australia's functions, relations with the Australian Government and activities in Southeast Asia. (para. 4.51)

 - (f) The Committee notes with approval the initiative of the Australian Government and ADAB in sponsoring the joint seminar for ASEAN and Australian journalists in June 1984. The seminar was a valuable step towards improving awareness of Australia in the ASEAN region and this type of communication should be continued and extended. The Committee also considers that awareness of Australia in the region would be improved if ASEAN print media representation in Australia were not so limited as at present. (para. 4.53)
6. Consultation and Planning in Australia's ASEAN Relations
- (a) The Committee considers it important that the formulation and announcement of policy affecting the ASEAN region be well-coordinated among Government agencies, mutually consistent and not open to misunderstanding by ASEAN countries. (para. 4.55)

 - (b) The Committee recommends that the Australian Government establish a working party, to include business and research specialists, to investigate and report on the feasibility of creating a broad-based, independent Australia-ASEAN Council with functions of supporting, coordinating and reviewing Australian programs seeking to advance Australia-ASEAN relations.

- The Committee also recommends that such investigation take account of its observations [in paragraph 4.56] concerning a possible longer-term project for ASEAN/Australia economic research which might be established under the auspices of any such Council. (para. 4.60)

7. Australian Assistance to ASEAN Education

- a) The education and training in Australia of post-secondary students from ASEAN countries is a major political, economic and cultural issue for both Australia and ASEAN (para. 4.61).
- b) The British full fee experience, with its significant initial reduction in student demand - at least, it seems, from the Southeast Asian region - deserves close analysis [especially since Australia's] foreign affairs interests, unlike Britain's, lie primarily in the ASEAN region. Positive lessons that may be learned, however, from the British experience, are the need to offer a compensatory scholarship system and to phase in full fees gradually and after full consultation with affected countries (which Britain did not). (para. 4.85).
- c) There will be limits beyond which any movement towards full fees could be counter-productive from both student demand and foreign relations perspectives. It is important that policy development in the education sector should be constantly considered in the context of Australia's overall political and economic interests in the ASEAN region (para. 4.92).

- d) To a large extent the economic and the international viability of the Jackson approach would appear to depend on increases in Australian Government aid funding, and on the ability to attract a significant proportion of foreign students at significantly higher fee levels. This Committee notes that the quality and relevance of Australian courses may need to improve, to continue to attract students at cost levels approaching levels charged in other educating countries (para. 4.84).
- e) If a full fee approach could be planned, costed and presented so as to satisfy these important commercial and foreign relations problems, it could produce the important benefits of increased student numbers while still satisfying Australian demands, and better courses for both Australian and foreign students. (para. 4.85)
- f) On balance, the Committee considers that the present overseas student system, with its combination of quotas and subsidies, is not satisfactory to either Australia or those foreign countries whose students demand exceeds the supply of Australian places. In principle, the Committee recommends to the Australian Government that it give careful consideration to a new overseas student policy to include the following features:
- (i) gradual and predictable increases in overseas student charges to reach a level of operating costs as determined by the Government;
 - such fees to be retained by the enrolling institutions to assist their funding of the additional places (and avoidance of any displacement of qualified Australian students) and as an incentive to attract higher overseas enrolments with improved courses.

- (ii) the parallel development of a comprehensive system of scholarships, to be funded out of the aid budget:
- an Australian government-to-government scheme similar to that presently operating
 - a scheme of 'free places' based on merit (not means-tested) but excluding living allowances, such scheme to be administered by institutions from Commonwealth (aid) funds. The Committee envisages that this category would comprise most of the scholarships
 - a supplementary system of free places, including living allowances, for financially disadvantaged categories of students, to be administered by the Government's aid authorities and intended to promote general development objectives in the students' countries. Such developmental scholarships would not be means-tested; indeed, developmental criteria would be employed and would need to take account of specially disadvantaged or under-represented categories such as Pacific Islanders and women from certain countries.
- (iii) the planning, implementation, and review of such a policy must be undertaken in the closest possible consultation with all source countries, especially the ASEAN countries, so that their concerns will be taken into account fully. (para. 4.94).

g) Before seeking to develop Australia's regional advantages in higher and technical education further, Australian authorities and institutions must first consult ASEAN needs and reactions, and survey the ASEAN 'market' for appropriate course types and fee levels. (para. 4.93).

h) The Committee considers there may be promise in the proposal by the Australian Vice-Chancellors' Committee for negotiation with individual source countries of training agreements, like 'trade packages'. (para. 4.95).

While the Committee received insufficient evidence to enable it to evaluate fully the proposals for student 'trade packages' and the Malaysian idea that Australia might consider taking a higher proportion of senior year students in total overseas student numbers, it considers that both ideas warrant further attention in the Government's review of overseas student policy. (para. 4.97).

i) A commercial approach might be applied to special commercial or technical courses, outside the education 'mainstream', organised by private or public institutions and directed especially at foreign students. External studies, using the latest satellite technology for 'distance education' were also commended by the Goldring Report. (para. 4.98)

j) One of the greatest of Australia's comparative trade advantages is the English language itself: Australia should plan to become the regional centre for English language teaching. (para. 4.99).

- k) The Committee considers that, in the longer term, Australia's aid and education policies should take into account the extent to which ASEAN countries should be encouraged to develop their own educational institutions towards substantial self-sufficiency. (para. 4.101).

CHAPTER V

AUSTRALIA'S PRESENT AND FUTURE ROLE IN THE ASEAN REGION

- (a) While Australia and the ASEAN members share a series of mutual interests, Australia is not necessarily perceived as pursuing a consistent set of policies which support its frequently expressed interest in, and commitment to, the region. (para. 5.7)
- (b) The Committee suggests that if such perceived gaps between Australia's rhetoric and its policy commitments are to be minimised, there is both a need to establish and define the priority which Australia seeks to accord to ASEAN in the context of its wider pattern of foreign policy interests, and a need to try to match accorded priority with consistent policy commitments. (para. 5.8)
- (c) It should also be recognised that the interaction between political and economic policies can be important in the ASEAN relationship. For example, if Australia is to be able to develop its service industries' involvement in the ASEAN region, the degree to which such involvement is likely to be welcomed will be influenced by the degree to which Australia is seen as politically interested in, and sympathetic towards, ASEAN interests. (para. 5.8)
- (d) The Committee observes that Australia is ... located in contiguity to Asia (especially ASEAN) and shares important common interests with its Asian neighbours.

xxxx

While Australia's ethnic and cultural identity is likely to remain distinctly different from those of its ASEAN neighbours, increased cooperation between Australia and ASEAN can bring Australia a greater understanding and appreciation of the ASEAN states and substantial mutual benefits. Australia will be affected by, and will continue to be involved in, regional developments. What Australia can most usefully pursue in the context of relations with ASEAN is an improved level of mutual awareness and understanding, increased economic interactions and cooperation on political and security issues to enhance regional security and minimise the destabilising potential of major power interference. (para. 5.11)

CHAPTER I

AUSTRALIA AND SOUTHEAST ASIAN REGIONAL CO-OPERATION: THE EMERGENCE OF ASEAN

1.1 There is widespread agreement in Australia that ASEAN has come to be an important focus for Australian policies towards Southeast Asia. The Department of Foreign Affairs' submission to the Committee stated:

'Australia recognises that the ASEAN grouping constitutes a fundamental and important force for stability in the region. Over the past fifteen years or so the Association has developed as a strong and viable organisation ... (We) recognise the long-term security of Asia depends on the development of productive relations between the countries of the region ... It is important for Australia to have as full an understanding as possible of the ASEAN countries, both individually and in association.' 1

1.2 As a prelude to a detailed examination of the Australia-ASEAN relationship, it is useful to consider the context in which ASEAN emerged and became of significance for Australia. This Chapter will accordingly consider briefly, (1) the imperatives for, and obstacles to, regional co-operation in Southeast Asia, (2) the formation and development of ASEAN, (3) the evolution of Australian policies towards Southeast Asia since World War II, and (4) the development of Australia's relations with ASEAN since 1967.

1. Imperatives for regional cooperation in Southeast Asia

1.3 Interest in regional cooperation in Southeast Asia has been a product of the dilemmas faced by the states of the region since the end of World War II. The prospects for stability and peaceful development in Southeast Asia after 1945 were inhibited by several major factors. With the sole exception of Thailand,

all of the states of the area had been subject to varying periods of colonial rule. The colonial period had seen substantial changes within the societies of Southeast Asia; traditional life was disrupted, new economic sectors were created (especially for the export of tropical products), extensive political change was stimulated. The geographic boundaries of some of the major states which emerged in the region were substantially the product of colonial initiatives and re-arrangements. Moreover, while the societies had experienced extensive and uneven economic and political change and development under colonial rule, they remained largely isolated from each other. In the later stages of colonial influence, communications and commerce expanded rapidly, but the economies of the area developed as competitive producers of much the same kind of agricultural, mineral and forest products. Commercial activities were largely controlled by, and oriented towards, the external colonial powers. There was little reason or scope for the development of intra-regional association or trade. Furthermore, Western influence was communicated in several different languages - an additional source of division among the peoples of the area, especially the emerging Western-influenced elites. ²

1.4 When the Southeast Asian peoples under colonial rule began to obtain political independence (beginning with the Philippines in 1946), they faced the problem of developing cooperative relations with unfamiliar neighbouring states with which they often shared colonial-drawn territorial boundaries. In the absence of any extensive background of communication and trust among the leaders of the newly independent states, regional disputes - incompatible border claims, personality clashes and economic rivalries - were a major source of tension. The states that were to form ASEAN also faced a series of pressing internal problems, including demands for economic development and opposition from Communist-led insurgency movements.³

1.5 Cooperation among neighbouring states offered one useful avenue for reducing the scope for conflict and instability. However, such cooperation took time to develop. The first attempts at cooperation were inspired largely by the major external powers, anxious to preserve their ongoing interests. The US-inspired South-East Asia Treaty Organisation initiated in 1954 was an attempt to establish an anti-communist regional association, but it attracted only two members from within the region (Thailand and the Philippines) and thus did little to promote cooperation in the area as a whole. The Asian Pacific Council (ASPAC), established in 1966, was a further attempt to develop a grouping of anti-communist states in the region at the height of the US involvement in Vietnam, but it too failed to develop widespread support of any significance and was allowed to lapse in 1972.⁴

1.6 In the early 1960s, two further notable attempts at regional cooperation were initiated; the Association of Southeast Asia (ASA, established by Malaysia, the Philippines and Thailand in 1961), and Maphilindo (a grouping of Malaysia, the Philippines and Indonesia which had a brief life in 1963). These groupings were significant because unlike SEATO and ASPAC their membership was purely regional. While neither survived, each influenced the establishment of ASEAN.

1.7 ASA was established at a time of increasing concern among some regional states about China's foreign policy intentions. ASA was formally non-ideological but it was seen as being politically too close to SEATO (to which two of its three members were parties) and it was unable to attract as a member Indonesia, the region's largest state. ASA planned a modest and inoffensive program of cooperation but its efforts were neutralised by the rising currents of discord in the region, notably the Philippines' claim to Sabah (in 1962) and the opposition of Indonesia to the attempted formation of Malaysia in 1963.⁵ Maphilindo was significant as the first indigenous

regional grouping with which Indonesia was prepared to associate, but it was rendered irrelevant by the hostilities aroused by Indonesian 'Confrontation' towards the new Federation of Malaysia from September 1963.⁶

2. The formation and development of ASEAN

1.8 The high degree of tension which arose during the period of 'Confrontation' illustrated both the obstacles in the way of meaningful regional cooperation and the desirability of continuing to pursue it. Moreover, a new source of inter-state tension emerged in August 1965, when Singapore separated from the Federation of Malaysia and faced an uncertain future as a small, predominantly Chinese city state. Several other factors encouraged renewed efforts towards regional cooperation. After the September 30 'coup' in Indonesia in 1965, the Indonesian government progressively abandoned the policy of 'Confrontation' and pursued an accommodation with neighbouring Malaysia. The Philippines moderated its stance on the Sabah claim. There were also some indications that the commitment to involvement in the region by the United States and Britain was becoming uncertain; the US faced substantial difficulties in Vietnam and Britain in 1966 had indicated its desire to withdraw its forces from the region.⁷

1.9 With the atmosphere now more conducive to cooperation, ASA was revived in 1966. Since Indonesia was unwilling to join the pre-existing grouping it was agreed that a new association would be formed which would not have ASA's 'aligned' image, but which would retain its informal and pragmatic operating style. The Association of Southeast Asian Nations was inaugurated on 8 August 1967 in Bangkok.⁸

1.10 At the time of ASEAN's formation, its precise role and possible directions were not entirely clear. Mr S. Rajaratnam, then Foreign Minister of Singapore, commented at a later ASEAN meeting in 1974 that,

'You may recollect at the first meeting in 1967, when we had to draft our communique, it was a very difficult problem of trying to say nothing in about ten pages, which we did. Because at that time, we ourselves having launched ASEAN, were not quite sure where it was going or whether it was going anywhere at all.'⁹

The Bangkok Declaration did largely confine itself to a generalised appeal to 'good understanding, good neighbourliness and meaningful cooperation' in economic, social and cultural fields. The Declaration, however, also gave an indication that the association had an underlying political purpose. The preamble to the Declaration stated that,

'...the countries of Southeast Asia share a primary responsibility for strengthening the economic and social stability of the region and ensuring their peaceful and progressive national development and ... they are determined to ensure their stability and security from external interference in accordance with the ideals and aspirations of their peoples.'

It also declared that foreign bases in member states were to be regarded as temporary in nature (a reflection of the 1963 Manila agreement on the formation of Mapnilindo).¹⁰

1.11 In its first eight years of existence, ASEAN proceeded cautiously. ASEAN took over the organisational style of ASA. Its administrative machinery consisted of a standing committee at the ambassadorial level, small national secretariats, and permanent

and ad hoc committees responsible for studies and projects in various fields. A large number of meetings were held, but progress was slow partly because of the emphasis on achieving a unanimous consensus before any action should be taken.¹¹

1.12 In November 1971, ASEAN endorsed the concept of a 'zone of peace, freedom and neutrality' for the region in the Kuala Lumpur Declaration. The Declaration was important as an assertion of principle rather than as a plan for action; there was no consensus within the Association on exactly how neutralisation could be achieved.¹²

1.13 Up to 1975, ASEAN's achievements seemed on the surface to be very modest. Serious consideration of economic integration had been deferred to avoid potential disputes over the allocation of costs and benefits. Cooperation was pursued in what were seen as uncontroversial fields; tourism, meteorology, fisheries and cultural activities. This style of cooperation avoided the growth of unrealistic expectations for the new association. It also enabled the development of a most important prerequisite for lasting, long-term regional cooperation - familiarity and trust among leaders and senior officials.¹³

1.14 Below the surface, ASEAN's accomplishments up to 1975 can be considered in terms of conflicts avoided and militarisation resisted. Discussions on the Malacca Straits were conducted within the ASEAN framework and, on a non-ASEAN basis, bilateral military cooperation reduced border tensions among the members. Although the Philippines claim to Sabah was reactivated in 1968 and Malaysia-Philippines relations were disrupted, ASEAN continued to function. By helping to reduce the prospects for tension and conflict between its members, ASEAN made a positive contribution towards both internal stability and the expansion of the individual economies of the ASEAN region.¹⁴

1.15 The pattern of cautious and gradual development of ASEAN was replaced by a greater sense of urgency and greatly increased activity from early 1975. One major stimulus for action was widespread concern among the members at the possible regional implication of the collapse of the non-Communist regimes in Saigon and Phnom Penh. It seemed possible that a united Vietnam might be a destabilising influence, especially if it chose to direct some of its large surplus of captured US-made weapons to insurgent movements in ASEAN states. Stimulus had also been provided by the oil price rises (from 1973) and subsequent economic recession, which highlighted the ASEAN members' vulnerability to changes in the international economic environment and focused new attention on whether economic cooperation could help alleviate some of the members' problems.¹⁵

1.16 From mid-1975, a new phase in ASEAN's development began. Proposals for economic cooperation were re-evaluated; the economics ministers of the Association met for the first time in November 1975 to consider them. In February 1976 the first Heads of Government meeting was held in Bali. The Bali summit produced new and more concerted statements of ASEAN's goals as a regional body. The Declaration of ASEAN Concord called on the members to undertake to 'consolidate the achievements of ASEAN and expand ASEAN cooperation in the economic, social, cultural and political fields'. In the political sphere the Declaration stated that the stability of the ASEAN members individually and as a group '... is an essential contribution to international peace and security'. The members resolved to contain internal security threats and reiterated support for the Zone of Peace concept. A Treaty of Amity and Cooperation gave expression to the principle of peaceful settlement of disputes among the members; it was also open to accession by other states in the region. Much attention was also directed to economic cooperation and a detailed blueprint was laid out in the Declaration of Concord¹⁶ (for details see Ch. III, Part B).

1.17 For a brief period (of about two years) after the Bali summit, ASEAN's emphasis was heavily on bringing its economic cooperation policies into operation; a process fraught with problems. A second Heads of Government meeting was held in Kuala Lumpur in August 1977; economic issues predominated. In this period, (mid-1976 to mid-1978) prospects for the development of detente between ASEAN and the Indochina states (especially Vietnam) seemed favourable.¹⁷ However, as relations between Vietnam and Democratic Kampuchea deteriorated, as Sino-Vietnam tensions increased and as the outflow of people from Vietnam began to increase substantially (from early 1978) pressures developed in the region which shifted attention in ASEAN back to issues of regional security.

1.18 The refugee flows from Indochina were of substantial concern to the ASEAN region. The arrival of tens of thousands of refugees on the territory of ASEAN members imposed severe social and economic burdens, threatened to be politically disruptive, and challenged the ASEAN members' capacity to act in an effective and humanitarian way. The ASEAN states sought actively to direct international attention to the issue, for example, at their annual Foreign Ministers meeting in June 1979. In July 1979, at the conference on refugees in Geneva, most of ASEAN's demands were met when Vietnam imposed a 'moratorium' on outflows, and aid and resettlement commitments from major Western states increased substantially.¹⁸

1.19 The rising flow of refugee departures increased concerns in ASEAN members about Vietnam's regional policies. Tensions heightened when Vietnamese forces (with smaller numbers of anti-Khmer Rouge Cambodians) invaded Cambodia from 25 December 1978. The invasion, coming as it did after a series of visits to ASEAN states in late 1978 by Vietnam's Prime Minister Phan Van Dong during which Vietnam gave assurances that it would respect the principles of territorial sovereignty and non-interference in

states' internal affairs, appeared as a breach of faith to the ASEAN members. While Vietnam's action overthrew a regime in Cambodia which was highly unpopular both internally and internationally, the invasion indicated a willingness by Vietnam to use force and to enter en masse the territory of a neighbouring state which no ASEAN member was prepared to view with equanimity. Since 1979, ASEAN has played a leading role in developing and pursuing a policy towards the Cambodia conflict which has denied international acceptance to Vietnam's presence in Cambodia, without, as yet, inducing it to withdraw.¹⁹

1.20 While ASEAN's policies towards Indochina have dominated its discussions since 1979, the Association has continued to try to pursue economic cooperation programs and to expand its 'dialogues' on economic issues with its major trading partners. ASEAN has retained its decentralised style of organisation and a multiplicity of committees and groups has developed to coordinate its wide variety of activities. Considerable discussion has been directed towards the need for a review and rationalisation of ASEAN's organisation and of its economic co-operation schemes, a process which continues.

3. Evolution of Australia's involvement in the Southeast Asian region

1.21 A striking feature of Australia's relationships with the Southeast Asia region is the short space of time in which they have developed. Up to 1939, Australia had few political contacts with Southeast Asia. The territories of the region were viewed in the context of the policies of the major colonial powers who controlled them. By the end of the 1930s, Australian governments were beginning to develop the basis for a more independent structure of foreign policy-making (including the beginnings of a separate diplomatic service). The impact of the Japanese occupation of much of Southeast Asia dramatised the region's

importance to Australian security. After the war Australia faced the challenge of developing associations with newly-independent states in the region in a climate of pervasive ongoing security concerns.²⁰

1.22 Until the beginning of the 1970s, Australian policies towards the region were dominated by the desire to promote associations with major outside powers in security arrangements and to encourage economic development through Western economic assistance. Australia continued its traditional defence association with Britain in Malaya (later Malaysia) and Singapore. Australia signed the Manila Pact in 1954 and supported SEATO. Australian governments made a series of military commitments to Malaya (from 1955) to assist in the struggle against the Malayan Communist Party and later to support Malaysia during Confrontation. An air force squadron was deployed in Thailand in 1962 during the crisis over Laos. An extensive military commitment was made to Vietnam between 1962 and 1972. The emphasis was on the need to secure the region from externally-inspired Communist influence in the context of continuing Western military involvement.²¹

1.23 Along with emphasis on security, Australia encouraged economic assistance to the region primarily through the Colombo Plan. Australia itself provided aid and extensive educational and training assistance (beginning with a modest provision of 3 scholarships per year for Southeast Asians in 1947).²²

1.24 Australian associations with the individual countries in the region developed progressively after 1945, but not to a uniform degree. With Indonesia, Australia developed some close associations with the Indonesian Republic during its struggle against the Dutch up to 1949. In the 1950s and early 1960s, however, relations were less close as Australia (up to 1962) opposed Indonesia's attempted incorporation of West New Guinea (West Irian) and later extended support to Malaysia during

Confrontation. Relations with Malaya and Singapore were considerably closer, mainly because they developed under the aegis of British involvement. Australia had relatively fewer historical and economic associations with Thailand and the Philippines and there was less immediate scope for the development of close relations.²³

1.25 Australia expressed some initial interest in regional cooperation from the early Post-War period. For example Dr Evatt stated in 1947 that,

'Just as far as the peoples of South East Asia cease to be dependent upon the decisions of European Governments, so far do Australia's interests in the councils of South East Asia increase. We must work for a harmonious association of democratic states in the South East Asia area, and see in the development of their political maturity opportunity for greatly increased political, cultural and commercial cooperation.'²⁴

However, the accent in Australia on regional cooperation from the late 1940s was very largely on security association between the regional states and outside powers. These emphases continued until the late 1960s, but they came under review as the pattern of Western involvement in the region began to change, notably with Britain's withdrawal from east of Suez after 1967 and the beginnings of progressive US withdrawal from Vietnam from 1969. Sino-American rapprochement added a further stimulus for reconsideration of Australia's regional policies.

4. Australia and ASEAN since 1967

1.26 The emergence of ASEAN was viewed favourably by the Australian government, but since ASEAN itself deliberately sought a modest pace of development in its early years, there was initially little scope for any direct relationship with Australia. ASEAN became of more interest to Australia in the

early 1970s. In April 1974, Australia became the first country outside the ASEAN region to establish formal links with the Association. Under an agreement concluded in Canberra, Australia initiated aid to joint ASEAN projects and training assistance to ASEAN experts engaged on ASEAN projects. This initial multilateral aid commitment grew into the Australia-ASEAN Economic Cooperation Program (AAECP).²⁵

1.27 When the ASEAN members after 1975 moved to intensify the Association's pace and scope of activities, the relationship with Australia accordingly grew in relevance to both parties. The relationship since 1975 has moved through several phases. In the early phases attention focused heavily on economic relations and trade. ASEAN initiated a detailed dialogue on economic relations in 1976 when it issued a memorandum which outlined areas of Australian policy towards imports which ASEAN suggested affected their members' interests. The memorandum was given considerable attention by Australian media, which helped to publicise ASEAN as an emerging factor of significance for Australia's regional policies. Within government, a Standing Interdepartmental Committee on Relations with ASEAN was initiated in January 1977.²⁶

1.28 At the second ASEAN Heads of Government meeting in Kuala Lumpur in August 1977 Prime Minister Fraser held joint discussions with ASEAN leaders on a variety of issues of common interest including global economic problems and the need for stability in commodity prices and improved marketing facilities, Australian aid and consultative projects, and trade issues. Australia agreed to increase its overall aid commitment to the ASEAN countries and it offered to provide assistance to ASEAN's joint industrial projects. The discussions also resulted in agreement on a series of trade promotion meetings (including a trade fair and an industrial cooperation conference), a joint research project into the ASEAN-Australia economic relationship and an arrangement for regular consultation on trade matters.²⁷

1.29 Australia-ASEAN institutional relations proceeded along the lines set out at the Kuala Lumpur meeting. The Australia-ASEAN Economic Cooperation Program pursued a series of projects. The joint research project on economic relations was initiated in 1980. An Industrial Cooperation Conference was held in Melbourne in June 1978 and ASEAN Trade Fairs were mounted in Sydney (October 1978) and Melbourne (August 1980). In November 1978, agreement was reached on the ASEAN-Australia Consultative Meetings (AACM) between the ASEAN-Canberra Committee (comprising the ASEAN heads of mission in Canberra) and the Australian Interdepartmental Standing Committee. Private business links were also developed on a multilateral basis; the ASEAN-Australia Business Conference was inaugurated in Kuala-Lumpur in June 1980.²⁸

1.30 The potential significance of the developing framework of Australia-ASEAN relations was illustrated in 1978-1979 by the dispute which arose over Australia's International Civil Aviation Policy (ICAP). The policy changes introduced by ICAP were of significance mainly to Singapore, whose airline Singapore Airlines was far more involved in Australia-European traffic than any other ASEAN airline. Singapore, however, was able to gain effective ASEAN support for a joint criticism of the ICAP policy, despite the possible benefits which other ASEAN countries stood to gain from it, by portraying the policy as an example of the type of protectionist policies commonly practised by developed Western states in their relations with the Third World. By 1980 the dispute had been effectively resolved, in a way largely favourable to Singapore and her ASEAN partners. The dispute clearly underlined ASEAN's capacity as a joint negotiating group in relations with Australia²⁹ (see Chapter II, Section 8).

1.31 While some discord was experienced over ICAP, in other areas of Australia-ASEAN relations cooperation was extensive. The rising rate of outflow of refugees from Indochina from early 1978 was of substantial concern to Australia as well as ASEAN. The

arrival in Northern Australia of a number of boats carrying Vietnamese refugees in late 1977 had caused considerable disquiet in Australia; most boats had arrived with little prior warning. In 1978 and 1979 Australia cooperated extensively with ASEAN to support moves to 'internationalise' the refugee problem by gaining increased financial assistance and particularly increased resettlement commitments from Western states. Australia also itself accepted substantial numbers of refugees. Australia was able to lend valuable support to ASEAN on an issue of major concern throughout the region.³⁰

1.32 The Cambodia issue also became of substantial importance in the relationship from 1979. Australia offered its full diplomatic support to the ASEAN joint position on Cambodia. In 1981, Australian policy diverged with that of ASEAN on the question of recognition of the Democratic Kampuchean regime; Australia formally withdrew recognition on 14 February. The Australian Government's action drew a critical response from ASEAN leaders, especially Singapore. On the issue of Vietnam's presence in Cambodia and the desirability of withdrawal, Australia supported the ASEAN-sponsored resolution at the United Nations.³¹ From 1979, policies towards Indochina have continued to be of substantial importance in the relationship as the following Chapter will indicate.

ENDNOTES [Chapter 1]

1. Evidence, p.363.
2. Charles A. Fisher, 'Geographic Continuity and Political Change in Southeast Asia' in M.W. Zacher and R.S. Milne (eds) *Conflict and Stability in Southeast Asia* (New York, 1974), pp.3-44.
3. Fisher (1974); L.D. Stifel, 'ASEAN Cooperation and Economic Growth in S.E. Asia', *Asia Pacific Community*, No.4, 1979, p.115.
4. Fisher (1974) pp.27-37.
5. Russell Fifield, *National and Regional Interests in ASEAN* (Occasional Paper No.57, Institute of Southeast Asian Studies, Singapore, 1979), pp.3-6.
6. Fifield (1979), pp.3-6.
7. Stifel (1979), pp.115-117.
8. Fifield (1979), pp.3-6.
9. Michael Leifer, 'The ASEAN States and the Progress of Regional Cooperation in Southeast Asia' in B. Dahm and W. Draguhn (eds) *Politics, Society and Economy in the ASEAN States*, Wiesbaden, 1975, p.4.
10. Michael Leifer, 'Problems and Prospects of Regional Co-operation in Asia: The Political Dimension', *Indonesia Quarterly*, 4, 1976, pp.92-104.
11. A. Jorgensen Dahl, 'ASEAN 1967-1976: Development or Stagnation?' *Pacific Community*, 7, 1976, pp.519-535.
12. Philip Darby, 'Stability Mechanisms in Southeast Asia II, Balance of Power and Neutralisation', *International Affairs*, 49 (1973), pp.204-218; J.L.S. Girling, 'A Neutral Southeast Asia?' *Australian Outlook*, 27 (1973) pp.123-133; G. Fairbairn, 'The Neutralisation of South-East Asia', *Current Affairs Bulletin*, 50 (1973) pp.23-30.
13. Jorgensen-Dahl (1976).
14. Stifel (1979) pp.119-121.
15. Lau Teik Soon, 'ASEAN and the Bali Summit', *Pacific Community*, 7, 1976, p.543.
16. Lau Teik Soon (1976) pp.536-543.
17. K.K. Nair, 'ASEAN-Indochina Relations Since 1975: The Politics of Accommodation', (Canberra Papers on Strategy and Defence, No.30, ANU, 1984), pp.61-106.
18. Frank Frost, 'Vietnam, ASEAN and the Indochina Refugee Crisis' in Leo Suryadinata, ed. *Southeast Asian Affairs 1980* (Institute of Southeast Asian Studies, Singapore, 1980), pp.347-367.
19. Nair (1984), pp.111-208.
20. T.B. Millar, *Australia in Peace and War*, Canberra, 1978, pp.165-172; 223-266.
21. Millar (1978) pp.223-266.
22. Millar (1978) p.168.
23. Millar (1978), pp.223-266.
24. Millar (1978), p.168.
25. 'ASEAN and Australia', in *Australian Foreign Affairs Record*, Vol.54, No.1, January 1983, pp.6-10.
26. Frank Frost, 'ASEAN and Australia', in Alison Broinowski, ed, *Understanding ASEAN*, London 1982, p.155.

27. Frost (1982) p.155-156.
28. Frost (1982) p.156.
29. Christopher C. Findlay, 'Australian International Civil Aviation policy and the ASEAN-Australia dispute', ASEAN-Australia Economic Papers No.1, ASEAN-Australia Joint Research Project, Kuala Lumpur and Canberra, 1983.
30. Frost (1982), p.163-165.
31. Frank Frost 'The Conflict Over Cambodia: Implications of the Khmer Coalition Agreement', Basic Paper No.14, Legislative Research Service, Canberra, 1982, pp.31-36.

CHAPTER II

AUSTRALIA AND THE ASEAN REGION:
POLITICAL AND SECURITY ISSUES

1. Introduction

2.1 After seventeen years of existence, ASEAN is now of substantial significance for its members, for the Southeast Asian region and internationally. The Department of Foreign Affairs stated that,

'In recent years the pace of cooperation amongst the ASEAN countries has accelerated. This cooperation and sense of purpose derives from increasing confidence in ASEAN's own potential for political and economic influence.'¹

2.2 ASEAN, another witness observed, 'has turned out to be a very important pillar of stability and security in the region'.² The growing sense of purpose and confidence in ASEAN now extends beyond the ranks of the governments which established it. It was argued that

'The "idea" of Southeast Asian solidarity ... has caught the imagination of officials and professionals alike ... They believe that Southeast Asia can now be looked up to on the world scene; whereas previously the region was felt to be a disparate and almost anarchic collection of countries, individually weak - hence vulnerable to outside pressures and riven by internal strife. ASEAN nowadays is ... a symbol of self-confidence ... [and] ... a factor to be reckoned with by outside powers.'³

2.3 ASEAN continues to be a grouping of states notable for their political diversity. The members' internal political systems differ substantially, and so do some of their major

emphases in external relations. Two states, the Philippines and Thailand, are linked to the United States by security treaties. Malaysia and Singapore are associated with Australia, the UK and New Zealand in the Five Power Defence Arrangements. Nevertheless, Malaysia and Singapore, together with Indonesia, are members of the Non-Aligned Movement. (Brunei's foreign policy orientation is still in a formative stage). The members do not share identical orientations towards the major powers whose interests impinge on the region. ASEAN has, nonetheless, continued to assert influence in regional and international affairs on issues where an effective joint consensus can be maintained.

2.4 This Chapter will examine ASEAN's current approaches towards cooperation on political and security issues and consider the present and longer term implications of ASEAN cooperation in these areas for Australia. The Chapter considers the influence of the major powers in the ASEAN region (section 2); intra-ASEAN political and security issues (section 3); ASEAN and Australian interests in and policies towards conflicts in Indochina (sections 4 and 5); Australian defence interests and the ASEAN region (section 6); immigration and refugees (section 7); and multilateral and bilateral relationships between Australia and ASEAN (section 8).

PART A Recent Developments in ASEAN Co-operation

2. The ASEAN region and the major powers

2.5 Chapter One noted that changes in the pattern of involvement in the region by the major powers were an important stimulus towards the formation of ASEAN. The roles of the major powers continue to be of crucial importance to the ASEAN region, as a number of submissions and witnesses indicated.

2.6 In the period since 1975, when ASEAN has become of major significance, the role of the United States in the Southeast Asian region has changed considerably. In the early to mid 1970s, the United States withdrew its forces from mainland Southeast Asia. It retained long-established and highly important bases at Subic Bay and Clark Field in the Philippines. These bases give the US a substantial and preponderant military presence in the region: (US military strength in the Philippines currently comprises a tactical fighter wing, a tactical air transport wing, a naval air patrol squadron and over 14 000 personnel).⁴ While SEATO was phased out as an organisation in 1977, the Manila Treaty of 1954 remains in force. The Manila Treaty continues to be significant because it is the only security Treaty which associates the United States with Thailand. The Philippines is also a signatory but the US has separate treaties with the Philippines.⁵

2.7 The United States has a substantial economic involvement in the ASEAN region: investment exceeds \$US10 billion and trade exceeds \$US23 billion annually.⁶ The US continues to be the major supplier of military equipment to the ASEAN states and has increased substantially its sales to the ASEAN members since 1975. Between 1975 and 1980, US military aid to ASEAN countries, mainly concessional military sales credits for purchases of American weapons, equipment and ammunition amounted to \$US820m., nearly two and a half times the total for the period 1970-1975. For the fiscal year beginning in October 1984, the Reagan Administration is seeking just over \$US246m. in security assistance for ASEAN countries; \$105.4m. for Thailand, \$87m. for the Philippines, \$42.7m. for Indonesia, \$11m. for Malaysia and small amounts for Singapore and Brunei (which do not require such concessional assistance).⁷

2.8 The United States has major strategic interests in the ASEAN region. The United States continues to emphasise the need to maintain a stronger strategic posture in the region than does the Soviet Union. It is concerned at the possibility of any permanently increased Soviet presence and heightened capability for the projection of Soviet power from Vietnam. The United States is also very sensitive to the development of any military conflict in Indochina which could threaten the security of Thailand.⁸

2.9 While the United States is now pursuing a less overt security role in the region than it did in the period of military involvement in Indochina up to the early 1970s, its role continues to be most important. The strategic significance of its bases in the Philippines has been enhanced by Soviet involvement in Afghanistan and the limited Soviet presence in Vietnam.⁹ The significance of the regional presence of the United States for the ASEAN members has also been enhanced since 1978. Dr Mediansky told the Committee that,

'... the Kampuchea conflict has re-established and firmed up the regional over-the-horizon United States military presence and has generally contributed to United States interests and support for the ASEAN states on terms that are very attractive to the latter.'¹⁰

2.10 The Soviet presence in the region is substantially less than that of the United States, but has increased since 1978 and has attracted considerable attention. In assessing Soviet interests in the region, the Department of Defence stated that,

'The Soviet Union's conclusion of an alliance with Vietnam in 1978 represented an important breakthrough in an area of the world where its assets were otherwise limited. The use of Vietnamese facilities has enabled the USSR to project Soviet power more easily into and beyond the region and to put pressure on China in an area remote from the Soviet homeland. The Soviet Union

also hopes that its military presence will cause ASEAN countries to take greater notice of Soviet interests'.¹¹

The Soviet presence in Indochina is estimated to include approximately 7000 military and civilian advisers in Vietnam. The Soviet Navy routinely deploys 20-26 warships (including 4-6 submarines) at Cam Ranh Bay. Two BEAR D long range reconnaissance aircraft and two BEAR F long range ASW aircraft have been permanently based at the Cam Ranh Bay airfield. In late 1983, an upgrading of the Soviet air presence took place with the arrival of nine BADGER aircraft, including several of the strike variant. This deployment has been seen as significant because the BADGERS have the capacity to carry anti-ship cruise missiles. The Soviet access to facilities in Vietnam is primarily of value for power projection in peace or in times of tension; the utility of the Soviet presence would be limited in a war involving the superpowers, because of its vulnerability to American attack.¹²

2.11 While the Soviet access to facilities in Indochina has increased its presence in Southeast Asia overall, Soviet influence in the ASEAN region remains limited. In evidence to the Committee, Dr Mediansky commented:

'The Soviet Union is often described as an incomplete superpower. The description is particularly apposite when applied to its role in South East Asia. Soviet political, economic and military interests outside Indo-China remain limited. Soviet political influence in the ASEAN states remains low for a number of reasons, not least because of Moscow's support for the Vietnamese military presence in Kampuchea and its associated political lodgment in Vietnam. At the same time Soviet ideological influence in the non-Indo-China communist movements is almost totally eclipsed by China. The attempt to exploit the ASEAN states' reservations about China remain largely unsuccessful. Indeed, the ASEAN states are now in a

closer accord with Moscow's adversaries - that is, China and the United States - than at any other time in the past.¹³

2.12 The ASEAN states have been unwilling to accept a major Soviet role in the region. While the Soviet Union has tried to improve economic relations with the ASEAN members, its trade remains low and prospects for expansion are limited. The range and quality of Soviet exports, its terms of trade and the lack of concessional transfer programs make the Soviet Union an unattractive alternative to ASEAN's comprehensive economic links with the West. While the Soviet's military presence has expanded considerably, it has added little to Soviet regional influence; it may, in fact, have been counter-productive, because of the increased climate of suspicion of Soviet intentions in the ASEAN region.¹⁴

2.13 Soviet influence in Vietnam, by contrast, is far more extensive. Dr Mediansky stated:

'Since 1978 an extensive Soviet presence has been injected into the economic, military and administrative life of Vietnam. Hanoi's isolation and its severely depressed economic circumstances have made it heavily dependent on Soviet and East European assistance. This in turn has curtailed Vietnam's limited options to diversify its economic relations beyond the Soviet bloc. Similarly, Vietnam's security is now extensively dependent on the Soviet Union. The Treaty of Friendship and Co-operation has undoubtedly enhanced Hanoi's deterrent posture. The extensive post-1978 military aid has substantially improved the capability of the Vietnamese forces but it has also made them far more dependent on the continued flow of Soviet assistance.'¹⁵

However, while the Soviet Union's role has increased in Vietnam and Indochina, the level of Moscow's political influence remains circumscribed by Vietnam's desire to maintain a special relationship with Laos and Cambodia and by its limited concession of military facilities to the Soviets.¹⁶

2.14 China's policy towards ASEAN has changed substantially since 1967. Initially hostile to the Association, China has come to see it as providing a valuable stabilising influence in the region.¹⁷ The conflict over Cambodia has seen Chinese associations with ASEAN increase. The Department of Foreign Affairs in its submission stated that,

'China has been a key supporter of the ASEAN strategy and of the resistance coalition. This is consistent with long-standing Chinese objectives in the Indo-China region, including its support for the Khmer Rouge and opposition to the spread of Vietnamese influence by force. It argues strongly that Vietnam's presence in Cambodia must be opposed on principle. China has benefitted in its relationship with the ASEAN countries by its similarities of views on Cambodia; ASEAN similarly perceives benefits for its relations with China in the current situation.'¹⁸

2.15 Reservations about China's long-term capability and intentions in the region continue among ASEAN members, most notably in Indonesia and Malaysia. One major contributing factor to these reservations is China's policy of continuing to offer some expression of support to the Communist parties in ASEAN countries. Levels of support have been reduced in recent years, partly because of the weakness of most of the parties themselves, but China has been unwilling to eschew support altogether.¹⁹ Another contributing factor has recently been concern among ASEAN members that China's economic modernisation program, conducted with Western assistance, may increase its long-term capacity for influence in the region. Malaysia's Prime Minister, Dr Mahathir, during his visit to Australia in August 1984, stated that '... a China that is very well developed with the highest technology and expertise with an army that is well equipped may very well tempt the leaders of China to venture southwards.'²⁰

2.16 China's lack of diplomatic relations with Indonesia and Singapore is an anomaly which seems unlikely to change rapidly. In the case of Singapore, lack of formal diplomatic relations has not prevented the development of political contacts and extensive economic relations between the states. In the case of Indonesia, Professor Yahuda suggested that, while China's leaders find Indonesia's reluctance to resume relations 'puzzling', the situation is unlikely to change quickly.²¹

2.17 In discussing Chinese foreign relations generally, Professor Yahuda also noted that continuation of recent trends depends to a considerable extent on internal political arrangements, which can change. He commented,

'... although I would be surprised if the Chinese could turn away from elements of the open door they have at the moment I think that we would be wrong to expect over the next five years or so the policy to follow along current lines. If there was a change ... within China then it would affect to a certain extent relations with the rest of South East Asia; it would affect the way it deals with Hong Kong and the way it deals with Taiwan. It would have a whole variety of ripple effects'.²²

Prime Minister Mahathir during his visit to Australia also emphasised the uncertainties in direction of Chinese foreign policy if its leadership was to change substantially.²³

2.18 Japan's role in the ASEAN region continues to be dominated by its extensive economic relationships with the ASEAN states (see Chapter III, paras. 3.58-3.59). The extent of Japan's economic involvement has often been viewed with some ambivalence by ASEAN states. Reservations also exist about the possibility of a greater Japanese commitment to expand its defence role and capacities. The Department of Foreign Affairs submission observed that this has been the focus of some concern in the

Philippines, although it stated that, 'The Philippines appears, however, to accept a limited role for Japan e.g. in safeguarding its sea lines within 1000 miles from Tokyo'.²⁴

2.19 In the context of extensive ongoing major power interest and involvement in the region, ASEAN's concept of a 'Zone of Peace, Freedom and Neutrality' (ZOPFAN) for the region, remains a long-term goal. ASEAN's endorsement of the ZOPFAN concept, which was reaffirmed by the ASEAN Foreign Ministers Joint Communique of 10 July 1984, is aimed at creating a situation where the major powers, especially the USSR and China, may be persuaded to decrease their regional influence. The immediate viability of the concept, however, is limited by the absence of a consensus on exactly how it might be implemented.²⁵ In the absence of such a consensus, the ASEAN states have preferred to maintain existing associations with extra-regional Western powers. Malaysia and Singapore continue involvement in the Five Power Defence Arrangements, Thailand maintains a security link with the United States through the Manila Treaty and the Philippines is extensively involved with the US defence structure. There has been no pressure from within ASEAN for these external associations to be curtailed.²⁶

2.20 In mid-September 1984, Malaysia's Foreign Minister Tengku Ahmad Rithaudeen announced after a meeting of senior ASEAN officials that ASEAN had agreed 'in principle' to the concept of a nuclear weapons free zone for Southeast Asia. Such a zone, the Foreign Minister stated, would be one of the steps towards the realisation of a Zone of Peace, Freedom and Neutrality in the region. At the time of the announcement, however, it was clear that the proposed zone was very much a long-term goal since Soviet and US agreement would be required if it were to be feasible.²⁷

2.21 At present, the balance of major power interests in the ASEAN region is relatively stable. While the Soviet Union has increased its military presence in Vietnam and Indochina this has not so far brought commensurate political influence for it in the ASEAN region. In military and strategic terms, the United States continues to be the predominant influence. Indeed it is arguable that the political status of the US in the ASEAN region is considerably more favourable than it was in the era of mass military involvement in Southeast Asia. However, the ASEAN members are acutely aware of the potential for change in major power policies and relationships, and of the possible implications for the region. They continue to be concerned that changes in the present power balance through greater direct involvement of the Soviet Union and changes in the direction of Chinese foreign policy could affect adversely the security of the region.

3. Intra-ASEAN political and security issues

2.22 As Chapter One observed, ASEAN was established in a regional climate of internal instability and inter-state rivalries and conflicts. The ASEAN members continue to place heavy emphasis on both the maintenance of internal political stability and on containing and defusing potential conflicts within their own region, thus enhancing the climate for economic growth and minimising the dangers of major power involvement and intervention. The emphasis placed on defence and security issues by the ASEAN members has increased somewhat in the period since the invasion of Cambodia, but the individual ASEAN members continue to eschew the notion of any security or military arrangement on a formal ASEAN basis.

a) Internal stability and the ASEAN states

2.23 The internal stability of the individual ASEAN member states is clearly of significance both for the Association itself and for Australian interests in the region. The Committee did not seek to examine comprehensively the patterns of political development and change occurring in the ASEAN states, but it did give some consideration to the implications of possible internal changes in the ASEAN region for ASEAN as a regional group and for Australia.

2.24 One major point which was emphasised in several submissions to the Committee is that since the mid-1960s, the ASEAN region had been substantially more stable politically than then seemed likely. One witness (Dr Catley), saw the progress of economic growth in the ASEAN region as a major contributing factor to this stability, even though the growth has not been distributed evenly either within or between all ASEAN member states. Dr Catley also noted that there is no guarantee that the impressive aggregate growth rates of the last decade will be maintained. He continued:

'Nonetheless, this economic growth record has generally given an economic basis for the political stability that few observers anticipated in the early 1970s. Contrary to widespread expectations of political problems following the communist victories in Indo-China in 1975 the ASEAN regimes have strengthened their political authority in part because of economic successes, in part by repression and in no small part because of the political and economic failures of the communist regimes of Indo-China and the large refugee exodus which provided such publicity to those failures'.²⁸

Dr Catley noted that the pattern of stability has been uneven. The governments in Malaysia, Singapore and Indonesia, he suggested, seem firmly established. Thailand's stability, he

argued, has been enhanced since the Vietnamese invasion of Cambodia because of the adverse effects of the Sino-Vietnamese conflict on the Communist Party of Thailand. The Philippines has been the major exception to this pattern.²⁹

2.25 Prospects for continued stability in the ASEAN member states depend on a variety of complex factors. The economic growth which has provided valuable additional surplus resources for the ASEAN states has also involved social changes as structural adjustment occurs to sectors of the economies and the workforce. Rapid economic development, as one witness (Dr Girling) noted, can erode traditional values and enhance the influence of middle classes vis a vis established socio-economic groups such as bureaucracies and the military. The expansion of manufacturing and service industries located in the cities leads to the growth of urban workforces which may also be a focus for change. Capital-intensive development of agriculture in the countryside may increase output, but also lead to greater social stratification and wider gaps between traditional cultivators and affluent farmers benefiting from modern technology and irrigation.

2.26 These three elements - a more assertive middle class, a more concentrated urban workforce and a more divided peasantry - may come to push against the boundaries of the political systems in the ASEAN states. Tensions may result if demands for participation are not accommodated effectively. Other long term sources of political tension also persist in ASEAN societies; notably social and religious cleavages, regional secessionist aspirations and communist insurgency.³⁰

2.27 Prognoses for the internal stability of the ASEAN states offered to the Committee were generally favourable.³¹ However, while basic continuity in major governing institutions seems likely, the ASEAN member states nonetheless will face challenges to the capabilities of their political processes.

Brunei has obtained full independence (and membership of ASEAN) with extensive financial resources but without as yet a structure of representative government. In Indonesia, much depends on the Army's ability to maintain acceptance of its 'dual function' in military and political affairs in a diverse society. Malaysia faces the challenge of pursuing its policies of economic redistribution while maintaining acceptable political and economic participation for all major ethnic communities. Singapore confronts the challenge of successful transition to a new generation of political leadership especially within the Peoples Action Party. Thailand needs to continue to maintain a balance of interests between representative institutions and political parties and the military.³²

2.28 In the case of the Philippines, a number of witnesses directed attention to the internal problems being experienced and to the possible implications of a change of regime. In the Philippines, it was observed:

' Muslim insurgency in the south coexists with communist rebellion in the northern islands and widespread popular urban opposition following the killing of Aquino. No country should hitch its diplomacy too closely to the Marcos family'.³³

Another submission commented that in the Philippines:

' in conditions of extreme social inequality, popular demands are being blocked; frustration is predictable and a social explosion is possible'.³⁴

2.29 A major component in the problems confronting the Philippines is its recent economic performance (see Ch. III, Bl(b)). The Department of Foreign Affairs commented that:

'The long-term outlook for the Philippines economy may justify it continuing to be regarded as one of the potentially high growth developing countries of

Asia. However, in the short and medium term, its performance will be severely affected by the legacies of inefficient industrialisation policies, a large external debt and recent political developments. Even with political stability a return to the satisfactory growth performance of the 1970's may be some years away'.³⁵

2.30 The Committee received varying estimations of the possible character of a post-Marcos regime and of the regional implications of political change in the Philippines in the post-Marcos era. Foreign Affairs commented that:

'Various observers have suggested a wide span of possibilities about the post-Marcos situation, ranging from a military takeover to a popular uprising. At this stage, however, the most likely prospect is that the Government which succeeds that of President Marcos will come from the existing political and business establishment in Manila'.³⁶

Other witnesses agreed that a post-Marcos regime might well be based on established political and business forces, perhaps under the leadership of a respected "technocrat" figure.³⁷

2.31 Another alternative considered possible was a military regime. It was suggested that when President Marcos departed the scene, no successor would be able to assume his highly-personalised mode of control. In an atmosphere of economic and social disorder, the military might step in. Because of the involvement of the military in internal security, such a government might well have a polarising influence.³⁸

2.32 The regional implications of a change of regime in the Philippines were seen as centering around the question of the future of the US bases and the implications for ASEAN of a substantive change of the character and foreign policy of the Philippines' government. The importance of the US bases in the Philippines to its force deployment capacities in the region was

stressed. An American withdrawal would clearly involve a significant alteration to the regional balance of power and would not be welcomed by other ASEAN members.³⁹

2.33 A further significant question is how ASEAN would view the assumption of power by a radical regime in Manila. It was suggested to the Committee that if a change of regime occurs in Manila, ASEAN might play an important role in giving the new regime legitimacy, both regionally and internationally. A regime based on the present political and business establishment in Manila would presumably continue to find valuable the Philippines' membership of ASEAN.⁴⁰ The attitude of a radical regime to ASEAN and the possible reactions of other ASEAN members to such a regime are more difficult to estimate.

2.34 Given the range of possible political outcomes in the Philippines, detailed speculation about the implications of these outcomes for Australia is difficult. One submission emphasised that one of the key characteristics of ASEAN so far has been the high degree of compatibility of its members' regimes. The submission went on to argue:

'Given the potential for domestic upheaval within the ASEAN countries, there is the possibility that one or more of the countries might undergo a dramatic change in regime which would remove the assumption stated above, that the current regimes of the ASEAN countries share defence and security objectives broadly similar to those of Australia. Such a development could shatter ASEAN unity or, depending on how widespread the upheaval, could render ASEAN as a whole more fundamentally incompatible with Australia on these matters. This would test Australian diplomacy most severely.'⁴¹

b) ASEAN and intra-regional cooperation

2.35 ASEAN has continued to maintain its distinctive character as a Third World regional grouping which is decentralised in organisational style but nonetheless able to maintain strong coordinated joint policy positions on areas of agreed common interest. One example of such coordination, the ASEAN dispute with Australia's International Civil Aviation Policy, is addressed in Section 8 of this Chapter. ASEAN as an organisation revolves around a series of regular meetings with a complex structure of committees, supplemented by numerous informal contacts. In the absence of any further heads of government meetings since 1977, the annual Foreign Ministers meetings continue to maintain ASEAN's international profile, particularly because of their associated meetings with the foreign ministers of ASEAN's dialogue partners.

2.36 Much discussion has taken place within ASEAN on the adequacy of present organisational arrangements. The report of the ASEAN Task Force is understood to have argued that existing arrangements do not adequately facilitate the development of cooperation, especially on economic issues. The economic committees, with a decentralised structure and a lack of full-time technical staff, rely on discussions and consultations which are often inadequately followed through. The Task Force is reported to have considered several proposals for organisational reform, including the establishment of an ASEAN council of ministers to incorporate the separate meetings of foreign and economics ministers and other ministerial meetings, and the creation of a committee of permanent representatives at ambassadorial level based in Jakarta to provide continuity and a more defined sense of direction. The latter proposal would boost the role of the ASEAN Secretariat. These proposals are currently under consideration by ASEAN.⁴²

2.37 ASEAN's decentralised organisational style has been accompanied by a continuing ability of the members to adopt joint policy positions. In the economic sphere this has been most apparent in dialogue with major trading partners. In the political sphere, ASEAN has not attempted to coordinate all aspects of its members' foreign relations interests, but has concentrated on issues perceived as being of particular mutual concern, especially the Cambodia issue and the problem of refugee departures from Indochina (see below). Once a joint position has been adopted, ASEAN has been able to effectively maintain unity; this continues to be one of the most important characteristics of ASEAN.⁴³

2.38 ASEAN also continues to serve a valuable role in containing potential tensions and divisions among its diverse members. The relevance of this role may be seen in the entry of Brunei as ASEAN's sixth member when it obtained full independence in January 1984. Brunei in the past has experienced tension with its neighbours Malaysia and Indonesia. Membership of ASEAN on an equal basis should ensure that these problems, should they recur, can be contained effectively.⁴⁴

2.39 The value of what can be termed the 'ASEAN collective spirit' to the Association was emphasised by several witnesses. Dr Khien Theeravit (Chulalongkorn University, Bangkok) suggested that the 'ASEAN collective spirit' has worked more effectively than might have been expected.

'Many cooperation schemes would have been impossible without such an ASEAN spirit. Many potential conflictual issues have subsided mainly because of the emergence of the ASEAN spirit. Such a spirit is still fragile, however, and one cannot rule out the possibility of an occurrence of an ASEAN shock. But I believe that the ASEAN spirit has become an important force that guides the international behaviour of ASEAN member countries and this guiding force has a positive impact on regional stability ...'⁴⁵

Associate Professor Chan Heng Chee (National University of Singapore) also emphasised the importance of the 'ASEAN spirit'.

'If you look for the substance that holds ASEAN together you should go back to the inauguration of ASEAN. ASEAN was established as an economic and cultural grouping ... It is really a political organisation and to declare it as an economic organisation at that time was the best that could be achieved when these countries came out of their hostile relations. The substance of ASEAN is the very fact that at the moment these very conflicting relationships have been held at bay and each of these countries in ASEAN realise that. That is an incredible value to the organisation itself ... Differences ... have been overcome by the organisation so that Singapore can enjoy a better relationship within the framework of ASEAN with Malaysia and Indonesia, Malaysia with Indonesia after Confrontation, and Malaysia with the Philippines over the Sabah dispute. Without ASEAN, these conflicts and issues may in fact erupt far more seriously. Even now there are territorial disputes between these ASEAN states. Yet these issues are not really highlighted and that is because, I think, of the "ASEAN spirit". I believe that the governments of ASEAN see this as a very valuable substance, the very focus of the relationship.'⁴⁶

c) ASEAN and defence co-operation

2.40 The ASEAN members also seek the promotion of security through national defence policies and some bilateral military co-operation. The ASEAN members have a total of approximately one million men under arms, but have a limited capacity for power projection and external defence. Since the mid-1970s, most of the ASEAN countries have allocated increased resources to improving their defence capabilities and defence infrastructure. Economic restrictions, however, may limit the growth of resources available for the development of individual defence capabilities and capacities in the 1980s.⁴⁷

2.41 ASEAN member states have recently advanced their conventional military capabilities. They have increased manpower strengths and acquired new naval ships, mainly patrol craft, and modern fighter aircraft for air defence. The expansion programs have involved efforts to standardise equipment and weapons; for example, by the acquisition by all member countries (except Brunei) of the same type of fighter and attack aircraft. The major problems for ASEAN states' defence programs during the 1980s are likely to include increasing costs, absorption of new technology, maintenance of equipment, and the technical training of their armed forces.⁴⁸

2.42 Bilateral border co-operation agreements are the only formal arrangements for security co-operation within ASEAN. Some of these arrangements predated the establishment of ASEAN, and since 1967 they have provided a framework for coordination against communist insurgents, and piracy and smuggling. They have also provided the basis for other forms of co-operation such as intelligence liaison.⁴⁹

2.43 Since 1975, there has been greater emphasis on the holding of bilateral military exercises. They have involved Indonesia with each of the ASEAN states, and Thailand with Malaysia, and with Singapore. Malaysia, however, has been reluctant to provide Singapore with exercise facilities on Malaysian territory. Exercises have been conducted by both naval and air force units. Intelligence liaison among ASEAN members has developed substantially since 1967 and frequent meetings and seminars are held.⁵⁰

2.44 Co-operation between ASEAN members' military forces is limited by a variety of factors, including the absence of a common language and limited training capabilities. However, a wide range of activities has developed. Bilateral training between the ASEAN countries has included attendance by senior Indonesian, Thai and Philippines officers at the Malaysian Staff

College and the training of Malaysian officer cadets in Indonesia. Defence industrial co-operation has been limited. The best prospect for future industrial co-operation seems likely to be in aircraft maintenance and repair. Singapore, in particular, has been developing its capacities in this area.⁵¹

2.45 While this limited bilateral military co-operation by ASEAN members is likely to continue, 'its members are determined to preserve the non-military character of the organisation'.⁵²

d) Conclusions

2.46 ASEAN as a regional grouping has contributed substantially to the security and stability of the Southeast Asian region. It has effectively reduced the likelihood of inter-state discord or conflict amongst its members by establishing a framework for the peaceful resolution of disputes. It has built trust and confidence among the leaderships and governments of its members and has produced a climate of stability which has itself enhanced prospects for economic growth. The continuation and further development of these achievements are in Australia's interests.

2.47 ASEAN members have pursued military and security cooperation on a bilateral basis and the scale of cooperation has increased since 1975. The members, however, are determined to preserve ASEAN's non-military character.

2.48 The Committee considers that an important aspect of ASEAN's ability to maintain effective cooperation has been the fundamental compatibility of its member regimes. It is at present difficult to predict a substantial change in the character of any of the existing regimes. The extensive economic

and political problems facing the Philippines are likely to make it the focus of considerable attention for some time. The reaction of ASEAN to any new government in one of its members would be a most important factor in the way that government was viewed regionally and internationally.

4. ASEAN and the Indochina conflicts

2.49 Indochina has continued to be the principal focus for ASEAN's political and security concerns. ASEAN has a variety of concerns in relation to Indochina, including the Vietnamese presence in Cambodia, the continuation of refugee outflows from the Indochina states (discussed in detail below in Section 7) and the potential for maritime border disputes and violations of territory. Of these concerns, the ongoing conflict over Cambodia is currently attracting the greatest attention from ASEAN.

2.50 ASEAN's policy approach towards Cambodia since 1979 has been to deny international legitimacy to the Vietnamese-allied Peoples Republic of Kampuchea (PRK) in Phnom Penh and to dissuade Western and Third World governments from moving to derecognise the displaced Democratic Kampuchea regime, which, from June 1982, became the Coalition Government of Democratic Kampuchea (CGDK). ASEAN has pursued its Cambodia policy in two major ways. Firstly, ASEAN has played a leading diplomatic role in denying legitimacy to the PRK. In four votes in the UN from 1979, ASEAN led the argument that the Democratic Kampuchea regime should retain its UN seat. In 1983, Vietnam and its allies did not seek to put the credentials issue to a vote.⁵³ Secondly, ASEAN has demanded a total withdrawal of Vietnamese forces and self-determination for the Cambodian people. ASEAN has expressed this policy goal in a series of joint statements since January 1979, and this stance has also gained extensive UN backing.⁵⁴ An important element in ASEAN's mobilisation of international support for a Cambodian settlement was the

UN-sponsored International Conference on Kampuchea (July 1981) which adopted a series of detailed proposals for a settlement.⁵⁵

2.51 The promotion of the Coalition Government of Democratic Kampuchea has also been an important aspect of ASEAN's strategy to maintain support for the displaced Democratic Kampuchea regime. The coalition agreement signed in Kuala Lumpur on 22 June 1982 involved the restructuring of the leadership of the government of Democratic Kampuchea to offset international repugnance towards the Pol Pot regime. The coalition did not, however, involve the integration or amalgamation of the component political movements and armed forces: the Khmer Rouge, the Khmer Peoples National Liberation Front (KPNLF) and Prince Sihanouk and the forces loyal to him.⁵⁶ Under the agreement, Prince Sihanouk assumed the position of President, Son Sann, leader of the KPNLF, became Prime Minister and Khieu Samphan gave up the position of President to become Vice-President in charge of foreign affairs. The agreement made clear the loose character of the coalition; each of the participating movements was to retain its own organisation and political identity and each retained the right to receive international aid specifically granted it. In supporting the Coalition, ASEAN has envisaged that not only will the participation of the non-communist resistance movements help the CGDK retain its international acceptance (at the UN and elsewhere) but that the non-communist movements will themselves be able to attract increased assistance and strength vis a vis the Khmer Rouge.⁵⁷

2.52 The ASEAN members restated their position on Cambodia at their annual Foreign Ministers meeting on 9-10 July 1984. The Joint Communique from this meeting expressed the Foreign Ministers' '... deep concern at the continued illegal occupation of Kampuchea by Vietnamese military forces which posed a serious threat to the peace and stability of Southeast Asia'. The Foreign Ministers also

- . reiterated their call for a comprehensive political settlement in Kampuchea. 'The essential elements for such a political settlement are the total withdrawal of foreign forces, the exercise of self-determination and national reconciliation in Kampuchea';
- . expressed concern at '... the recurrent acts of Vietnamese aggression along the Thai-Kampuchean border ...';
- . '... fully endorsed Thailand's actions in the exercise of her legitimate right to self-defence ...';
- . called for the stationing of a United Nations Observer team on the Thai side of the border with Cambodia;
- . stated that Vietnam's announced partial withdrawals of forces from Cambodia were in fact annual troop rotations '... meant to deceive the international community, the Kampuchean people and Vietnam's own citizens';
- . stated that they '... shared the serious apprehension of the people of Kampuchea that there are now at least half a million Vietnamese settlers in Kampuchea';
- . reaffirmed support for the CGDK and 'noted that the Kampuchean people are increasingly rallying to the patriotic resistance forces ...';
- . '... expressed their full support for President Samdech Norodom Sihanouk's call for a national reconciliation among all Kampuchean factions as a

positive approach towards realising the objectives of self-determination, independence, sovereignty and unity of the Kampuchean people';

. stated that the latest Vietnamese proposal '... offered nothing positive towards the comprehensive political settlement of the Kampuchean problem ...';

. expressed their gratitude to the members of the UN for their continued support of the CGDK.⁵⁸

2.53 The Committee received several submissions from individuals and institutions in ASEAN member countries which emphasised the significance of the Cambodia issue in ASEAN political and security perceptions. The submission from the Institute of Strategic and International Studies (Kuala Lumpur) stated:

'Asean's policies cannot be fully understood if it is not realised that we are not only trying to resolve the Kampuchean Question as expeditiously as possible but also to establish the basic ground rules for the peace game in Southeast Asia. The Asean states believe that all countries in the region must accept, in the words of Malaysia's Deputy Prime Minister, "that one state shall not intervene in the internal affairs of another and shall resort to the pacific settlement of disputes. There must be mutual respect of the territorial integrity and independence of all the countries of the region." Clear violations of these basic ground rules cannot be taken with equanimity or they will never be established.'⁵⁹

2.54 Dr Khien Theeravit in his submission, stated that, '... the Vietnamese interest and ambition in Kampuchea (and Laos) are not legitimate ... it has blatantly violated the international principle of a sovereign country. Its version of a "special relationship" among Indochinese states means nothing less than the imposition of the Vietnamese will on smaller neighbours by military means. The Vietnamese objectives in Laos and Kampuchea are clear, and yet there are naive people who believe

in the Vietnamese sincerity in getting rid of the so-called "Pol Pot genocidal" regime. Was there any Pol Pot in Laos when Vietnam sent its troops into that country and where it still maintains 40,000-50,000 Vietnamese troops? Was there any "Chinese threat" before Vietnam embarked on the expansionist road? The so-called "Chinese threat" is a clever diplomatic ploy to sow discord among ASEAN member countries'.⁶⁰

2.55 The Vietnamese leadership, Dr Khien argued, believes in the maximum application of power to realise its policy objectives. Political, economic and military pressure is necessary to induce Vietnam to reconsider its objectives and strategy.⁶¹

2.56 The Committee heard several views on the possible evolution of the Cambodia conflict and of ASEAN's approach to it in the context of differing emphasis in approach to issues of regional security among ASEAN's members. No clear consensus emerged and several witnesses suggested that an early resolution to the conflict was unlikely.

2.57 The Committee considered the issue of the approaches by individual ASEAN members to the Cambodia conflict and to the major powers involved. During the Committee's inquiry the visit of General Murdani to Vietnam in February 1984, and reports of the seminar held jointly between Vietnam and the Indonesian Centre for Strategic and International Studies, focussed attention particularly on Indonesian approaches to Vietnam and Indochina. Professor Miller saw differences in emphasis among ASEAN members as a reflection of long-term differences in approach to the major powers.

'It has been evident for quite a long time ... that the Thais are more inclined towards China than the Indonesians, and the Indonesians are rather more inclined towards the Soviet Union - they have been for a long time - than towards China. The Indonesia-China antipathy is the longest-standing and the most important of these antipathies, I think ... (A)s far as I am aware there is no sign

of that attitude changing. On the other hand, the Thais, partly because ... of their different internal complexion and their different approach to the Chinese in their midst, and partly because of their nearness to China and Indo-China, have shown much more readiness to accept Chinese positions and protestations.⁶²

2.58 Referring to the discussions between Indonesia and Vietnam in early 1984, Professor Yahuda argued that they partly reflected tensions between Indonesia's desire to play a major role in the Southeast Asian region and its capacity to do so. The willingness of Indonesian leaders to hold discussions with Vietnam also reflected some Indonesian reservations about Thai policy. He saw the Indonesian initiative as '... an attempt not so much to back away from the ASEAN position, but, in a sense, to put a bit of pressure on the Thais and to try to change some elements of the ASEAN position on Indo-China'.⁶³

2.59 The existence of differing perspectives on regional security issues among the ASEAN members is a significant aspect of the Association which is likely to continue. Such differing perspectives, however, have not so far prevented ASEAN from maintaining effective cohesion on the Cambodia issue. Active discussion will no doubt continue within the Association on policy towards regional security. ASEAN, however, does not at present seem likely to substantially change its position on the Cambodia issue in the absence of major changes in the position of the principal contending parties. Significant obstacles continue to confront movement towards detente or a settlement of the issue.

2.60 Several witnesses discussed these obstacles. They include ASEAN's unwillingness to accept the Vietnamese presence as a fait accompli; Thai fears about the security threat posed by a continuing Vietnamese presence in Cambodia; Vietnam's refusal to contemplate major force withdrawals as long as the Khmer Rouge remain a substantial military force with a potential

to regain influence and control in Cambodia; continuing hostility between China and Vietnam; and a continuing and possibly growing Soviet presence in Indochina.⁶⁴ The obstacles are formidable, but the continuing debate within the region on possible bases for discussion and the serious tensions arising from the ongoing conflict point to the importance of efforts to explore avenues for possible movement and reconsideration of positions.

PART B Political and Security Issues in Australia-ASEAN Relations

5. Australia, ASEAN and conflicts in Indochina

a) Australian policies towards Indochina: 1975-1982

2.61 The tensions arising from instability and conflict in Indochina since 1975 have been of major significance for both ASEAN and Australia. It has been noted above (Chapter One) that for a brief period from early 1976 to mid-1978 a process of detente seemed to be underway between ASEAN and Vietnam. In this period, the Australian Government also saw some prospects for expansion of Vietnam's international contacts as it emerged from the Second Indochina War. The Government emphasised the desirability of trying to prevent the isolation of the Indochina states through diplomatic contacts and a modest aid program. The then Foreign Minister, Mr Peacock, stated in March 1977 that,

'We believe ... that nothing will be gained by either Australia or the region ostracising, ignoring or setting out to alienate these Governments. In the case of Vietnam in particular, it will be dangerous if it is placed in a position where it feels it can only maintain cordial relations with other communist states.⁶⁵

2.62 The increased scale of refugee departures from Indochina (especially Vietnam) from early 1978, and the Vietnamese invasion of Cambodia in December were followed by a change in Australian policy. Australia criticised strongly the Vietnamese invasion and supported ASEAN criticism in the UN. In January 1979, Australia's \$6million aid program to Vietnam was terminated. The Australian Government supported the ASEAN position of demanding a total Vietnamese withdrawal and maintained diplomatic recognition of the ousted Democratic Kampuchea regime, both bilaterally and by supporting DK's credentials at the UN.⁶⁶ However, continued recognition of the DK regime became a matter of considerable domestic controversy in Australia. On 14 October 1980 the Government announced that recognition would be withdrawn and this was put into effect on 14 February 1981.⁶⁷ Withdrawal of recognition brought some strong criticism from ASEAN leaders (notably Singapore's Foreign Minister Rajaratnam) and reservations were reported to have been expressed by the US and China.⁶⁸

2.63 The Australian Government reacted cautiously to the inauguration of the CGDK in June 1982. The Government indicated that it welcomed the participation by Son Sann and Prince Sihanouk, but resisted ASEAN suggestions that recognition should be extended to the CGDK.⁶⁹ In September 1982, however, the Australian Government provided some material support to the non-Communist resistance parties by specifically directing some aid to camps on or near the Thai-Cambodia border occupied by KPNLF and Sihanouk forces.⁷⁰

b) Australian policies since March 1983

2.64 Since March 1983, the Australian Government has directed further attention to the ongoing problems posed by the conflict over Cambodia. Foreign Minister Hayden, in a policy statement on 7 December 1983, said that '... the problem of

Cambodia, in all its many dimensions, is the greatest unresolved source of tension in South East Asia.' In the course of setting out the Government's position, he stated that,

'... what must be pursued is a comprehensive Cambodian solution based on the acceptance by Vietnam of an appropriate accommodation with its neighbours; phased withdrawal of Vietnamese troops from Cambodia matched by an effective arrangement to prevent Pol Pot and his Khmer Rouge forces going back into Cambodia; an Act of self-determination for Cambodia; the creation of conditions for the peaceful return of displaced Cambodians to Cambodia; the acceptance by all parties that Cambodia is neutral, independent and non-aligned; and the restoration of normal relations on the part of Vietnam with China, ASEAN and the West.'⁷¹

2.65 In 1983 and 1984, the Government pursued its policies in relation to Indochina through a series of discussions with ASEAN, Vietnam and other major interested parties. Australia voted for the ASEAN resolution on Cambodia at the 1983 session of the UN General Assembly, but did not co-sponsor it, a move which produced criticism from some ASEAN leaders.⁷²

2.66 In its submission to the Committee, the Department of Foreign Affairs elaborated on the Government's policies towards Indochina in the context of relations with ASEAN. It noted that, 'Using the UN machinery, ASEAN has maintained a highly successful international campaign against Vietnam's continued occupation of Cambodia which it, like Australia, condemns and does not accept.' The Department referred to ASEAN claims that the resistance Coalition '... is increasingly effective from diplomatic, political and military points of view' but stated that '... the evidence is equivocal'. The cohesion of the factions was questionable, and '... the political distinction between the Khmer Rouge and the non-Communist factions remains fundamental'.⁷³

2.67 The Department referred to China's support for the ASEAN strategy and the resistance coalition, and stated,

'In these circumstances the ASEAN countries seem certain to continue their support for the resistance coalition, at least for the time being. We see risks that this may unintentionally contribute to military escalation and growing outside involvement in the region.'⁷⁴

On the issue of Vietnam's relationship with the Soviet Union, the submission stated,

'ASEAN has been able to demonstrate political cohesion on Cambodia, opposing military expansion by Vietnam and the spread of Soviet influence in the region. We see Vietnam's relationship with the Soviet Union, with the dangers that carries for the region, as resulting in part from its continuing isolation (following its Cambodia invasion) from regional and western countries.'⁷⁵

c) Australia, ASEAN and perceptions of the Southeast Asian region

2.68 Several areas of difference in emphasis in relation to Australian policies towards ASEAN and Indochina were evident in submissions to the Committee. One issue which emerged as important was that of the degree of priority which Australia should ascribe to ASEAN in formulating policies towards the Southeast Asian region overall.

2.69 Several submissions advanced the view that ASEAN policies should predominate in Australian perceptions of the Southeast Asian region. The Malaysian ISIS directed attention to ASEAN's high growth rates and substantial economic weight and went on to state:

'When analysts talk of Southeast Asia, it is just as well for them to remember that the Asean Six constitute four fifths of the region's population, five sixths of the region's area and a much larger proportion of the region's GNP. Asean is the centre. In economic terms certainly, Asean is Southeast Asia.'⁷⁶

The submission added:

'Asia, it might be noted, is a big place. Perhaps there is need for a greater sense of discretion and discrimination in Canberra as to which part of Asia, and which part of Southeast Asia, Australia belongs.'⁷⁷

Dr Khien wrote that,

'The move on the part of the Australian Labor Government to change its policy toward Southeast Asia has caused anxieties among ASEAN governments' leaders. They have valued highly Australian support; they could understand the Australian government's position with regard to the non-recognition of the 'Pol Pot Government' but they would never forgive Australia if this country were tilted toward Vietnam vis a vis ASEAN.'⁷⁸

Associate Professor Chan Heng Chee, in testimony to the Committee said that

'... I find rather difficult to understand ... why some Australian academics, and perhaps policy-makers, refuse to accept that ASEAN is the centre-piece of the South East Asian policy [of Australia] because I think it is.'⁷⁹

2.70 Other witnesses agreed that ASEAN should be accorded high priority, but suggested that Australian policy should also seek to give consideration to the Southeast Asian region as a whole. Australia, it was argued, has substantial interests in the security of the region from internal disruption and major power interference. The major powers pursue policies towards Southeast Asia in the context of their global interests; their policies will inevitably be dictated to a considerable extent by wider strategic concerns. Australia, as a middle power located in close proximity to the region, can be affected directly by internal instability and inter-state tensions in the region; this was indicated clearly by the Indochina refugee outflows. Australia therefore sees a need to monitor very carefully elements in the politics of the region which may in the long-run lead to instability and interference from outside.⁸⁰ Australia, Foreign Affairs noted, also has significant interests

to pursue in bilateral relations with Vietnam, including human rights cases and the orderly departure of Vietnamese migrants.⁸¹

2.71 Several witnesses elaborated on this issue. Dr Kiernan, for example, stated that '... South East Asia is a larger area than just the ASEAN countries.' He welcomed the concept of considering Southeast Asia as a region, and said that Australia should develop good relations with Southeast Asian states, especially those closest to Australia in the ASEAN group

'... but also with the others, and work as much as we can in a peaceful and constructive way to encourage co-operation between what is now ASEAN and the other parts of South East Asia'⁸²

Professor Mackie argued that Australia should 'go along' with ASEAN 'to a very large degree ... ASEAN has turned out to be a very important pillar of stability and security in the region'.⁸³ He also said,

'I think we should define the region not just in terms of ASEAN but say it is the whole of Southeast Asia. It does include the Indo-China states and Burma ... What I am trying to argue against is the proposition that has been predominant up to now, that we really identify solely with ASEAN and nothing else.'⁸⁴

2.72 The Committee endorses the view that Australia should pursue an ongoing interest in the security and the well-being of the region overall. Such an emphasis should be fully compatible with Australia's desire to maintain and deepen its relations with ASEAN. However, in pursuing such an interest in the security of the Southeast Asian region, Australia should be sensitive to the concerns which have been expressed by the ASEAN states that this Australian policy emphasis should not be accompanied by a lessening of emphasis on its existing ASEAN relationships. Australia needs to bear constantly in mind that given the long standing tensions in the region overall, and given

Australia's historically close associations with the ASEAN states, even a minor shift in emphasis by Australia can create uncertainties about Australian intentions unless the rationale of our regional policies is clearly explained.

d) Implications of recent Australian policies towards
Indochina for Australia-ASEAN relations

2.73 Some differences of opinion were evident in submissions and testimony on Australia's recent policy attitudes and initiatives in relation to regional security issues. These differences revolved around several major issues: the possible value of Australian efforts to explore bases for dialogue over regional security issues, the role of the Khmer Rouge forces in the ongoing Cambodia conflict, and Australian attitudes and policies towards Vietnam (including the question of restoration of development aid).

2.74 Several submissions tended to be sceptical about the value of Australian policies in these areas and suggested that the policies had been a source of some concern to ASEAN (as the comments quoted above have indicated already). However, the Committee received other submissions and testimony which broadly supported the policy initiatives and did not see any substantial tensions or disruption as having arisen in relations with ASEAN.

2.75 The Malaysian ISIS stated that, 'It is over the Kampuchean Question that there is a clear difference of perspective and policy between Australia and Asean.' The submission noted that there are important areas of shared policy goals between Australia and ASEAN: ASEAN does not seek the return to power of Pol Pot or the Khmer Rouge; and 'we are all agreed that the post-political settlement government in Phnom Penh should be a coalition government of reconciliation'. The ISIS continued:

'Asean, like Australia, does not want a Southeast Asia divided into two confrontationist blocs. We all share a common belief that Vietnam must be drawn into a system of peaceful coexistence and positive cooperation ... We share the belief that Vietnam should withdraw its army of occupation and that the political resolution of the Kampuchea Question must include the right to self-determination by the people of Kampuchea.'

The ISIS went on to state:

'Australia's present policy tack does more than do no good in terms of contributing to a peaceful and viable political resolution of the Kampuchean Question. It does positive harm; and directly undermines the efforts of the Asean states towards this end. It contributes to the strengthening of the hand of the hardliners in Hanoi. It contributes to the Vietnamese strategy of divide and rule.

2.76 On the question of possible Australian restoration of aid to Vietnam, the ISIS submission suggested that such aid would be ineffective; it would be trivial compared to the level of Soviet aid.⁸⁵ Dr Buszynski (National University of Singapore), in his submission, noted that on the question of Vietnam's international isolation, ASEAN countries tend to reject the suggestion that,

'... Vietnam's attitude to the Soviet Union could be influenced by grants of aid. The tendency within ASEAN is to view the Vietnamese-Soviet alliance as a factor which is independent of external influence as long as the Vietnamese-Chinese dispute continues unabated.'

ASEAN, he suggested, regarded any potential restoration of development aid by Australia as 'premature and likely to sabotage ASEAN strategy.'⁸⁶

2.77 Submissions from the ASEAN region differed in their estimation of whether relations with Australia had been significantly disrupted or disturbed by Australia's initiatives in 1983/84. The Malaysian ISIS, whose submission was entitled,

'Australia and ASEAN: Down the Road of Disengagement?' suggested that 'There are today perceptions in the Asean countries of a reduction in the level of Australian psychological engagement in the area, a reduction of Australian interest in the Asean countries.' It cited Australia's position on the Cambodia issue as one factor in what it saw as '... the turning away from Asean and a downgrading of the Australia-Asean relationship.'⁸⁷ Other witnesses and submissions from the region were more sanguine. In private discussion with the Committee, a prominent ASEAN-based academic indicated that differences of emphasis over Cambodia should be viewed in the context of a basically sound ASEAN-Australia relationship. It was also noted in testimony to the Committee that the submission from Indonesia's Centre for Strategic and International Studies (CSIS) did not mention the issue of Australia's policies towards Indochina in the context of discussing Australia-ASEAN relations; the submission did state that,

'... the overall relations that have developed between ASEAN and Australia in the past decade are encouraging. And given the chance for the promotion of better mutual understanding and greater mutual trust, they seem to promise an optimistic picture of possible closer co-operation in the future'.⁸⁸

2.78 A number of witnesses generally endorsed the recent Australian initiatives as being worthwhile in aim and not detrimental to relations with ASEAN. Foreign Affairs stated that

'Australia supported ASEAN's Kampuchea Resolution at UNGA. Differences which arose over our decision not to cosponsor it are now behind us. Many interested countries have expressed support for our efforts to establish dialogue on the question of Cambodia, drawing on our ability to talk to all the parties concerned. The Chinese have publicly described our dialogue with Vietnam as "good" ...

'Our role in contributing to dialogue, rather than seeking to mediate or to elaborate precise points for a settlement, should enable us to avoid potential points of friction with either the ASEAN

countries, with whom good relations are for us or fundamental continuing importance, or with Vietnam, which has welcomed our efforts.'⁸⁹

Professor Yahuda, when asked whether he thought Australia-ASEAN relations had been 'hindered, or damaged or even assisted' in the process of Australia's pursuit of its Indochina initiatives, replied,

'My personal view is that I think they have really been improved, and improved in the sense that Australia I think has been seen to have an effective independent voice. It is one that is ... relatively modest still, in the sense that the Australian Government does not say that it can do anything more than explore the feasibilities of a settlement in Indo-China and has tried to get the different parties concerned to spell out with greater clarity what their positions are ... It has ruffled a few feathers here and there, but I think that is to be expected, particularly in a situation like this. You cannot please everyone all the time, but in substance I think there is the appreciation of Australia playing an independent role rather than being associated just with the United States or really as a creature of ASEAN in diplomatic terms.'⁹⁰

2.79 A number of other witnesses expressed a generally favourable view of the initiatives in the context of Australia-ASEAN relations.⁹¹ It was also emphasised, however, that given the complexity of the range of intersecting and conflicting interests involved, expectations about Australia's role and possibilities for success should be modest.⁹²

2.80 Differences of opinion were also expressed by witnesses about the ongoing role of the Khmer Rouge faction in the CGDK. Submissions and witnesses from the ASEAN region argued that ASEAN did not either seek or desire a return to power by the Khmer Rouge faction. ASEAN's goal, the Malaysian ISIS stated, was a coalition government of national reconciliation for Cambodia, not a return to power by the Khmer Rouge.⁹³ Other witnesses argued that the presence of the Khmer Rouge faction as

an armed force continued to be a cause for concern in the light of its past record. Foreign Affairs, in discussing the Coalition, stated that '... the political distinction between the Khmer Rouge and the non-Communist factions remains fundamental'.⁹⁴ Dr Vickery pointed to the dangers of a return to power of the Khmer Rouge if the Vietnamese were to withdraw immediately from Cambodia.⁹⁵ Dr Chandler noted that the continued role of the Khmer Rouge as a factor in the conflict provides Vietnam with its best excuse for remaining in Cambodia.⁹⁶ Dr Girling, in discussing Australian approaches to the Cambodia question, stated that '... the Australian government is right to stand by its own principles (opposing the barbarity of the Pol Pot forces and seeking to prevent any possibility of their returning to power).'⁹⁷

2.81 Support was also expressed by some witnesses for attempts to widen Vietnam's range of international associations and contacts. Dr Mediansky commented that,

'... the currently close relations between [Vietnam and] the Soviet Union are due in no small part to the isolation which Vietnam finds itself in ... I think we can contribute towards limiting the Soviet presence in Vietnam by the role we are playing at the moment - opening up cautiously the dialogue with Hanoi.'⁹⁸

Dr Chandler stated that,

'The reason why the Vietnamese are locked into the Russians is because no one else is opening up any doors. I am not saying that they will drop their Russian alliance because this is quite central to them. It sounds like a circular argument, but a way to bring Vietnam into the family of nations is to bring it into the family of nations, to have diplomatic relations with it and to have humanitarian and economic aid programs opening up. This way it could be seen as a country that is allied with the Soviet Union, but it would give it a lot more freedom of manoeuvre.'⁹⁹

2.82 Dr Chandler endorsed the desirability of restoration of Australian aid to Vietnam, but argued that this would best be done by Australia acting as part of a consortium of states rather than individually.¹⁰⁰ Other witnesses were more sceptical about the relevance and feasibility of a restoration of aid. Dr Catley argued that the question of restoration of aid needed to be considered in the context both of Australia's relations with the US, and with ASEAN. Neither party would readily accept such a step. The relatively insignificant scale of the aid which would be given needed to be weighed against these strategic considerations.¹⁰¹

**e) Australia, ASEAN and policies towards regional security:
constraints and prospects**

2.83 Submissions and testimony to the Committee drew attention to several constraints on the development and pursuit of Australian policies towards Indochina in the context of its relations with ASEAN.

2.84 The importance of maintenance of effective relations with ASEAN (emphasised by Foreign Affairs) in the context of initiatives towards Indochina was stressed. Dr Buszynski noted that, '... any Australian regional initiative over the Kampuchean issue would require at the minimum the tolerance of the ASEAN countries.'¹⁰² Australia must also consider the policy interests of its major power ANZUS ally, the United States. The attitudes of the United States on regional security issues (such as the desirability of withholding development aid from Vietnam) constitute a further constraint on Australian policies.¹⁰³ The delicacy of the task of exploring avenues for discussion on regional security problems was emphasised. Professor Mackie stated that, '... we have to be very careful how we tread that tight rope between one side and the other ... We have to be very careful we do not sell out any ASEAN interests or Kampuchea's interests in doing so'.¹⁰⁴

2.85 The importance of very extensive and careful consultation with ASEAN by Australia was stressed by Dr Angel. He noted that,

'If we consult prior to making a decision they do not seem to get upset. An example of this was the decision to de-recognise the Pol Pot regime, when the decision was first taken. It was taken after long consultation and with a long delay on Australia's part and it did not seem to lead to any explosion.'

He added that the ASEAN members '... must be reassured all the time that we are taking their views seriously, even if we subsequently reject the view ... (w)hen we do not consult we seem to run into trouble.' Dr Angel noted that consultation in itself clearly cannot solve all potential problems.

'But if we manifestly are seen to do it before we act I think we are less likely to have problems, and such criticism as we get is less likely to stir up difficulties.'¹⁰⁵

2.86 The Committee concludes that Australia has sought to pursue policies towards the Cambodia conflict from the perspective of a concerned neighbouring state located close to the ASEAN region. Australia shares ASEAN's opposition to the violation of Cambodia's sovereignty and joins with ASEAN in calling for a Vietnamese withdrawal. Australia, like ASEAN, is concerned about the destabilising problems and burdens imposed by the mass movement of refugees from the Indochina states. Australia, like ASEAN, is also concerned about the degree of instability and heightened major power competition posed by the Cambodia conflict. Australia is also concerned at some further aspects of the conflict, particularly the ongoing role of the Khmer Rouge forces in the Coalition; the dangers of military escalation arising from the continuing fighting; and the long-term problems arising from Vietnam's international isolation and its dependence on the Soviet Union.

2.87 In the Committee's view, Australia has not sought to alter fundamentally its policies towards ASEAN. It has seen its efforts to explore bases for dialogue as being pursued in the context of a close relationship with ASEAN. As a state located close to the Southeast Asian region Australia is especially concerned at problems of insecurity and major power competition in the whole region.

2.88 The evidence heard by the Committee suggests that the Australian policy initiatives in relation to Indochina since 1983 gave rise to critical responses from some ASEAN governments about precisely what direction Australia was seeking to pursue in attempting to explore bases for dialogue over Cambodia. The reactions to Australia's initiatives underline the sensitivity for ASEAN of policy towards Indochina. The reactions also underline the fact that Australian attitudes towards regional security issues are regarded as important by the ASEAN states and that ASEAN expects consistent support from Australia on these issues.

2.89 That some uncertainty has arisen in ASEAN suggests to the Committee that Australia's regional policies have not been consistently propounded and explained as extensively as might be desirable. This makes consultation of prime importance. It is in both Australia's and ASEAN's interests to avoid major discord between them over policies towards regional security issues. This should not preclude Australia drawing attention to points of principle which it holds strongly (for example, Australia's concern at the continuing role in the Coalition of the Khmer Rouge forces). The evidence does suggest, however, that if Australia wishes to take a consistent interest in the security of the Southeast Asian region overall, it will need to emphasise very clearly that in seeking to explore ways of enhancing prospects for regional security the cautious development of policies towards Indochina will not be pursued at the expense of long-term relations with ASEAN.

6. Australian defence interests and the ASEAN region

a) Long-term significance of the Southeast Asian region for Australian security

2.90 Southeast Asia has been considered by successive Australian governments to be of vital strategic importance. As the Department of Defence stated:

'Its proximity to us makes it the principal area from or through which any major conventional assault upon Australia would have to be mounted. The region is also astride, or adjacent to, major international sea and air lines of communication along which pass many of our strategic imports and much of our export trade. Commercial air routes from Australia to Europe, the Middle East, Japan, North East Asia, and South East Asia itself, pass through South East Asian air space. These lines of communication are important also for the United States, Japan, and the countries of ASEAN. The United States and the Soviet Union both use South East Asian waters for naval transfers between the Pacific and Indian Oceans.'¹⁰⁶

2.91 Australia's major interests in the region primarily reflect concerns that internal instability and/or inter-state conflict within the region might have adverse security implications especially if major power involvement resulted.

2.92 As Chapter One observed, the pattern of Australian involvement in the region has changed substantially in the past ten years when a long period of extensive direct involvement by Australian forces was replaced by a greater emphasis on economic and political relationships, with a lower-profile ongoing defence presence (in Malaysia and Singapore). While primary emphasis on political/economic relationships continues, the Department of Foreign Affairs suggested that defence and strategic issues have recently increased in importance:

'... more recently changes in the geo-political environment have brought defence and strategic issues back into sharper focus. Indonesia, Singapore, Malaysia, Thailand and the Philippines have in recent years been steadily expanding and upgrading their defence forces, reflecting both a need to overcome their relative run-down in the 1960's and early 1970's and, especially in the case of Thailand, concern about developments in Indochina. In this context, ASEAN countries have looked to other countries such as Australia to assist them in achieving their goal of basic defence self-reliance. This goal is consistent with Australia's own national interests in the region.¹⁰⁷

b) Australian defence co-operation with ASEAN states

2.93 Given ASEAN's consistent refusal to develop a formal, multilateral military pact, there is no scope for a defence relationship between Australia and ASEAN as a body. With the exception of contacts with Malaysia and Singapore under the Five Power Defence Arrangements (see next section), Australia's defence associations with ASEAN members are solely on a bilateral basis.

2.94 Defence relations between Australia and individual ASEAN members were expanded after Prime Minister Fraser's direction in February 1980 that defence relationships with regional countries be developed further. Bilateral defence relationships between Australia and the ASEAN states concentrate primarily on the defence co-operation program, but activities cover a broad range of co-operation embracing regular consultations, senior level visits, combined exercises and regular naval deployments for port visits and exercises.¹⁰⁸

2.95 The defence co-operation program, from the viewpoint of the Australian Government, serves a number of useful functions. The activities of the program complement those in the political,

economic and cultural fields and add weight and credibility to Australia's expressed concerns for basic defence self-reliance and confidence in the region. In the words of the Department of Foreign Affairs,

'While relatively small, the programs afford tangible evidence of Australia's readiness to assist these countries in their efforts to maintain their own security and underline Australia's commitment to regional security. To the extent that the programs are successful, they serve as a disincentive to the intrusion into the region of outside powers with interests inimical to those of Australia.'¹⁰⁹

Expenditure on the program has recently increased from approximately \$A14m in 1979/80 to approximately \$23m in 1983/84. Emphasis in the program is being placed on activities involving the transfer of knowledge and skills, such as technical advisory assistance, study visits and training as well as equipment projects. Funding for the year 1983/84 is as follows:¹¹⁰

	<u>\$ million</u>
Malaysia	5.576
Singapore	1.539
Indonesia	10.310
Thailand	4.389
Philippines	1.468
TOTAL =	<u>23.282</u>

2.96 A feature of defence relations since 1980 has been the use of Australian training facilities by the Singapore armed forces. Since February 1982, eight Republic of Singapore Air Force (RSAF) fighter aircraft have been deployed at RAAF Williamtown on a long-term basis, with rotations of six months, for aircrew training. Australia agreed to the deployment of 12 aircraft between January and July 1984. Singapore conducted a unilateral battalion group exercise ('Boomerang 82') in the Shoalwater Bay training area in March-April 1982, and is planning a further unilateral deployment of six weeks for late September - early November 1984.¹¹¹

c) Australia's military association with the Five Power Defence Arrangements

2.97 The Five Power Defence Arrangements (entered into in 1971 by Malaysia, Singapore, the United Kingdom, Australia and New Zealand) provide the basis for Australia's defence relations with Malaysia and Singapore. The FPDA involve Australia's only multilateral defence association with ASEAN members and its only regular deployment of forces in the region. In 1980 it was agreed by member countries that an enhanced level of multinational exercises should be conducted under the FPDA. Major air, maritime and land exercises have been held since 1980 under FPDA auspices and more are planned. The arrangements have been accepted by the other ASEAN members.¹¹²

2.98 The Australian presence at Butterworth currently comprises one Mirage Squadron (a second squadron returned to Australia in August 1983), two P3 Orion long range maritime patrol aircraft conducting surveillance operations in the Indian Ocean and the South China Sea, ancillary units and an infantry company, on rotation. The Committee is aware that the Australian role in the Integrated Air Defence System (IADS) has been regarded as an important contribution to Malaysian and Singaporean defence. Relations between the two states were cool for a number of years after their separation in 1965 and only limited contacts have taken place between their two armed forces. Singapore's armed forces, for example, have not trained in Malaysia and a small number of Singapore personnel were admitted to Malaysia's jungle warfare school only in 1982. Given the difficulties in relations between the Malaysian and Singaporean air forces, it has been argued that the Australian participation in IADS has provided a valuable 'umbrella' for the steady development of co-operation among the air forces involved.¹¹³

2.99 The Committee heard varying estimates of the relevance and value of Australia's ongoing role in the FPDA and in IADS. The Malaysian ISIS argued that there appeared to be a prevailing mood in Australia for its presence in Butterworth through the FPDA to be 'eventually withdrawn or vastly diluted by 1985'. The ISIS stated that 'It is recognised that there are valid domestic and economic considerations as regards such a policy stance'. It continued:

'The existing linkage in defence cooperation through training, consultation, technical assistance, joint exercises and the like should thus be maintained, if not strengthened. A continuing presence at Butterworth helps tremendously in extending Malaysia's and Singapore's aerial defence capability as well as in enhancing technical competence in [their] air force personnel. But, perhaps more importantly, Australia offers valuable insights and lessons as well as facilities in defence management, armed forces education and training for the Asean countries. In turn, continued use of Asean experiences in defence and security enhances the professionalization of the Australian armed services. No state in Asean wants the Australian contribution to be withdrawn. Every Asean state wants this to continue. It is essential to note also that once Australia leaves it will be problematical for it to come back.'¹¹⁴

2.100 The ASEAN Section of the ASEAN-Australia Business Council also endorsed a continuing Australian defence presence.¹¹⁵ Alternative views were presented by Professor Miller, Dr Catley¹¹⁶ and Professor Mackie. Professor Miller in his submission, stated that,

'The military arrangements characteristic of the Five Power agreements are out of date, so far as actual military protection is concerned, though Singapore (and Malaysia to some extent) seems reluctant to give up such symbolic support'.¹¹⁷

In discussion with the Committee he added that the Five Power arrangements,

'... do not seem to me to have any rationale at the present time. It is helpful domestically and in their bilateral relations for Malaysia and Singapore that there should be, as it were, some tame foreigners around. But is there any more to it than that? I do not see a role of actual military activity for Australia in the ASEAN region at the present time. My impression is that we would have either to have a very different kind of approach to the whole matter on the part of the United States or to be a very much larger and totally different kind of force in our own right to be a significant factor any longer.'¹¹⁸

2.101 When asked what role in regional security would he envisage Australia playing, Professor Mackie commented that,

'... I find it hard to anticipate a situation where any military role we might play would be politically credible ... (the) expeditionary force era of our foreign policy is over ... I see regional security as something which has to be worked out by the countries of the region primarily. We can give them what help they feel they would like from us, but unless we are invited by, say, ASEAN to do so, I cannot see us unilaterally going in in any other way whatever. I come back to my point: the security of the region is our security but it is not our, let us say, responsibility or capability any more ... it is theirs.'¹¹⁹

2.102 The Committee considers that there is value in continuing defence cooperation programs, provided they are monitored regularly to ensure that they serve Australia's interests and fulfil valid local defence requirements. The Committee notes the reservations expressed by some witnesses as to the continuing utility and relevance of the Five Power Defence Arrangements and Australia's RAAF involvement. Re-evaluation of Australian involvement may be desirable, but any rapid contraction of Australia's involvement in FPDA might lead to concerns in some ASEAN countries about Australia's commitment to regional security at a time when it would appear to be in our interests to underline our continuing strong commitment to the security of ASEAN.

7. Immigration and refugees

2.103 Migration, including refugee issues, has become an increasingly significant element in Australia's relations with ASEAN and our bilateral relations with ASEAN member countries. The proportion of nationals of ASEAN countries in Australia's global migrant intake has shown a small increase in recent years and this pattern is likely to continue.¹²⁰ Nationals in some ASEAN countries have shown interest in the government's business migration program. Serious refugee problems in the Southeast Asian region continue, as does the need for an effective Australian response.

a) Trends in migration from ASEAN countries

2.104 The number of people in Australia born in ASEAN countries (excluding Brunei) increased from 45 851 at the 1976 Census to 74 828 at the 1981 Census. These figures represented 0.34% and 0.51% of the respective total Australian population. The percentage of total settler arrivals born in ASEAN countries increased gradually during the early 1970s, from 1.2% of all settler arrivals in 1970-71 to 3.6% in 1974-75. This proportion grew to 6.1% in 1975-6 and has remained reasonably constant since then. During 1982-3 6.5% of settler arrivals were born in ASEAN countries.¹²¹

2.105 While absolute numbers of ASEAN migrants declined slightly up to 1982-83, in line with the migrant intake generally, numbers increased very slightly in 1983-84 (from 6269 to 6383). ASEAN migration as a proportion of total migration into Australia has risen slightly. There has been an increase in absolute numbers in family migration, mainly from the Philippines. Although migration in the Labour Shortage category from both the ASEAN countries and the rest of the world has declined significantly because of reduced employment opportunities in Australia, the decrease for ASEAN countries has been proportionally smaller.¹²²

2.106 The most recent detailed figures on migrant entry confirm these general trends. During the twelve month period ending 30 June 1984, total settler arrivals - excluding refugees - from ASEAN countries amounted to 6383 persons. This represented 11.6% of the world-wide total of 55 036 non-refugee settlers for the same period. The Immigration submission provides details of movements by category for each ASEAN country, for the year ending 30 June 1983, and for the six month period 1 July - 31 December 1983. On a world wide basis the ASEAN contribution remains reasonably constant across the two periods in most categories. Among the ASEAN countries, there has been a relative increase in Family Migration, principally from the Philippines. This increase has been offset by a decrease in movements in the labour shortage category - reflecting reduced Occupational Demand Schedule opportunities. Although migration from all ASEAN countries in the labour shortage category was reduced the Philippines and Singapore were especially affected.¹²³

2.107 In terms of movement in all categories from ASEAN countries, Brunei represented .6% of the total for the year ended 30 June 1984, Indonesia 12%, Malaysia 26.1%, the Philippines 47.8%, Singapore 9.1% and Thailand 4.3%.¹²⁴

2.108 The Department of Immigration and Ethnic Affairs commented in its submission that migration from ASEAN countries was likely to continue at around the same level in the immediate future, although the precise level could not be predicted. With improved economic conditions in Australia there is likely to be an increase in the number of settlers in both the Family Migration and Labour Shortage categories.¹²⁵ The Department of Foreign Affairs noted that given the Government's commitment to an immigration policy that is universal and non-discriminatory, no specific or different policy applies to would-be migrants from Asia, including the ASEAN countries. In reference to Family Migration it commented:

'The Government has, for humanitarian reasons, given priority in immigration policy to family reunion cases and has encouraged extended families i.e. spouses, children, parents and brothers and sisters, to reunite in Australia under sponsorship arrangements. The potential for growth in migration from Asia, including the ASEAN countries, is a natural outcome of a non-discriminatory policy with emphasis on family reunion, combined with a reduction of interest in migration from traditional migrant sources.'¹²⁶

2.109 Foreign Affairs also drew attention to evidence of interest within some of the ASEAN countries in the Government's business migration program. The program aims to attract people who possess business skills and who propose to establish undertakings which will benefit Australia. Malaysia has been one of the major sources of entrepreneurs seeking entry.¹²⁷

ii. Visitor Entry

2.110 Australia's visitor entry policy, in the words of the Department of Immigration and Ethnic Affairs, is designed

'... to facilitate the entry of *bona fide* visitors to this country, in order to promote growth in tourism, trade advantages associated with the development of business visitor contacts and economic and social advantages associated with the visit of friends and relatives, as well as to encourage general cultural exchange.'¹²⁸

As the affluence of ASEAN countries increases, it can be expected that visitors from those countries will come in increasing numbers to Australia. An example of recent visitor numbers is indicated by the numbers of visas issued at Immigration posts in the period October-December 1983:¹²⁹

Bangkok	1112
Hong Kong	5976
Jakarta	2712
Kuala Lumpur	6300
Manila	1388
Seoul	630
Singapore	12351

2.111 The Committee received some evidence that visitors to Australia might be inconvenienced by the Australian requirement that a visa be obtained prior to entry. It was pointed out that with the exception of Indonesia, no ASEAN country imposes a similar requirement for Australian visitors arriving by air.¹³⁰ The Department, in evidence to the Committee, pointed to the need to minimise the numbers of people 'overstaying' beyond their allotted visa periods. The ASEAN countries, it was stated, were among those '... which have high rates of refusal of visitors visas and of overstayers ...'.¹³¹

b) The refugee situation in Southeast Asia

i. Scope and dimensions of the Indochina refugee problem

2.112 The movements of refugees and displaced persons from the states of Indochina have taken place in several major phases since 1975. The flow of refugees and displaced persons has consisted of those (primarily Vietnamese) who have left Indochina by boat and those from all three countries who have crossed by land. In each case, the outflows have taken place in several phases.

2.113 Over 525 000 people have left Vietnam by boat since 1975. Between mid-1975 and 1977, people left at a rate of over 5000 a month. From early 1978 to July 1979, over 250 000 people

left, at a rate which reached 17 000 per month in 1979. After the Geneva Conference on Refugees in July 1979, the current phase was initiated: Vietnam agreed to impose a 'moratorium' on officially sanctioned departures, to discourage 'illegal' departures, and to facilitate orderly departure arrangements. In 1983, the monthly rate of illegal departures from Vietnam was 2 300. Factors in the continuing decline in the boat outflow have included the maintenance of the 'moratorium' on 'illegal' departures by Vietnam, the 'humane deterrent' policies of austere conditions and limited resettlement imposed by some of the principal Asian countries providing temporary refuge, decreased expectations of resettlement in Western countries and the availability of legal departure from Vietnam through Orderly Departure Programs.¹³²

2.114 Over 523 000 Indochinese people have crossed land borders into Thailand or have clustered in the unclearly-defined Thai/Cambodian border zone since 1975. Approximately 300 000 people have left Laos; many are hill tribe people (Hmong) of whom large numbers were involved in the anti-communist Vang Pao army during the Second Indochina War. Small numbers of Vietnamese have reached Thailand through Cambodia.¹³³

2.115 From Cambodia, there have been three major exoduses of people. After the fall of the Lon Nol regime in 1975, 30 000 Cambodians crossed into Thailand and 130 000 to Vietnam. A much larger movement took place from late 1978, after the Vietnamese invasion and the collapse of the Pol Pot/Khmer Rouge regime; this continued until June 1979, when Thailand temporarily closed its border. A third exodus began when Thailand opened its borders in October 1979. Since February 1980, Thailand has declined to admit any more Cambodians into camps inside Thailand. Those who have arrived at the Thai border have clustered into agglomerations. Land arrivals of Vietnamese and Lao have decreased in 1982 and 1983, largely because of stringent Thai border controls. Movements between Cambodia and the border agglomerations has continued.¹³⁴

2.116 The international response to the outflows of Indochinese expanded from the involvement of a few nations after 1975, to a worldwide assistance and resettlement effort from 1978-1979. This effort, however, has declined in recent years. Immigration commented that:

'As the arrival rate of boat people has fallen and appears to have stabilised, third country resettlement efforts have declined. Fewer countries are willing to participate significantly in resettlement and in the early 1980s, those countries still participating gradually decreased their program levels. A growing realisation has developed that resettlement efforts alone will not suffice to handle the refugee problem'.¹³⁵

Particular attention has focussed on proposals for voluntary repatriation (see below).

ii: Refugee problems in the regional political context

2.117 Immigration in its submission noted that 'Australia has responded generously to the Indochinese refugee crisis as a major humanitarian emergency.' It went on to suggest, however, that the Indochina refugee issue is

'... enmeshed with regional political and social problems which influence the refugee policies of involved countries and which have complicated international efforts to achieve lasting and humane solutions to the wide variety of situations in which the various groups of displaced Indochinese now find themselves'.¹³⁶

The Department argued that the ongoing refugee problem is closely bound up with the major political problems facing the region

'Resolution of the major political questions facing the region, such as the deep political and ideological differences between the countries of Indochina and their ASEAN neighbours and the

Vietnamese presence in Cambodia, would undoubtedly remove many of the conditions generating refugee outflows and some of those preventing those displaced from returning to their homelands.'137

2.118 The Department drew particular attention to the political and humanitarian problems posed by the Cambodians congregated on the Thai/Cambodia border.

'The future of the border population in humanitarian terms must be regarded as precarious. The pattern of recent years is that military engagements on the border result in the evacuation of tens of thousands of "civilians" into temporary shelters across the border in Thailand which permits their stay only for the duration of hostilities.

Although at present the border population is not regarded internationally as a refugee population (they are within their own country and do not claim international protection from persecution), the prospect must be faced that, should the forces comprising the Coalition Government of Democratic Kampuchea suffer a major military reversal, much of the border population will seek refuge in Thailand and ultimate resettlement by third countries.

Because of [the] history of the border population, which includes a large proportion of Khmer Rouge, the likelihood of large-scale international refugee resettlement is at least problematic.'138

iii. The Indochina refugee situation and the ASEAN countries

2.119 ASEAN as a group has continued to express its concerns about the ongoing refugee problem and the extensive burdens on ASEAN member states which are involved. While matters relating to aspects of the refugee problem continue to be raised by individual ASEAN countries, this is done within the general framework of the ASEAN position.'139

2.120 ASEAN's current perceptions of the refugee issue were presented in the Joint Communiqué issued by the Foreign Ministers after their meeting in Jakarta on 9-10 July 1984.

- . The Foreign Ministers '... deplored the premeditated and indiscriminate attacks launched by the Vietnamese occupation forces this year against the Kampuchean civilian encampments along the Thai-Kampuchean border ...'.

- . The Foreign Ministers 'noted that since 1978 there remain hundreds of thousands of Indochinese refugees and displaced persons in the ASEAN countries. They considered that the most viable solution to the Indochinese refugees and displaced persons continue to be their voluntary repatriation and resettlement in third countries. They once again called on the traditional and potential resettlement countries to exert and intensify their efforts to provide resettlement opportunities for these unfortunate people in the spirit of international burden-sharing and humanitarianism.'

- . The Foreign Ministers also 'reaffirmed that the granting of first refuge by ASEAN countries to Vietnamese illegal immigrants continues to be based on the understanding that resettlement in third countries is assured so that there would not be any residual problem in the ASEAN countries. They reaffirmed their conviction that the problem of these illegal departures especially by sea, must be resolved at the point of origin, through a fully effective orderly departure programme. They strongly urged Vietnam, the UNHCR and resettlement countries to intensify their efforts to make the existing orderly departure programme for Vietnamese fully effective.'140

2.121 The following figures¹⁴¹ show the historical trends in annual patterns of Indochinese refugee arrivals in countries of the region as well as the refugee population in ASEAN countries as of 29 February 1984.

2.122 Thailand has borne the greatest refugee burden. Since 1975 nearly 600 000 Indochinese people have sought refuge in Thailand, most of them from Laos (over 300 000) and Cambodia (about 210 000), but also including 75 000 Vietnamese boat people. At 29 February 1984, there were 130 675 persons in 'first refuge' camps in Thailand, comprising 8 028 Vietnamese boat arrivals, 69 226 Lao and Vietnamese land arrivals (virtually all Lao) and 53 421 Cambodians. This represented a 20% decline from the numbers of refugees one year previously.

2.123 The Lao refugee caseload has declined marginally over the last years, due to resettlement and a limited voluntary repatriation program operating for the Lao. The Vietnamese boat caseload has fallen slightly, while the Cambodian caseload has declined most significantly due to resettlement and some voluntary relocations to the border. In addition to the Indochinese in UNHCR-supervised camps and holding centres within Thailand, there are the Cambodians located in settlements on the Thai/Cambodia border in encampments controlled by the factions of the CGDK.

2.124 Malaysia has been the major landing place for Vietnamese boat people. Since 1975, over 130 000 have arrived; in 1982 and 1983, arrivals were 15 000 and 10 000. At 29 February 1984, there were 9 627 refugees in Malaysia; 13% more than in February 1983.

2.125 Indonesia, since 1975, has provided temporary refuge to over 79 000 people. Indonesia maintains two holding camps on the island of Galang, near Singapore; 9 155 people remained in these camps at 29 February 1984.

2.126 The Philippines' geographic position has meant that it has received comparatively few boat refugees. The rate of arrivals has recently decreased; arrivals in 1983 totalled 1759, a decline of 47% on 1982. The Philippines offers first asylum and it also hosts a substantial refugee processing centre. At 29 February 1984, the Philippines had 1726 'first asylum' refugees, and the refugee reprocessing centre at Bataan held 16 499, an increase of 24% on the previous year's figure of 13 271.

2.127 Brunei has provided temporary refuge for 159 boat refugees; at 29 February 1984, however, there were no Indochinese refugees recorded as being in Brunei.

2.128 This review of the refugee situation in each ASEAN country underlines the scale of the problem which they continue to face.

2.129 The problem of Indochina refugees is not the only refugee situation in the Southeast Asian region, although it is by far the most important. Other important refugee movements in the region have recently included,

- . Movements from the southern Philippines to Sabah; in 1982, the UNHCR estimated the numbers of Filipinos in Sabah at 90 000.¹⁴²

- . Irian Jaya; approximately 9000 people crossed to PNG in early 1984 (see section 8 below).¹⁴³

c) Australian refugee policies

2.130 Australia has made a substantial commitment to alleviating regional refugee problems. This commitment has involved both extensive refugee resettlement and a number of other policies and initiatives to assist refugees in the region and seek non-resettlement solutions.

i. Refugee resettlement

2.131 Australia by June 1984 had accepted over 88 000 Indochinese refugees since 1975. Australia's resettlement of Indochinese is proportionately the highest in the world. The resettlement program peaked at around the 15 000 level in 1978-80 and 1980-81. The program for 1983-84 involved acceptance of 10 000 people with about 5000 being received from Malaysia and Indonesia.¹⁴⁴

2.132 The emphasis of Australia's program since 1975 has consistently been on the acceptance of boat refugees. Immigration commented on the balance of factors involved in pursuing the policy in detail:

'The distribution of Australia's resettlement program reflects a complex range of considerations including the size of camp populations in countries of first refuge, the views of UNHCR, the scale of the refugee exodus actually being experienced, the policies and requests of the countries of South East Asia experiencing refugee arrivals and the number of places in refugee camps at any one time and those known to be of interest and concern to Australian sponsors'¹⁴⁵

2.133 Priorities in resettlement has been given to people with close relatives in Australia. A declining order of priorities is accorded to more distant relatives, those with other ties to Australia or those with special qualities which will facilitate resettlement. Australia also accepts some cases on special humanitarian grounds, such as disabled refugees. Guidelines were introduced in July 1982 on a global basis to tighten refugee selection procedures to ensure that only people with a genuine claim to refugee status were granted entry under the refugee programs.¹⁴⁶

2.134 Australia also accepts people through the Orderly Departure Program (ODP) established by agreement between the Governments of Australia and Vietnam in 1982. Internationally the ODP is regarded as an important element in the management of the refugee problem since it provides an alternative to dangerous boat journeys and uncertain resettlement prospects. Twenty-five countries now participate in ODPs and 'international and regional expectations are that orderly departures will continue and hopefully expand'.¹⁴⁷ By 30 June 1984, Australia had accepted 2334 people under the ODP.

ii. Non-resettlement initiatives

2.135 Australia has contributed in a variety of ways other than through resettlement to international efforts to lessen the Indochinese refugee burden on countries of the region and to pursue a resolution to the causes for the regional refugee exodus.

. Humanitarian assistance from Australia has amounted to \$50 million. This has included food aid and provision of personnel. Aid has been provided bilaterally, multilaterally and through non-government organisations. Of the funds, over \$24m has been directed to Cambodian refugees. Immigration pointed out that the aid to Indochinese refugees,

'... has been concerned not only with meeting demonstrated relief needs but also, where practicable, developing conditions conducive to the achievement of non-resettlement solutions such as voluntary repatriation and the reduction of circumstances impelling people to leave their country of origin.'¹⁴⁸

Australian humanitarian aid has focussed on displaced Cambodians on the Thai/Cambodian border, people in UNHCR holding camps in Thailand, and displaced persons inside Cambodia, including Vietnamese.

- . Australia has supported anti-piracy efforts in the Gulf of Thailand by contributing \$905 000.¹⁴⁹
- . Australia has also directly supported repatriation efforts by contributing to the UN Fund for Durable Solutions. The Fund has been used for village level projects inside Laos to encourage the repatriation of Lao refugees and displaced persons in Thailand.¹⁵⁰

2.136 As Immigration observed in its submission Australia's policies towards the Indochina conflicts are highly relevant in the refugee context.

'Australia's diplomatic initiative to seek a regional reconciliation over the Cambodia issue, though important for reasons beyond the refugee problem, carries significant implications for the possible resolution of the plight of the Khmer refugees inside Thailand and displaced persons on the Thai/Cambodian border.'¹⁵¹

2.137 While Australia's concerns in the area of refugees in the ASEAN region have necessarily focussed very heavily on people from Indochina, Australia has also received over 5000 refugees from East Timor since 1975. Some 2500 people were evacuated from the territory to Australia in 1975. Subsequently, over 1150 more Timorese have been accepted by Australia. Further Timorese (about 2000) have been resettled in Australia from third countries.¹⁵²

d) The Indochina refugee issue: future prospects

2.138 Given the continuing outflow of people from Indochina, the burdens imposed by the ASEAN countries providing 'first asylum' and the insistence by ASEAN (reiterated in July 1984) that the international community maintain its efforts to alleviate the problem, refugee issues are likely to continue to play a substantial role in Australia-ASEAN relations. The ongoing importance of the issue was stressed in submissions from Immigration and the Department of Foreign Affairs. Foreign Affairs stated that:

'Given the rate of natural increase in camps throughout the region, diminishing resettlement, the difficulties in the way of programs to encourage voluntary repatriation, and the likelihood that illegal departures from Vietnam will continue at approximately their present levels, in the short to medium term camp populations will probably continue to decline only at a fairly slow rate.

'This could lead to expressions of concern by countries of first refuge, notably those which have borne the brunt of Indochinese arrivals (Thailand, Malaysia and Indonesia) and pressure on resettlement countries (including Australia) to intensify their effort. There will be countervailing pressures in the major countries of resettlement to reduce intakes further.'¹⁵³

2.139 Immigration drew particular attention to the problem of declining interest in the major Western states in the acceptance of Indochina refugees: the problem sometimes referred to as 'compassion fatigue'.

'It is increasingly apparent that, internationally, programs for resettlement of Indochinese are declining or not being renewed ...

'The reality of the present situation is that the two major resettlement countries actively screen persons before accepting them as refugees from Indochina, rejecting those not believed to be refugees. The issue as a humanitarian one no

longer commands anxious world attention and there is growing recognition that resettlement alone is not a viable long-term solution to the Indochinese refugee problem. This is combined with a growing international expectation that progress on non-resettlement solutions is overdue and that affected countries of the region have a greater role to play than has so far been conceded.¹⁵⁴

2.140 Both Foreign Affairs and Immigration emphasised that increased attention would need to be given to 'non-resettlement solutions'. Particular problems are posed by those refugees who have spent long periods in camps and are unable to gain resettlement in a third country. The issue of the 'residual' refugees is a highly sensitive one to the ASEAN members, who fear that they may ultimately be forced to consider accepting some of these refugees on a long-term basis.¹⁵⁵ Foreign Affairs commented, in the context of the need to actively pursue non-resettlement solutions, that some problems may result in our relations with the ASEAN states.¹⁵⁶ Immigration concluded that,

The resolution of problems associated with displaced people in the Indochinese region will thus be an important element in Australia's relations with ASEAN (and concurrently the countries of Indochina) in the foreseeable future.¹⁵⁷

e) Australia's immigration and refugee policy and relations with ASEAN

i. Resettlement issues and problems.

2.141 The Committee gave some consideration to resettlement experiences of both migrants from the ASEAN states and refugees from Indochina. Immigration's research on resettlement patterns suggests that most migrants from ASEAN states do not experience major problems in adjusting economically and culturally to life in Australia, despite current economic difficulties in

Australia.¹⁵⁸ Two specific groups of migrants, however, have encountered some difficulties in settlement: refugees and immigrants from Timor and Filipino brides.

2.142 In addition to their experiences as refugees, some Timorese appear to be having problems related to: the large number of single-parent families; language problems; difficulty in settling into an urban environment, as many are from a rural background; loss of extended family; difficulty in getting family members out of Timor; and education difficulties.¹⁵⁹ With reference to Filipino women who have married Australians (often with the assistance of intermediary agencies) concern was expressed by the Australian Council for Overseas Aid that some of the women '... may be exploited or destined to live a lonely, isolated life ...'.¹⁶⁰ In response to problems being experienced by some Filipino brides, Immigration has introduced a counselling service for those intending to come to Australia to enhance their knowledge of Australian conditions, increased checks on the bona fides of those wishing to come, and a special post-arrival settlement service.¹⁶¹

2.143 The Committee's inquiry took place in a context of extensive debate within Australia on policies towards migration and refugee acceptance. The Committee's consideration of migration and refugee policies in relation to the ASEAN region, and the evidence¹⁶² received by the Committee on these issues, reflected this debate.

2.144 One submission (from Dr Catley) suggested that a task force should review contingency plans for dealing with further major refugee arrivals in the light of '... the difficulties of assimilation experienced with and by the last wave of Indo-Chinese'. Enthusiasm for multi-culturalism 'does not involve a mandate for the massive Asian immigration which appears to be developing.' He continued:

'... the apparent ease with which Asian immigrants can enter the country on compassionate/family reunion grounds contrasts with the difficulty of entry for immigrants from our more traditional and European sources. Around forty per cent of immigrants are now coming from Asia and, unless the Hong Kong problem is resolved more satisfactorily then presently seems likely, this proportion can be expected to be sustained. Two courses then suggest themselves. Either the policy on entry qualifications should be changed to reduce it; or greater resources should be devoted to a programme of education and assimilation to at least try to avoid the problems of intercontinental immigration encountered elsewhere.'¹⁶³

2.145 The submission received from the Australian Council for Overseas Aid (ACFOA) stated:

'ACFOA is deeply concerned that the recent debate on Australia's Migration program may be used to exploit fears and give encouragement to racist attitudes in the community towards Asian-Australians and refugees from Indo-China. The emotionalism of the debate may well increase with anti-Asian feeling on Australian university campuses and in communities where large numbers of Asian migrants have settled.'¹⁶⁴

2.146 Immigration provided detailed information on a variety of settlement problems being experienced by recently arrived Indochinese. The Department noted that refugees experience the normal difficulties facing all migrants, such as lack of English, unfamiliarity with Australian procedures, conflict over different cultural norms, and difficulty in obtaining suitable employment, or any employment. Refugees also face special additional problems: they often lack the work skills and family connections which assist other migrants to settle; they have left their previous homes and environments in traumatic circumstances; they may have been forcibly separated from their families, and the uncertainty of reunion is a psychological impediment to settlement.¹⁶⁵

2.147 The Department stated that, 'The Indochinese refugee community is showing a great deal of initiative and energy in overcoming initial settlement hardships and becoming established in the Australian community.'¹⁶⁶ Refugee communities were developing leaders and building bridges to Australian society. In response to requests from the Khmer community a conscious effort was being made to select people with professional and other skills needed by that community. The Department stressed the vulnerability of the refugee community.

'The Indochinese community is still vulnerable to outside pressures. Sensationalized or trivialized media presentation of individual or community problems can cause much harm both within the community and in its relationship with the host and other communities. The understanding and goodwill of the host society in particular are important factors at this stage of their development.'¹⁶⁷

2.148 The problems of the Indochinese community have been exacerbated by recent economic problems in Australia. Immigration stated that while the national unemployment rate in the quarter ending June 1983 was 10.1%, the rate for overseas born persons was 12%. However, while migrants who arrived before 1971 had an unemployment rate of 9.8%, 30.6% of arrivals since January 1982 were unemployed. High rates of unemployment, the Department stated, are causing many social problems in the refugee community.¹⁶⁸

2.149 Other information supplied by the Department suggested that the high rate of unemployment of recent migrants (and Indochinese) is partly a function of their newly-arrived status. It indicated that while unemployment rates of recently arrived Indochinese were high - over 35% - after two to three years the rate declined to approach that of other migrant communities: '... the Vietnamese experience, which has this high initial period of unemployment but then ... starts to improve, is a reflection of the fact that the community itself is establishing itself in Australia.'¹⁶⁹

2.150 In other submissions relating to resettlement issues, it was argued that there is a need for enhanced coordination and communication between the Department of Immigration and Ethnic Affairs and voluntary agencies.¹⁷⁰ The need for information and education on immigration and refugees issues was also emphasised. ACFOA stated in its submission:

'ACFOA believes that our Government should urgently increase its efforts to fully inform the Australian people about the facts of Government Immigration policy, and through community education programs, to foster tolerance, sympathy and understanding in the community for the needs of refugees and newly arrived immigrants ...

'In order to dispel misleading rumours and misunderstandings about refugees and immigrants on the part of the Australian population, and to stress the advantages of a multicultural society, ACFOA recommends that the Government fund a community education program.'¹⁷¹

ii. The significance of immigration and refugee issues for Australia-ASEAN relations

2.151 The nature of immigration by residents of ASEAN states and by Indochinese refugees differ, as previous sections have indicated. However, both immigration and refugee acceptance have been, and are likely to continue to be, of importance in Australia-ASEAN relations.

2.152 With reference to immigration, the Department of Foreign Affairs commented,

'It is clear that the entry into Australia of people from the ASEAN countries - whether for temporary residence or permanent settlement - has enhanced the cultural exchange between Australia and its neighbours and has helped dispel any lingering memories of the so-called 'White Australia policy'. Whether this exchange has been facilitated by the student intake from ASEAN, visiting relations and businessmen, or exposure to art, fashion and life-styles from our close neighbours, the result has been an enrichment of Australian society.'¹⁷²

2.153 In considering the role of refugees policy in Australia-ASEAN relations, Immigration commented that,

'Given ASEAN perceptions of the Indochinese refugee situation, it is understandable that Australia's generous role as a resettlement country coupled with our pursuit of other durable solutions has meant that refugee issues have been a positive element in Australia/ASEAN relations.¹⁷³

2.154 Immigration went on to highlight the scale of Australia's role in refugee acceptance, a role which in the past year has proportionately increased in importance.

'Australia's generous Indochinese resettlement program has been an important element in developing this goodwill. In percentage terms, since 1975 Australia has been responsible for 7% of resettlement from Thailand, 9% from Brunei, 11% from Singapore, 15% from the Philippines, 18% from Indonesia and 21% from Malaysia, or 12% of resettlement from all ASEAN countries. In recent months, the Australian resettlement effort has formed a more significant part of total resettlement from the ASEAN countries. In the period from July-December 1983, for example, Australia has been responsible for 14% of resettlement from Singapore, 24% from Thailand, 40% from the Philippines, 50% from Malaysia and 57% from Indonesia, or 32% from all ASEAN countries.¹⁷⁴

2.155 Given Australia's substantial role in refugee acceptance, alterations of policy on levels of refugee acceptance may have an impact on relations with the ASEAN states. The degree to which ASEAN citizens (beyond foreign policy-making circles) are aware of Australia's role in refugee resettlement is uncertain. It was suggested to the Committee, however, that substantial variations and/or cutbacks in Australian acceptance of refugees could have an adverse impact on ASEAN attitudes to Australia.¹⁷⁵

2.156 The Committee received several perspectives on the possible significance of debate and policy consideration in Australia on migration and refugee issues. One submission commented that:

'The politicisation of the debate and the use of intemperate language in the debate can only damage Australia's reputation and standing in Asia.'¹⁷⁶

An additional perspective on Australia's policies on these issues was received from another witness who commented, with specific reference to ASEAN attitudes to Australia's acceptance of refugees:

'I do not think they are particularly grateful to us for having done so ... I would put it in negative terms ... I would say rather that if we had not done that, we would have a much worse reputation in the region.'¹⁷⁷

f) Conclusions

2.157 The refugee situation in the region at present is substantially less serious than it was in 1978-1979, but the Committee notes that major problems persist for the ASEAN states. Australian policies towards Indochinese refugees (including resettlement) have undoubtedly been an area of extensive and successful cooperation with ASEAN and its member states. Because of declining rates of refugee acceptance by other major resettlement countries, Australia's role, on a proportional basis, has recently increased in significance.

2.158 The Committee notes the reiterations by the ASEAN Foreign Ministers that their countries' willingness to grant temporary asylum to arriving refugees is conditional on continuing commitments by third countries to resettlement. The Committee also notes the statements by the Department of Immigration and Ethnic Affairs that 'The resolution of problems associated with displaced people in the Indochinese region will

... be an important element in Australia's relations with ASEAN (and concurrently the countries of Indochina) in the foreseeable future.'178

2.159 The migration of ASEAN nationals has, by comparison, attracted much less attention, no doubt because of the success of most migrants from ASEAN countries in settling in Australia and because of the limited numbers involved. The Committee considers that the immigration which has so far taken place from the ASEAN region has both helped promote Australian contacts with the ASEAN states and helped allay the image of Australia as a country practising discriminatory policies in this area.

2.160 The Committee concludes that Australia's immigration and refugee policies are an important part of our relations with ASEAN. The adoption and maintenance of non-discriminatory immigration policies have contributed towards overcoming the formerly hostile perception of a White Australia. Australia's immigration and refugee policies in relation to the ASEAN region need to try to accommodate at least two important sets of interests:

- i. the capacity and willingness of the Australian community to welcome and accept immigrants and refugees arriving into Australian society, bearing in mind that the rate and volume of intake should be seen as being at the discretion of the recipient country.
- ii. the interests of Australia's ASEAN neighbours, who wish to continue the process of regional and international co-operation pursued since 1978 which has helped substantially to alleviate the burdens imposed on the countries of ASEAN.

2.161 It is in both Australia's and ASEAN's interests that efforts be continued to alleviate the refugee situation in the region. Longer-terms solutions must depend on several factors, including changes in Vietnam's internal policies and actions which gave rise to the mass departures; economic and political stability in Indochina including resolution of the conflict in Cambodia; and partly on measures including international aid and resettlement of refugees in third countries, and on non-resettlement solutions, especially voluntary repatriation. Efforts should also be made in Australia to promote awareness of the importance of Australia's immigration and refugee policies in Australia-ASEAN relations. Additional efforts may also be required within Australia to help refugees and immigrants arriving from ASEAN countries adapt into the Australian community and to promote community acceptance.

8. Bilateral and multilateral relationships

2.162 Australia's relations with the ASEAN region are conducted through a series of both multilateral and bilateral contacts over a wide variety of areas. It is important for Australia that its bilateral relations are pursued in ways which harmonise with its multilateral association with ASEAN as a group, especially since ASEAN members have a demonstrated capacity to negotiate either individually or as a group. Australian interests can also be affected by the course of bilateral relations between ASEAN members and third countries; the most notable case of this is the Indonesia-Papua New Guinea relationship. Both these aspects of interrelationships between bilateral and multilateral associations will be considered briefly.

2.163 There is an obvious asymmetrical aspect to Australia-ASEAN relations stemming from the fact that ASEAN members have the option of negotiating either singly or as a group. The Department of Foreign Affairs commented that:

'ASEAN has now reached the stage in its development where the Association's corporate identity and the future of that identity is secure. ASEAN countries, however, retain the ability to negotiate either bilaterally or as a bloc depending on the assessment of which method best serves their interests. They have well-developed mechanisms to adopt bloc positions and negotiate as a bloc. Individual countries, including Australia, have found that the reverse situation does not apply; except during the regular, but not frequent, consultations which form a part of ASEAN's diplomatic year, such as the ASEAN Foreign Ministers' meeting with dialogue partners, and, for Australia, the ASEAN-Australia dialogue meeting; and it is not always easy for individual non-ASEAN countries to respond to ASEAN as a bloc.¹⁷⁹

2.164 Many issues in the context of Australia-ASEAN relations arise at the bilateral level and will most appropriately be conducted at that level; these issues include most aspects of trade and economic relations, for example. As Foreign Affairs observed, however, ASEAN has the capacity to take up an issue that might have originated on a bilateral basis and pursue it jointly. The example of the dispute in 1978-1979 over Australia's International Civil Aviation Policy illustrates this clearly.

2.165 The civil aviation dispute had its origins in issues which had played no part hitherto in Australia's dialogue with ASEAN. The issues revolved around the problems of QANTAS which had by the late 1970s come under considerable competitive pressure from airlines including Singapore Airlines on Australia-Europe routes at a time when there was also considerable pressure for the achievement of lower fares on these routes. QANTAS had gradually come under increasing pressure and had encountered a declining market share and a declared financial loss in 1976. Australia's International Civil Aviation Policy (ICAP) was developed in response to this problem.¹⁸⁰

2.166 ICAP was designed to achieve lower fares by offering passengers regular scheduled flights by airlines, with stopovers strongly discouraged by imposition of a high rate of surcharge. It aimed to control the market for travel between Australia and overseas ports by establishing a 'duopoly' of QANTAS and the national airline at the other end of the route, and by ensuring that the airlines could fly these routes with very high passenger load factors - thus ensuring the profitability of the flights with low fares. It was argued that the restriction on stopovers was necessary to ensure that flights departing from Australian or European ports would, in fact, maintain their high load-factors throughout the entire flights.¹⁸¹

2.167 In seeking to restrict access to the Australian air traffic market the Australian government pursued the normal bilateral negotiations common in international civil aviation negotiations. SIA was the only Southeast Asian airline heavily dependent on its Australian routes, and it was expected that bilateral arrangements could be made by Australia which would be beneficial for other ASEAN carriers. Singapore, however, had a considerable amount to lose; it had a large investment in SIA and in airport facilities in Singapore (SIA by the late 1970s was contributing over 3% of the nation's GDP).¹⁸² Singapore was highly concerned at the implications of ICAP, and by 1978 there was an established framework for considering problems in relations between Australia and ASEAN countries. While Singapore's ASEAN partners could have gained some immediate advantages by accepting the proposed bilateral arrangements under ICAP, Singapore was able to gain support for a joint ASEAN stand on the issue.¹⁸³

2.168 Australia announced ICAP on 11 October 1978 and it initially hoped to conduct negotiations on a bilateral basis. However, ASEAN jointly criticised the policy at the end of October and the ASEAN Economics Ministers endorsed a joint stand

in December. ASEAN portrayed ICAP as an example of protectionist policies pursued by developed Western countries in relations with the Third World.¹⁸⁴

2.169 After a series of negotiations, Australia offered substantial concessions to ASEAN and the ASEAN airlines. The concessions did not meet all of ASEAN's demands but they did involve a substantial modification of the original ICAP policies. By 1981, after re-evaluation by the Australian Government, the attempts at control of the air traffic market attempted by ICAP were largely abandoned.¹⁸⁵

2.170 The ICAP dispute illustrated several important aspects of the potential of ASEAN as a negotiating group in relations with Australia, including its ability to appeal to the rhetoric of North-South dialogue in advancing its case. It also illustrated clearly the ASEAN members' ability to coordinate a joint policy stand on an issue which involved somewhat differing individual interests for the members. ASEAN was able to avoid internal division on the issue even though Singapore's interests were affected much more than those of any other member. The fact that issues on the bilateral level can develop into a multilateral dispute points to the importance for Australia of monitoring its bilateral relations to avoid such an eventuality.

2.171 In considering the possible relations between bilateral issues and multilateral associations between Australia and ASEAN it should be noted that Australia's bilateral relations with the ASEAN members are characterised by considerable diversity. This reflects both the diversity of the ASEAN members themselves and historical factors which, as Chapter One noted, saw Australia develop relatively closer relations in the post-World War II period with Malaysia, Singapore and Indonesia than with Thailand and the Philippines. Differences of emphasis in bilateral relations continue in a variety of policy areas. In the area of

trade, relations have been relatively more extensive with Indonesia, Malaysia and Singapore. In defence cooperation Australia has a comparatively higher degree of involvement with Malaysia and Singapore because of the Five Power Defence Arrangements. In the field of immigration, Australia receives considerably more settlers from Malaysia and the Philippines than from other ASEAN members. In relation to overseas students, the preponderance of Malaysians among students from ASEAN (see Chapter IV, Section 7) has produced a degree of personal contact which is greater than that taking place with any other ASEAN member. This diversity in the character of bilateral relations is not surprising and it has not inhibited the development of the multilateral relationship. That relationship, however, can clearly be affected by the special character of individual bilateral associations, particularly if a particular association was to encounter persistent areas of discord.

2.172 In the context of regional and bilateral relations Indonesia is clearly of particular importance to Australia. Indonesia is the only ASEAN country with which Australia shares a territorial boundary (in the Timor Sea). Indonesia's contiguity with both Australia and with Papua New Guinea is also of significance. Australia has important relationships with Papua New Guinea and with other members of the South Pacific Forum.

2.173 Foreign Affairs drew special attention to the significance of the Australia-Indonesia relationship.

'Indonesia's geographical size, population and proximity give it a special significance for Australia. Also, as the largest country in ASEAN, Indonesia plays a leading role in the Association and in South East Asia more generally. Indeed, Australia's relations with South East Asia are influenced in the first instance by the relationship with Indonesia. For these reasons, successive Australian Governments have placed importance on the development of a close and co-operative relationship with Indonesia. The

conduct of the relationship has not been easy. The euphoria in Australia-Indonesian relations at the time of independence contrasted with hostilities between the two countries during Confrontation. The extension of Indonesian sovereignty over Irian Jaya and East Timor has also led to bilateral strains.

Differences in culture and tradition and in political and social values complicate the task of establishing a broadly based relationship. In this context, the level of rapport at government to government level takes on considerable significance.¹⁸⁶

2.174 In the context of regional and bilateral relationships, the Committee notes the emphasis placed by the Department of Foreign Affairs on relations with Indonesia - and the Department's reference to bilateral strains which have arisen over the East Timor and Irian Jaya issues. The Committee received some evidence which considered the present and possible future importance of these issues in the context of regional and bilateral relationships.¹⁸⁷ Problems or tensions arising in relations between Indonesia and Papua New Guinea could have the potential to affect Australian interests, given Australia's important relationships with both countries and with both ASEAN and the South Pacific regions.

2.175 The Committee considers that the problems arising from the situation in Irian Jaya appear to have the potential of being long-term and of possibly greater future significance than those arising over the East Timor issue, particularly because the situation in Irian Jaya may impinge not only on relations between Indonesia and Papua New Guinea but also between Indonesia and some of the Melanesian states of the Pacific. This in turn could affect ASEAN's relations with the countries of the South Pacific, with potentially important implications for Australia.

2.176 The Committee concludes that the state of bilateral relations will be one important component factor in the maintenance by Australia of productive relations with ASEAN as a group. ASEAN has shown an extensive capacity for solidarity and mutual support; the Association's members have, for example, in recent years supported Indonesia's position on East Timor, in the United Nations. ASEAN has also demonstrated on several occasions a capacity to cooperate effectively in pursuing issues with Australia on a joint basis that might not necessarily have been of equal salience to each individual ASEAN member.

ENDNOTES (Chapter II)

1. Evidence, p.S359.
2. Evidence, (Professor Mackie), p.596.
3. Evidence, (Dr Girling), p.S173
4. Research Institute for Peace and Security, Asian Security 1983, Tokyo, 1983, p.53.
5. Leszek Buszynski, S.E.A.T.O.: The Failure of an Alliance Strategy, Singapore, 1983, pp.55-59.
6. George P. Schultz, US Secretary of State, Address to the ASEAN Foreign Ministers, Jakarta, July 13, 1984.
7. Michael Richardson, 'The influence on the ASEAN community of Australian-American security relations', Paper prepared for delivery at the conference on: American influences on Australian defence, 24-26 June, 1984, Australian Studies Centre, The Pennsylvania State University, p.27.
8. Richardson (1984), Schultz (1984).
9. Evidence, (Dr Lim, 18 April 1984), p.437.
10. Evidence, (18 April 1984), p.418.
11. Department of Defence submission
12. Richardson (1984) pp.32-33; The Age, 7 October 1982.
13. Evidence, (18 April 1984) pp.413-414.
14. Evidence, (18 April 1984) p.415.
15. Evidence, (18 April 1984) pp.415-416.
16. Evidence, (18 April 1984) p.416.
17. Allan Gyngell, 'Looking Outwards: ASEAN's External Relations' in Alison Broinowski, ed., Understanding ASEAN, London, 1982, pp.138-140.
18. Evidence, p.S429.
19. Evidence, Dr Mediansky and Dr Lim, (18 April 1984) pp.433-435.
20. Canberra Times, 11 August 1984.
21. Evidence, (13 April 1984) pp.204-205.
22. Evidence, (13 April 1984) p.204.
23. Sydney Morning Herald, 11 August 1984; Prime Minister Mahathir Mohamad, address to National Press Club, 10 August 1984.
24. Evidence, p.S414; see also Sheldon W. Simon, 'Davids and Goliaths: Small Power - Great Power Security Relations in Southeast Asia', Asian Survey, Vol.XXXIII, No.3, March 1983, pp.308-309.
25. Michael Leifer, 'ASEAN and the Problem of Common Response', International Journal, Vol.XXXVI, II, No.2, (1983), pp.316-329.
26. Leifer (1983); Richardson (1984).
27. Nation Review (Bangkok) 13 September 1984; Straits Times (Singapore) 14 September 1984.
28. Evidence, p.S565.
29. Evidence, pp.S565-566.
30. Evidence, pp.S171-173.
31. Evidence (Dr Catley), pp.S565-566; (Professor Mackie) pp.S970; (Dr Girling) pp. S171-174.
32. Evidence, pp.S391-427.
33. Evidence, p.S566.
34. Evidence, p.S172.

35. Evidence, p.S411.
36. Evidence, p.S410.
37. Evidence, (Dr Lim) (18 April 1984) pp.436-437.
38. Evidence, (Dr Lim) pp. 436-437; (Dr Girling) pp.539-540.
39. Evidence, (Dr Lim) p.438; Richardson (1984) pp.3-5, 26-31.
40. Evidence, (in camera).
41. Evidence, pp.S264-265.
42. Far Eastern Economic Review, 15 March 1984.
43. Evidence (Dr Angel) p.S261; Department of Foreign Affairs p.S359-365.
44. Far Eastern Economic Review, 15 March 1984.
45. Evidence, p.S186.
46. In camera evidence - cited with permission.
47. Richardson (1984) pp.16-17; Tim Huxley, 'Recent Military Developments in Southeast Asia: Their Implications for Australia's Security', Basic Paper No. 2, 1983, Legislative Research Service, Canberra, 1983, pp.19-26. Thailand, for example, has recently confronted problems of cost in relation to possible purchase of the American F-16 fighter; see Far Eastern Economic Review, 29 December 1983, and 12 July 1984.
48. Huxley (1983) pp.19-26.
49. Huxley (1983) pp.26-28; Far Eastern Economic Review, 13 July 1979.
50. Richardson (1984) pp.22-25; Huxley (1983) pp.26-28.
51. Huxley (1983) pp.26-28; Defence and Foreign Affairs Handbook 1984 Edition, Washington, 1984, pp.536-537.
52. Evidence (Department of Foreign Affairs) p.S359.
53. Frank Frost, 'The Conflict Over Cambodia: Implications of the Khmer Coalition Agreement', Basic Paper No.14, Legislative Research Service, Canberra, 1982, pp.22-26; Far Eastern Economic Review, 10 November 1983.
54. K.K. Nair, 'ASEAN-Indochina Relations Since 1975: The Politics of Accommodation', (Canberra Papers on Strategy and Defence, No.30, A.N.U., 1984), p.111-194.
55. The International Conference on Kampuchea (ICK) was convened in New York on 13-17 July; 79 states participated including the ASEAN members, China and the US, but not Vietnam or the Soviet Union. The ICK produced a declaration which reaffirmed the rights of all states to sovereignty, independence and territorial integrity and expressed concern that these principles had been violated in Cambodia. The Conference noted 'the serious international consequences' arising from the situation in Cambodia and called for the withdrawal of all foreign forces. To reach a 'comprehensive political settlement' the ICK advocated: a cease-fire and the withdrawal of all foreign forces; 'appropriate arrangements to ensure that armed Kampuchean factions will not be able to prevent or disrupt the holding of free elections ...'; free elections to be held under UN supervision; respect by the great powers and Southeast Asian regional states for Cambodia's neutrality; and a program of international aid. See Report of the International Conference on Kampuchea, New York (13-17 July 1981), United Nations, 1981, pp.7-9.

56. Asian Wall Street Journal, 13 and 16 July 1982; Far Eastern Economic Review, 16 July 1982.
57. Asian Wall Street Journal, 13 and 16 July 1982; see also Kishore Mahbubani, 'The Kampuchean Problem: A Southeast Asian Perception', Foreign Affairs, Winter 1983/84, pp.407-425. The Far Eastern Economic Review provided a summary of estimates of the strengths of the Coalition factions up to late 1983. It estimated the Khmer Rouge at 30 000 armed men, the KPRLF at between 9000 and 12 000 and the pro-Sihanouk forces (the Armee Nationale Sihanoukiene - ANS) at about 5000 (Asia Yearbook, 1984, pp.143-144).
58. ASEAN Foreign Ministers Communique, Jakarta, 10 July 1984.
59. Evidence, pp.S304-305.
60. Evidence, pp.S189-190.
61. Evidence, p.S190.
62. Evidence, (11 May 1984) p.S61.
63. Evidence, (13 April 1984) pp.206-207.
64. Evidence, (Dr Chandler and Dr Kiernan, 12 April 1984) pp.166-180; (Professor Yahuda and Dr Vickery, 13 April 1984) pp.206-215; (Dr Mediansky and Dr Lim, 18 April 1984), pp.424-428; (Dr Girling, 11 May 1984), pp.S42-S48; (Dr Khien Theeravit, submission) pp.S187-193; (Dr H.S. Leng, submission) pp.S854-863.
65. Carlyle A. Thayer, 'Australia and Vietnam 1950-1980: From Conciliation to Confrontation 1972-1980', Dyason House Papers, Vol.6, No.3, March 1980, p.7.
66. Thayer (1980) pp.9-11.
67. Sydney Morning Herald, 15 October 1980; Minister for Foreign Affairs News Release, M58, 28 May 1981.
68. Frost (1982) p.32.
69. The Age, 14 December 1981; The Age, 10 August 1982; Sydney Morning Herald, 10 August 1982; Sydney Morning Herald, 9 September 1982; Canberra Times, 2 October 1982.
70. Minister for Foreign Affairs News Release, M106, 16 September 1982.
71. Commonwealth Parliamentary Debates, House of Representatives, 7 December 1983, p.3407.
72. Sydney Morning Herald, 4 October 1983; Far Eastern Economic Review, 27 October 1983; Sydney Morning Herald, 31 October and 10 November 1983; The Age, 9 November 1983.
73. Evidence, p.S428.
74. Evidence, p.S429.
75. Evidence, p.S429.
76. Evidence, p.S300.
77. Evidence, p.S302.
78. Evidence, p.S187.
79. In camera evidence, 14 June 1984.
80. Evidence (Dr Buszynski, submission), pp.S66-69.
81. Evidence, p.S430.
82. Evidence (12 April 1984); p.166.
83. Evidence, (11 May 1984) p.596.
84. Evidence, (11 May 1984) p.595.
85. Evidence, pp.S303-304.
86. Evidence, pp.S73.
87. Evidence, p.S302.

88. Evidence, p.S154.
89. Evidence, p.S430.
90. Evidence, (13 April 1984) p.215.
91. Evidence, (Dr Chandler, 12 April 1984) pp.188-189; (Dr Girling, 11 May 1984) p.553; (Professor Mackie, 11 May 1984) p.596; Dr Catley (submission) p.S566; Australian Council for Overseas Aid (submission) pp.S1038-1039; Dr Mediansky (18 April 1984), pp.425-426.
92. Evidence, (Dr Catley), p.S566; (Professor Mackie) p.970; (Professor Yahuda, 13 April 1984), pp.213-215.
93. Evidence, p.S303.
94. Evidence, p.S429.
95. Evidence, (13 April 1984) p.216.
96. Evidence, (12 April 1984) p.168.
97. Evidence, p.S173.
98. Evidence, (18 April 1984), p.425.
99. Evidence, (12 April 1984), pp.172-173.
100. Evidence, (12 April 1984) pp.182-183.
101. Evidence, (13 April 1984) p.246.
102. Evidence, p.S71.
103. Evidence, (Dr Buszynski submission), pp.S69-71.
104. Evidence, (11 May 1984) p.596.
105. Evidence, (18 April 1984) pp.405-407.; see also Dr Buszynski, submission, pp.S77.
106. Evidence, (Department of Defence submission).
107. Evidence, p.S465.
108. Evidence, pp.S465-466.
109. Evidence, p.S468.
110. Evidence, P.S470.
111. Evidence, p.S467.
112. Evidence, P.S466.
113. Evidence, pp.S466-467; Evidence, (Professor Miller, 11 May 1984), p.566; Chan Heng Chee, 'Singapore in 1982: Gradual Transition to a New Order', Asian Survey, Vol.XXIII, No.2, February 1983, p.207.
114. Evidence, pp.S307-308.
115. Evidence, p.S885.
116. Evidence, p.S567.
117. Evidence, p.S22.
118. Evidence, (11 May, 1984), p.566.
119. Evidence, (11 May, 1984), pp.593-594.
120. Evidence, (Department of Immigration and Ethnic Affairs, submission) p.S1065.
121. Evidence, p.S1086.
122. Evidence, p.S1086; figures for 1983-84 supplied by Immigration.
123. Evidence, S1086-1088.
124. Based on data supplied by Immigration. See Exhibit 12.
125. Evidence, p.S1086.
126. Evidence, p.S381.
127. Evidence, p.S382-383.
128. Evidence, p.S1093.
129. Evidence, p.S1093.
130. Evidence (ASEAN-Australia Business Council - ASEAN Section, submission) p.S887.

131. Evidence, (21 May 1984) pp.674-675.
132. Evidence, p.S1094.
133. Evidence, p.S1095.
134. Evidence, p.S1095.
135. Evidence, p.S1097.
136. Evidence, p.S1108.
137. Evidence, pp.S1108-1109.
138. Evidence, pp.S1109-1110.
139. Evidence, p.S1097.
140. ASEAN Foreign Ministers Joint Communique, Jakarta, 10 July 1984.
141. Evidence, pp.S1098-1100.
142. Evidence, pp.S1105-1106.
143. Evidence, p.S1106.
144. Evidence, p.S1101. See also Exhibit 6.
145. Evidence, p.S1101.
146. Evidence, p.S1101.
147. Evidence, p.S1104.
148. Evidence, p.S1104-1105.
149. Evidence, p.S1105; Minister for Foreign Affairs News Release, M113, 6 August 1984.
150. Evidence, p.S1105.
151. Evidence, p.S1105.
152. Evidence, pp.S1106-1107.
153. Evidence, p.S385.
154. Evidence, p.S1110.
155. Evidence, (Foreign Affairs submission) pp.385-386; Immigration (21 May 1984) pp.684-685, 695-696.
156. Evidence, p.S386.
157. Evidence, p.S1111.
158. Evidence, pp.S1115-1116.
159. Evidence, p.S1116.
160. Evidence, p.S1046.
161. Evidence (Immigration, 21 May 1984), pp.693-694.
162. Evidence, (Dr Chandler, submission) pp.S737-738, and (12 April 1984) pp.183-186; Professor Yahuda, (13 April 1984) pp.218-220; Dr Catley (submission) pp.S586-587, and 13 April 1984) pp.235-239; Dr Lim (18 April 1984) pp.431-432; Dr Girling (11 May 1984) pp.547-548; Department of Immigration and Ethnic Affairs (21 May 1984), pp.666-697.
163. Evidence, pp.S586-587.
164. Evidence, p.S1042.
165. Evidence, p.S1112-1113.
166. Evidence, p.S1120.
167. Evidence, p.S1120.
168. Evidence, p.S1120-1121.
169. Evidence, (Immigration, 21 May 1984), p.587.
170. Evidence, (Mr Rollason, Australian Council for Overseas Aid, 21 May 1984), pp.725-726.
171. Evidence, p.S1048.
172. Evidence, pp.S383-384.
173. Evidence, p.S1107.
174. Evidence, p.S1108.
175. Evidence, (Dr Girling, 11 May 1984), p.547; (Professor Mackie, 11 May 1984) pp.603-604.

176. Evidence, p.S1042.
177. Evidence, (Professor Mackie, 11 May 1984) p.603.
178. Evidence, p.S1111.
179. Evidence, p.S389.
180. Christopher C. Findlay, 'Australian International civil aviation policy and the ASEAN-Australia dispute', ASEAN-Australia Economic Papers, No.1, ASEAN-Australia Joint Research Project, CXanberra, 1983, pp.9-26.
181. Findlay (1983) pp.24-26.
182. Far Eastern Economic Review, 23 February, 2 March 1979.
183. Findlay (1983) pp.26-40; Evidence (Department of Aviation, 21 May 1984), pp.653-656.
184. Findlay (1983) pp.24-27.
185. Findlay (1983) pp.26-42.
186. Evidence, p. S.399.
187. Evidence, (Australian Council for Overseas Aid submission) S1030-1041; (Mr Rollason, ACFOA, 21 May 1984), pp.718-723; Dr Catley, 13 April 1984, p.239.

CHAPTER III

AUSTRALIA AND THE ASEAN REGION: ECONOMIC ISSUES

PART A Overview

3.1 It is clear that Australia's overall trading and investment opportunities in the ASEAN region are likely to continue to increase in concert with the on-going dynamism of most ASEAN country economies. At the same time, Australian business will need to meet serious challenges if it is to take full advantage of these opportunities. The following major points made in evidence to the Committee¹ illustrate these opportunities and challenges:

- (a) economic growth rates in ASEAN countries, except the Philippines, are expected in the medium term to resume being among the highest in the world (even if not as high as the rates of the past decade);
- (b) while Australia's trade with ASEAN has grown significantly in the past decade, this has been due mainly to the rapid growth in ASEAN economies and their resultant import demands: Australia's export performance, in terms of its share of ASEAN imports, has in fact been rather disappointing;
- (c) competition among exporters from Japan and other East Asian countries, the United States and Western Europe is likely to increase, putting further pressure on Australia's maintenance of its ASEAN market shares, which have been declining for more than a decade;
- (d) most ASEAN countries plan to increase their rate of industrialisation and are therefore expected to become important markets for exporters of technology, investment capital, technology-intensive goods and services including machinery, and raw materials including minerals for industrial processing (such as tin, iron ore and perhaps coal);

- (e) at the same time, ASEAN countries will have to maintain high export levels in order to afford the imports needed for their industrial development and to supply growing and possibly more affluent populations;
- (f) ASEAN import competition in the Australian market is therefore likely to grow across a broader range of manufactured products in increasingly capital-intensive areas;
- (g) economic co-operation and trade flows among ASEAN countries are likely to continue to be limited by their greater economic complementarity with external partners and by each ASEAN country's pursuit of its own aspirations in economic planning and trade relations;
- (h) if Australia is to take full advantage of growing export prospects in the ASEAN region, it will need to:
- become more export-oriented, and more perceptive of aspirations and developments in Southeast Asia
 - anticipate and respond to changing trends in ASEAN economic development and import demands
 - identify and pursue opportunities for competitive Australian exports and services, and for investments in ASEAN countries especially joint ventures in manufacturing and construction
 - adjust production and export capacity accordingly
 - accept increases in competitive imports from ASEAN countries (or at least not operate trade barriers levels harmful to competitive ASEAN merchandise).

3.2 Parts B and C of this Chapter seek to assess the major trends in the economic and trading development of ASEAN countries - both individually and collectively - and the trade and investment opportunities these will present for Australia. Such assessment should entail a critical look at any likely limitations on Australia's ability to capitalise on those opportunities, such as trade barriers and the competitiveness of Australian exports. Australians live on the economic edge of a dynamic region: if we are to progress towards the economic centre, we shall need a greater understanding of the nature, needs and aspirations of the ASEAN region; at the same time, we must accept opportunities and effectively communicate Australia's interests to our regional neighbours.

PART B ECONOMIC DEVELOPMENTS IN THE ASEAN REGION

1. The National Economies

(a) Regional Overview

3.3 While the collective wealth of the six ASEAN countries, with a combined Gross National Product (GNP) in 1982 of about US\$202 billion, is not much greater than Australia's (US\$156 billion)², the rate of economic growth of each ASEAN country in the past decade has easily outstripped that of most industrialised countries - including Australia - and middle-income developing countries.³ For example, Singapore's real GNP increased from 1970 to 1981 at an average annual rate - in real terms - of 8.5%,⁴ while the Philippines' performance - ASEAN's lowest - was still 6.2%, over double the average for industrial market economies.

3.4 Based on the rates of GNP growth over the five years 1979-83, ASEAN's combined GNP would be about US\$500 billion in the year 2000, whereas Australia's would be only US\$220 billion.⁵ An even more graphic illustration of recent economic trends (assuming they continue) is that the 'average' Singaporean will be significantly wealthier than the 'average' Australian by the end of the century.⁶

3.5 Most Committee witnesses⁷ expected lower economic growth rates for ASEAN countries during the remainder of the decade, mainly because of slower growth prospects of many of their industrialised trading partners. Nevertheless, economic growth rates in all ASEAN countries except the Philippines are still expected to continue well in advance of those for most other developing countries.⁸ One major implication for Australia is evident: the ASEAN region promises better opportunities for expanded Australian exports than do Australia's

traditional trading partners. At the same time, Australia's export competitors in Europe, the US and East Asia will also be striving to increase their penetration of the expanding ASEAN market. Whether Australia can benefit from these opportunities will be a major challenge for all sectors of Australian industry in the 1980s.

3.6 A number of witnesses⁹ cautioned that ASEAN should not be seen as one economy; rather, as six individual national economies at differing stages of development and presenting a variety of import and export opportunities. Indonesia's economic and trading system, with its less developed manufacturing sector, higher protection of local manufactures and reliance on petroleum exports, differs significantly from Singapore's 'open' economy with its export-oriented secondary and tertiary sectors and lack of natural resources. In Singapore, labour-intensive manufactures are being rapidly supplanted by higher-technology and value-added industries. Indonesia has ambitious plans for heavy and higher-technology industries. Thailand and the Philippines retain much of the traditional agricultural basis of their economies and export effort. Malaysia's economy is perhaps the best balanced between agriculture, commodity processing and labour-intensive but export-oriented manufactures.

3.7 Notwithstanding the differences among individual ASEAN country economies and their economic prospects (summarised later in this section), there are also numerous common features: generous endowment of natural resources [except in Singapore] and heavy dependence on their export; government policies to broaden economic bases (and improve employment) by industrialisation, initially by labor-intensive goods but supplemented increasingly by heavier industry; and government encouragement of foreign investment and joint manufacturing ventures. At the same time, all ASEAN countries face, in varying degrees, the problems of 'pressures of population on resources, poverty, infrastructural deficiencies [and] dependence on fluctuating commodity prices ...'¹⁰

3.8 During the 1960s and some of the 1970s ASEAN countries other than Singapore promoted labour-intensive, import-substituting manufactures. Faced with the problems of small-scale production, high unemployment and the inefficiencies of protecting local industry, most ASEAN countries began developing in the 1970s an export orientation for their manufacturing industry. The high degree of export orientation that developed is largely responsible for the high growth rates in the industrial sectors of ASEAN economies. Those industrial sectors averaged an annual growth of 9.2%, measured as a contribution to combined ASEAN GDP, from 1972 to 1981¹¹ - about double the rate for the agricultural sector (although this still employs over half the ASEAN workforce).

3.9 The export orientation of ASEAN economies is apparent by comparison with industrialised countries: whereas the latter's average annual increase for merchandise exports was 5.4% over the 1970/81 period,¹² the figure for Singapore and Thailand was about 12% (albeit from a lower base). Even Indonesia, regarded as one of the least 'open' of the ASEAN economies, bettered the industrialised average. Singapore and Indonesia each account for over 30% of ASEAN exports and Malaysia almost 20%¹³. While raw materials - notably petroleum, rubber, timber, tin, copra and palm oil - are still the major export earners from the ASEAN region, manufactured goods became increasingly significant.

3.10 The Treasury's summary of these export-orientation and industrialisation trends in ASEAN economies also highlighted some questions now facing ASEAN economic planners:

'Industrialisation, the promotion of labour-intensive manufactures and the search for export markets are the outstanding developments of the last decade; but several issues - the emphasis to be placed on agricultural development as against industrial development, the character of incentives for export-promoting industries as against those for import-substituting industries,

and the choice between natural-resource-based industries and labour-intensive manufacturing - continue to be open questions in all the ASEAN countries except Singapore...

... imports are likely to rise concomitantly with exports, both by virtue of the necessity for raw materials and components to supply manufacturing industries, and through ... rising national income and demand for imports. This can pose new problems for the management of the balance of payments.

... Capital requirements have grown greatly with more intensive industrialisation, placing greater demands both on the supply of domestic savings and on the capacity for obtaining capital from abroad.

... an increasing reliance on competitive ...exporting of goods and seeking of capital brings with it...a need for further diversification of exports markets and suppliers..."¹⁴

However, there remain import substitution industries - especially in the heavy capital-intensive sector - which ASEAN countries especially Malaysia and Indonesia regard as central to their national development and self-reliance (e.g. proposed steel making and oil refining). Some of the implications for Australia of these economic issues facing ASEAN countries will be considered in Part C of this chapter.

(b) Individual Country Economies

3.11 The following summary of the economic circumstances and prospects for each ASEAN country briefly notes some implications and opportunities for Australian trade and investment. A more detailed treatment of Australia's future interests in the ASEAN economies is included in Part C of this chapter.

Brunei

3.12 Brunei, is unique among ASEAN economies: a small but wealthy nation relying almost totally on very substantial petroleum exports and foreign exchange investments, and lacking a manufacturing base and agricultural self-sufficiency. Despite per capita national income far exceeding Singapore's or even Australia's (about \$22 000 per annum),¹⁵ education and training levels are not yet adequate to reduce dependence on foreign managers and technicians or to broaden the economic base. Distribution of wealth is also uneven, which - together with the small population - will limit export prospects to Brunei. Japanese and Singapore merchandise comprises the bulk of Brunei's imports.

3.13 With income from petroleum accounting for about 80% of GDP,¹⁶ with most consumer demands satisfied by imports, and lacking a skilled indigenous labour force, Brunei's major economic challenge is to train its population and broaden its economic base. Despite a system of Government-funded overseas education - traditionally in the U.K. - the development process is likely to take at least a decade.¹⁷ Australia should be well placed to offer mutually beneficial educational and training services and, subject to the strength of Japanese and Singaporean market control, technology-intensive merchandise and services.

3.14 While Brunei has traditionally turned to the United Kingdom for education, economic investment and advice, there are some signs of change: the management of Brunei's investment portfolio, reported to be some US\$3.5 billion per annum,¹⁸ has been transferred from the United Kingdom Crown Agents to the newly-created Brunei Investment Agency, which now has Japanese and American financial consultants. If, as is thought,¹⁹ Brunei's foreign investment policy becomes less cautious and reliant on 'western' government bonds, Australia may become a

target for some of this investment. Already Brunei has a large cattle property holding in the Northern Territory for supplying the country's meat needs. However, assessments of Brunei's future economic relations are made difficult by the early stage in development of a Bruneian economic diplomacy. Whether Brunei will invest significantly in her ASEAN neighbours and develop as an economically useful member of ASEAN remain to be seen.

Indonesia

3.15 Indonesia might be described as the stirring economic giant among the ASEAN countries. With a population well in excess of 150 million, abundant natural resources and an economically ambitious Government, it is likely that Indonesia will become a more dominant economic force in South-East Asia after the current international recession ends and when the domestic economy 'takes off'. The generally optimistic forecast which follows must, however, be placed in the context of poverty levels that are still high, and of shortages of arable land and industrial jobs for a growing population.

3.16 Indonesia's economy - ASEAN's biggest (about 40% of combined ASEAN GDP) - grew on average almost 8% annually in the 1970's. The rate of growth suddenly fell to only 2.3% in 1982,²⁰ after the world recession had significantly reduced both the volume and unit value of its oil exports (which account for about 70% of export earnings). The economy developed balance-of-payments and budgetary problems and the Government reluctantly had to postpone development projects intended to contribute to Indonesia's eventual industrial self-reliance. These were to include an oil refinery, two petrochemical plants, an alumina plant, coal-mining projects, and a fully integrated steel industry. These are projects central to an ambitious plan for a heavy industrial base for processing Indonesia's raw material wealth. In addition, Indonesia's currency was devalued

28% in April 1983.²¹ These tighter economic policies, including some reductions in tariffs and the domestic oil price subsidy appear to have been successful: some pressure was taken off domestic and foreign debts and real GDP in 1983 is estimated by the World Bank to have grown 4.5%,²² a rate which is near the 5% target for the current five year economic plan (Repelita IV). Higher petroleum and rice production has also helped Indonesia's recovery.

3.17 Repelita IV also seeks to lessen the country's dependence on oil and gas and to increase exports of processed metals such as copper, nickel and aluminium. For repayment of foreign loans (now totalling about US\$20 billion) to remain manageable, the World Bank advised that non-petroleum exports need to be expanded significantly. Other important economic objectives are self-sufficiency in rice, increased plantings of other food crops away from Java, and increased production and efficiency of export commodities such as rubber, palm oil, timber, tobacco and pepper. As with other ASEAN economies dependent largely on commodities for export earnings, prevailing world prices (including petroleum) will have a significant influence on Indonesia's improving economic health, especially in the years before a significant part of its export income is derived from the slowly developing manufacturing sector.

3.18 Indonesia's manufacturing sector, comprising only about 15% of the country's GDP in 1983,²³ has been handicapped by numerous factors: high domestic protection, low productivity and export levels,²⁴ excessive reliance on the petroleum sector, and competition from other Asian exporters. Manufacturing, especially metals and engineering, is being given priority in government planning and is forecast to grow at almost 10% annually in the current five year period just commenced.²⁵ There is said²⁶ to be a real possibility that the Government will emphasise a program of expensive and possibly inefficient

import-substituting and higher technology industrialisation rather than the labour-intensive, export-oriented manufacturing which has proved successful in other ASEAN countries.

3.19 In the medium to longer term, the prospect is that the 'basic strengths of the Indonesian economy' will reinforce its 'capacity to manage and sustain a strong growth path',²⁷ especially if Indonesia succeeds in its plans to diversify exports away from petroleum. Recent substantial rises in non-oil commodity exports have been reported.²⁸ If this in turn allows increases or diversification of Indonesian imports, Australian suppliers of iron and steel, technical (including mining) equipment and consultancy advice, should benefit - if they are competitive. Given Indonesia's desire to develop a steel industry, there may be export opportunities for Australian iron ore and perhaps coal (subject to progress in the planned development of Indonesia's large coal deposits in Sumatra) Opportunities for Australian investment in Indonesia's proposed industrial development are discussed in Section 2 of Part C of this chapter.

Malaysia

3.20 Malaysia, like Indonesia, enjoyed an average annual GDP growth during the 1970's of about 8%,²⁹ a rate recently halved due largely to depressed prices for primary product exports (including petroleum, rubber palm oil and timber) on which Malaysia relies heavily. Similarly, in response to foreign debt service concerns, Malaysia recently reduced its high level of government spending on development projects. Important differences, however, between the two economies are Malaysia's greater export orientation and wider economic base - specifically its manufacturing sector which is now rivalling the agricultural sector in size. The Government is seeking to diversify Malaysian manufactures additional to the traditional textiles and clothing

lines. Industries being developed or planned include automotive components and assembly (particularly the ambitious 'national car' project assisted from Japan) raw material processing (e.g. rubber and tin) and heavy industry (for example, proposed oil refining and steel working). Another recent approach to economic development is the Mahathir Government's 'Look East' or 'Malaysia Incorporated' policies, which are encouraging Japanese-style approaches to work ethic and organisation and to export trading houses.

3.21 External demand and prices for Malaysia's commodity exports will need to improve before its economic recovery can be assured. 'Over the longer term, however, the outlook is brighter. Malaysia's resource endowment is very strong and the general economic base is expected to continue to widen'.³⁰ Malaysia's economic performance 'should be considerably better than the performance of most other world economies'.³¹ Natural gas production and exports, especially to Japan and Singapore, are about to commence, and there are long-term reserves. Natural gas is also planned to become an energy source in the proposed heavy industry sector, which may reduce Australian coal export opportunities. As with Australian opportunities in most ASEAN countries, there appear good prospects for increased exports of foodstuffs, machinery and technical services. Prospects for joint Australian/Malaysian industrial and construction ventures also continue.³²

Philippines

3.22 The current economic situation and prospects for the Philippines are dominated by a large external debt (about US\$25 billion) and serious repayment problems, exacerbated by inflation and falling prices for primary products. The foreign debt and exchange crisis of 1983, when the Philippines Government declared an interim moratorium on foreign debt repayments, was a

serious economic setback which, when combined with the political instability at that time, resulted in the flight of much foreign investment capital, a severe shortage of foreign exchange and declining production. Given a realistic debt rescheduling agreement with the International Monetary Fund (still to be concluded as at September 1984) the return of adequate investor confidence, and appropriate economic management within the Philippines, positive economic growth rates may return near the end of this decade.³³ However, there remains a question whether there will be political and social stability necessary for popular acceptance of the strict economic measures appropriate for recovery.

3.23 Although manufactures account for about a quarter of overall national income, the economy - especially the export sector - is still primarily rural-based with about half the work force on the land and agricultural products constituting about one third the value of exports. Exports (mainly coconut products, sugar, copper and timber) constitute a lower proportion of national income than in Indonesia. The industrialisation process is generally lagging, and the Government has had to postpone plans for steel, aluminium and petro-chemical plants through lack of foreign currency.³⁴ The Philippines needs to import petroleum, machinery, metals, transport equipment and chemicals and this (especially petroleum) places a heavy strain on its balance of payments.

3.24 Opportunities for foreign exporters to the Philippines, including Australian, will be limited by the availability there of foreign exchange. The Committee notes that the Australian Government advanced \$50 million in export credits earlier this year, which is said to have been of considerable assistance to Australian exporters.³⁵ While the foreign investment climate remains uncertain joint ventures opportunities for Australian business will be limited. It will be an interesting example of

ASEAN regionalism if any of the Philippines' ASEAN partners are willing and able to assist its economic recovery. The Philippines has taken advantage of the ASEAN 'swap facilities' by borrowing \$US65 million in hard currency, which it has recently repaid.

Singapore

3.25 The Singapore economy is currently the strongest and most stable in the ASEAN region. From its independence in 1965 until 1982 growth in output averaged about 10% per annum and per capita income rose tenfold to US\$6000;³⁶ at the same time inflation remained low and the currency strong. Firm and sound economic management, combined with a highly productive and skilled labour force and an advantageous geographic setting near the centre of the dynamic ASEAN region, have encouraged high levels of domestic and foreign investment in secondary and service industries.

3.26 Another reason for Singapore's economic success is the flexibility of its planners in anticipating and overseeing necessary structural adjustments in Singapore's industries: Singapore was transformed from the late 1960's from primarily an entrepot trader to a dynamic exporter of manufactures and a major regional financial centre. In 1979, in response to the second international oil crisis and a tightening labour supply threatening to make labour-intensive exports less competitive, Singapore authorities set out to restructure the economy towards high value-added, medium-level technology industries.

3.27 Industries selected for promotion by Singapore authorities include high yield tourism (such as conventions), automotive components, machine tools and machinery, medical apparatus and instruments, speciality chemicals and pharmaceuticals, computers and software and precision engineering products. Singapore plans to become the technology service centre

of Southeast Asia and to extend its financial and business services to the region. It is likely that Singapore's enviable growth rates will continue, subject only to the economic fortunes of the ASEAN countries which are significant export markets for Singapore, and to eventual limitations imposed by Singapore's size and poor natural resource endowment.

3.28 Australia should be alert both to the competitive challenges from rival Singaporean exporters to the ASEAN region and to the export and investment opportunities offered by these developments for Australia's higher technology, education and business services sectors. Ample opportunities for a continuing high level of Australian investment in Singapore should be facilitated by the Australian Government's recent deregulatory policies towards overseas investment. Export prospects for Australian foodstuffs, both unprocessed (such as fruit, vegetables and meat) and processed (such as new products like wheat noodles) are good; bearing in mind however that the Singapore market, while increasing in affluence, is limited in size.

Thailand

3.29 Until the recent downturn in the world economy and in commodity prices, the Thai economy - like most others in the ASEAN region - had recorded a decade of significant growth (averaging over 7% GDP growth per annum).³⁷ The agricultural sector flourished and a manufacturing base developed. Not only is Thailand the only country in South-East Asia self-sufficient in food, but it is among the world's largest exporters of rice, rubber and sugar. Agricultural products account for about two-thirds of total export earnings. The labour-intensive industrial sector - producing mainly processed food, construction materials and consumer goods - has been steadily expanding in recent years.

3.30 Despite these good performances in the 1970s, Thailand's economic growth has become limited by a lack of new arable land and by foreign debt servicing and balance-of-payment problems due to Thailand's almost total dependence on imported petroleum. To assist in combatting Thailand's rising domestic deficit and external debt, the World Bank is now financing the Government's reforms to improve agricultural productivity, increase manufactured exports and reduce dependence on imported petroleum by developing Thailand's off-shore gas fields.

3.31 Balance of payments problems are likely to continue for so long as Thailand is heavily dependent on oil imports. Much will depend on how successful and timely is off-shore gas production, and whether Thai industry can increase competitive, labour-intensive exports. Economic prospects in the medium term are bright, and Australian business opportunities for selling machinery, base metals and iron and steel, as well as technical services, should increase. The proviso, as always, is that Australian exporters remain competitive with rivals from Western Europe, East Asia and North America.

(c) Summary Outlook

3.32 The recent slowdown in ASEAN countries' economic activity is already showing signs except in the Philippines, of giving way to resumed growth. Overall opportunities in the region (including East Asia) for Australian exporters, investors and advisers are still likely to be brighter than other regions in the world. Given the continuation of relatively high levels of ASEAN exports, and assuming manageable foreign debts (but not in the Philippines), the ASEAN region is likely to maintain a high level of demand for imported minerals, foodstuffs, metals and sophisticated manufactures including machinery, and for investment capital and expertise for their industrial development. At the same time, ASEAN countries will be seeking to

expand markets, including Australia's, for their growing export industries. Australian manufacturing industry is likely to face increasing competition over a widening range of more capital-intensive merchandise. The opportunity for significantly increasing Australia's involvement in ASEAN economic development is apparent but, at the same time, subject to challenges and limitations (detailed in Part C of this Chapter).

(2) ASEAN Economic Co-operation

(a) Machinery and Objectives

3.33 Economic co-operation among ASEAN members, with the object of improving the well-being and stability of the countries of the region, has always been central to ASEAN's stated objectives. However, serious challenges have confronted the members' numerous formalised attempts at closer regional co-operation, especially in the formative years of ASEAN: first, there were (and still are) fundamental differences in the characteristics of the various ASEAN economies, in particular Singapore (and also Brunei) are markedly different; second, the economies are more competitive than complementary; and third, the ASEAN Governments have each preferred to pursue their own approaches to national economic progress, rather than a regional approach. The restraints on closer ASEAN economic co-operation continue to cause concern among some influential business leaders and economists in the region. At the same time, however, numerous ASEAN officials and politicians appear pleased with the overall stability and resultant economic climate generally attributed to ASEAN (political) co-operation, and consider any free trade area as inappropriate for ASEAN economies.

3.34 The first stated aim and purpose of ASEAN in the 1967 ASEAN Declaration is 'to accelerate the economic growth ... of the region through joint endeavours ... in order to strengthen the foundation for a prosperous and peaceful community of South East Asian nations'. It is therefore most relevant, in assessing ASEAN's performance and prospects, to try to determine the degree of economic co-operation among ASEAN countries and the economic benefits which have accrued to them; and the implications for Australia.

3.35 Some examples of how 'joint economic endeavours' were to operate, were included in the Declaration of ASEAN Concord, 1976, as follows: Member states were to co-operate in supplying food and energy to members in times of critical need, and in importing food and energy from within the region. Industrial cooperation was to be furthered by large-scale ASEAN joint ventures to meet regional requirements for essential commodities, especially those (such as fertilisers) which increase food production or replace imports. Preferential trading arrangements for ASEAN members were to be a long term objective, 'on a basis deemed to be at any particular time appropriate, through rounds of negotiations subject to the unanimous agreement of member states'. Not surprisingly, such a cautious provision has been reflected in the very slow pace of the reduction of tariff barriers within ASEAN.

3.36 Despite ASEAN co-operative machinery and objectives, intra-ASEAN trade still does not exceed 15% of the total value of ASEAN countries' trade³⁸ (contrasted with about 50% for the EC). ASEAN countries have maintained their tradition of exporting outside the region, where economies are more complementary than the ASEAN economies. Indeed, one of the provisions of the ASEAN Concord is that members 'shall accelerate joint efforts to improve access to markets outside ASEAN for their raw materials and finished products by seeking the elimination of all trade barriers in those markets'. Greater ASEAN priority has been given to seeking to expand such external trade.

3.37 In assessing ASEAN economic co-operation, the following four types of co-operation will be examined: trade liberalisation, industrial co-operation, resource management, and financial co-operation.

Trade Liberalisation

3.38 The ASEAN Preferential Tariff Agreement (PTA) was adopted in 1976 to promote intra-ASEAN trade *inter alia* through exchange of tariff concessions, and liberalisation or non-tariff barriers. The development of lower tariff barriers among ASEAN countries pursuant to the PTA has, however, been a disappointing vehicle for promoting intra-ASEAN trade. While over 18 000 items have been listed since 1976 to attract tariff concessions (originally 10% now 20% minimum reductions) most of these items are little traded among ASEAN countries.³⁹ Moreover, member countries have been unilaterally excluding 'sensitive items' from the general categories attracting tariff cuts, as the 1980 revised scheme allowed, so as to eliminate most potentially traded items. The scheme was revised again in 1983 and 1984, when product categories such as textiles, chemicals, rubber, cement products, food products, beverages and tyres were added to the PTA scheme. Despite the attempted improvements to the PTA scheme, it is reported⁴⁰ that only 2% of total intra-ASEAN trade benefits from the PTA scheme. According to the Department of Trade, 'ASEAN has not up to date been able to quantify the extent to which these concessions and reductions have contributed to an increase in intra-ASEAN trade'⁴¹

Industrial Co-operation

3.39 The ASEAN Industrial Projects (AIP) scheme was agreed by ASEAN Governments in 1976 as a way of promoting industrial joint ventures among the member countries (and achieving region-wide

economies of scale and tariff cuts under the PTA) in the manufacture of products important to regional economic development. Indonesia and Malaysia were allocated urea (fertilizer) projects, Thailand a soda ash plant, Singapore was to manufacture diesel engines, and the Philippines was to manufacture superphosphate. To assist the AIP scheme, Japan in 1977 pledged US\$1 billion in concessional loans.

3.40 Progress, however, has been slow: nine years later the only project completed is the urea plant in Indonesia, opened in January 1984. The other fertilizer project, in Malaysia, is scheduled for completion in 1985. The Thai soda ash plant and the Philippines copper plant (successor to two earlier, subsequently abandoned, proposals have yet to proceed beyond the feasibility stage. Singapore's diesel engine project was abandoned after Indonesia had claimed it threatened local industry. After then virtually opting out of the AIP scheme by taking only the minimum 1% equity in each of the projects, Singapore recently proposed a hepatitis B vaccine plant in Singapore. This was agreed by ASEAN in May 1984.

3.41 Singapore has consistently expressed reservations about regional economic schemes on the basis that they impede free market operations (such as cheaper imports from outside ASEAN). It has been reported ⁴² that 'Singapore had little to lose by proposing the vaccine plant as its AIP at this stage. For one thing, AIP's are not likely to proliferate: chances are that the current five projects will be the first and the last, barring a very major change of outlook among ASEAN leaders'. Most other ASEAN countries have had their own difficulties in accepting AIP projects, for example to take minimum proportions of project output, often in order to protect local industry. The Treasury submission mentioned particular difficulty for the member governments in agreeing on the size of their investments in each others' projects, and the degree or preference to be extended to

the products of each project by the other ASEAN members.⁴³ It seems that the AIP scheme will be eventually replaced by the private sector-oriented ASEAN Industrial Joint Venture (AIJV) scheme, detailed below.

3.42 There have been moves for greater ASEAN private sector involvement in regional economic cooperation. Under the original ASEAN Industrial Complementation (AIC) scheme introduced in 1976, a certain industrial sector or package of products is to be identified through the ASEAN Chambers of Commerce and Industry for complementary development on a regional basis and with intra-ASEAN tariff preferences. Only automotive products have been identified and progressed to date, despite apparent attractions such as regional sharing of scarce industrial capacities and combining markets. Competition to host projects, reluctance to share markets, and the need to obtain government commitments to investment and tariff preferences have slowed the co-operative process.⁴⁴

3.43 The latest private sector program, largely in response to the disappointing progress with the AIP and AIC schemes, is the ASEAN Industrial Joint Venture (AIJV) projects. This is to be a form of private sector equivalent of the AIP, but will require only two ASEAN country joint venturers to take a majority equity. A proposal no longer needs be presented to and approved by all governments. The basic AIJV Agreement of November 1983 will require those ASEAN countries with joint venturing participants to give at least a 50% preferential tariff margin for the AIJV product traded between (or among) those countries up to four years after manufacturing commences. In that time, similar non-AIJV products from other ASEAN countries will not enjoy concessional tariffs.

3.44 At the Sixteenth Meeting of ASEAN Economic Ministers on 7 - 9 May 1984, only four of 21 AIJV projects originally proposed some years ago were confirmed; these comprise mainly automotive

components. While 'the AIJV would seem to offer considerable potential for ASEAN economic co-operation',⁴⁵ it is too early to assess whether ASEAN co-operation at the private sector level will be sufficient to promote intra-ASEAN trade and investment. Improvements seem unlikely, however, unless ASEAN Governments are willing to reduce their emphasis on protecting their own national industries at the expense of rationalised regional production and market sharing. The opportunity for foreign joint ventures to take up to 49% equity, and gain a concessional market position within ASEAN, is hoped to attract a good deal of foreign investment.⁴⁶

Resource Management⁴⁷

3.45 The energy resources and potential of the ASEAN region are impressive, and their development by regional co-operation and consultation will minimise the risk of wasteful duplication and maximise the efficient matching of demand and supply. In 1983 the ASEAN Economic Ministers agreed to commission a study on coal (as distinct from petroleum) for power development in the region. The ASEAN-Australia Economic Co-operation Program is also supporting coal studies. Also adopted were ten co-operative projects among national utilities concerning nuclear power development, standardisation and electric power information. Bilateral co-operation between Singapore and Malaysia, and Singapore and Indonesia is directed to supplying off-shore oil and natural gas for Singapore's power and petrochemical needs. There is also an Emergency Petroleum Sharing Scheme for the ASEAN region. However, Indonesia's and Malaysia's plans to establish oil refineries, to reduce their dependence on Singapore, is again indicative of the tendency already noted to place national self-reliance above intra-regional complementarity.

Financial Co-operation⁴⁸

3.46 Co-operation in finance and banking is significant, though not as publicly recognised as ASEAN's industrial co-operation. The ASEAN Swap Arrangement, first established in 1977, provides standby hard currency credit to each member country of US\$40 million for up to six months. It has been extended until 1987. The Philippines has recently borrowed (and repaid) US\$65 million from the central pool. The ASEAN Finance Corporation, the investment banking arm of the ASEAN Banking Council formed in 1981, has stepped up its lending activity. In less than a year it had approved co-financing of five loans totalling about US\$56 million. The Corporation also has plans to develop financial cooperation with the EC through Interact, an association of EC development banks. Other proposals for developing financial co-operation were made by the ASEAN Task Force, discussed further in section (b).

(b) Assessment of ASEAN Economic Co-operation

3.47 Despite the formally-enshrined principles of ASEAN economic co-operation and the plethora of co-operative schemes, there was considerable querying by witnesses as to whether significant benefits have accrued to the ASEAN region. The recent establishment by ASEAN itself of an expert high level task force (ASEAN Task Force) to review and report to Governments on the state of their co-operation, and on what improvements should be considered, is indicative of the concern of at least some of the region's politicians and planners.

3.48 As mentioned above in section (a), it seems doubtful whether there will be further AIP projects. While the AIJV may yet prove to be an effective successor to the AIP scheme, the relatively low volume and proportion (15%) of intra-ASEAN trade

is still reported as largely unaffected by the various ASEAN co-operation schemes. This is not surprising when one considers that the PTA (tariff preference) scheme still only applies to about 2% of intra-ASEAN trade. Whether the products of any of the AIP schemes will prove significantly cheaper than, and as reliable as, imports remains to be seen. Singapore in particular is concerned to minimise the cost of imported components for its manufactured exports.

3.49 In looking for underlying explanations of the slow development of ASEAN economic co-operation, numerous witnesses referred to the lack of complementarity between most ASEAN economies, to the differences in economic development and trade policies among the countries, and to the promotion by most ASEAN countries of greater individual self-reliance by import substitution. For example, the Treasury submission commented:

'Where the ASEAN countries have sought closer economic integration, it has been either to increase their self-reliance in the face of external upsets, or to gain for new industries the economies of producing for a five-country market ... However, the use of preferential tariffs, and the preferential treatment of joint industrial projects, also contains the risk of diverting trade away from partners outside ASEAN, and thus sacrificing the advantages of multilateral trade for the lesser advantages of trade within a group of countries which lack a close complementarity in their economies (with the exception provided by the industrialised economy of Singapore) ... This consideration is fully appreciated by the governments of the ASEAN members, and it has been one constraint on the pursuit of internal economic integration. Another constraint lies in the obvious differences in levels of industrial development - particularly between Singapore, the industries of which are competitive internationally, and Indonesia, which maintains high levels of import protection for almost all its manufacturing industries ...'⁴⁹

While the strong economic performances and prospects for most ASEAN countries have benefitted from the relatively stable political and strategic environment engendered by ASEAN

co-operation, they are not due to ASEAN economic co-operation as such; which has not yet resulted in any significant expansion of trade and investment within the ASEAN region or in a rationalised development of the region's resources and industries.

ASEAN Task Force Review

3.50 The differences of opinion within ASEAN on regional economic co-operation are illustrated in the recent ASEAN Task Force review process. The review itself and its reported recommendations appear⁵⁰ to be both comprehensive and concerned to progress regional co-operation. The Australia-ASEAN Business Council (Australia Section) referred to the Task Force Report as a 'timely study [which] should strengthen the impetus towards greater economic co-operation'.⁵¹ Among recommendations reported were:

Trade co-operation

- . Inclusion of items on preferential tariff exclusion lists should be minimized.
- . Other, non-tariff instruments or preferential-trading arrangements - long-term quantity contracts, purchase-finance support, regional preferences in government procurement and liberalisation of non-tariff measures - should be more actively used.

Industrial cooperation

- . Allow duty free import and export of raw materials for ASEAN projects.
- . Extend national treatment to investors who are nationals of participating member countries.

- . Streamline procedures governing the approval of AIP and AIJV projects; allow a zero tariff rate for the products of these projects, and a common external tariff rate for the same product from non-ASEAN sources.

Finance and banking

- . Lower-cost financing for intra-ASEAN trade
- . Study the feasibility of a limited ASEAN payments union to facilitate intra-ASEAN investment and trade.
- . Establish an ASEAN export-import bank as a joint venture of all member countries.

3.51 Despite the apparent comprehensiveness and moderation of the Task Force's recommendations, the official response to this review has so far reflected cautious governmental attitudes within ASEAN. The ASEAN Economic Ministers at their May 1984 meeting appeared either not to have accepted many of the Task Force's reported recommendations, or - more likely - to have postponed consideration of them. The references to the recommendations in the Ministers' Joint Press Release were both few and subdued:

'On matters related to tariff preferences exchanged under the PTA, the exchanges [of preferences] among member countries should continue on the basis of non-discrimination..

With regard to the first set of AIPs, it should be continued and the procedures governing its implementation be streamlined.

With regard to the recommendations on the ASEAN Machinery, the ASEAN Secretariat be provided with adequate staff and funds.'

Prospects for ASEAN Economic Co-operation

3.52 Efforts to seek reduction of trade barriers among ASEAN countries and promotion of industrial complementation have to date been largely outweighed by ASEAN governments placing greater emphasis on national self-reliance, on development of policies of import substitution and industry protection and on continuation of strong extra-regional trade flows. There appears little possibility that ASEAN will develop into any form of free trade area or customs union.

3.53 The differences in emphasis between the regional co-operation and the individual national development approaches were summarised as follows by ASEAN Task Force Chairman Anand Panyarachun:

'... Asean is in a dilemma. One school of thought is that for Asean to have progressed this far is already a major achievement and no radical ... measures should be instituted which would bring about fundamental differences and approaches - thereby resulting in division of political unity and regional harmony. The other school of thought ... advocates a more forward-looking attitude ... with a view to turning Asean into a credible regional economic organisation.'⁵²

The Asia 1984 Yearbook commented as follows:

Apart from Singapore, they [ASEAN countries] produce similar primary and consumer products. ... Singapore and Indonesia are at the opposite ends of the spectrum: ... Indonesia has a huge domestic market which it is anxious to protect. Unless such differing priorities, and a general protectionist attitude, can be substantially reconciled in the name of economic cooperation, Asean will remain primarily a political union ...⁵³

3.54 It appears that an increasing number of ASEAN businessmen and analysts want ASEAN governments to give higher priority to intra-regional economic co-operation. Their arguments, that all ASEAN countries stand to benefit at least in the medium or longer term from lowered trade barriers and other incentives for private sector co-operation, seem slowly to be

gaining some currency in government circles. The very holding of the Task Force review, and its report into ASEAN's performance and recommendations for revitalizing intra-ASEAN trade - now on the ASEAN record - are indicative of this, as is the recently introduced and flexible AIJV scheme. A noted ASEAN-based economist told the Committee that 'Although there has been very little progress on the economic front in recent years one finds that things are beginning to move a little faster'⁵⁴

3.55 The implications for Australia of what the Committee assumes will be slowly increasing economic co-operation among ASEAN countries are difficult to forecast and were addressed by few witnesses. On the one hand, enhanced co-operation in import substitution should raise ASEAN's self-sufficiency and reduce its reliance on imports. On the other hand, allowing comparative advantages within ASEAN to increase industrial efficiency and output should increase ASEAN's capacity and need for other imports, and could eventually result in cheaper merchandise exports to trading partners such as Australia.

3. ASEAN in the World Economy

3.56 With only a small proportion of their trade within the ASEAN region, and with large external trade sectors in most member economies, ASEAN countries have a special interest in a relatively free international trading system. A number of witnesses, including Trade and Treasury, emphasised the common external interests of ASEAN countries:

'..there are enough economic characteristics in common among the ASEAN countries to give them a number of similar external interests, and a basis for cooperation in their external economic relations ... All of their economies are sustained in their rapid development by

high rates of capital formation including foreign direct investment. Each economy ... will continue to have a considerable need for foreign technology, and ... capital goods and certain raw materials to develop infrastructure and manufacturing industry; ...The prospect of sustained growth in export earnings is essential to their investment strategy ... As relatively open economies the ASEAN nations are particularly affected by fluctuations of economic activity in trade partners and in the world economy generally, by protectionism, and by exchange-rate instability. Hence the ASEAN countries' considerable interest in the stability of the international economic system.⁵⁵

3.57 At least three features of ASEAN's involvement in international trade are significant for Australia's interests and its relative role in regional trade and investment:

- (a) ASEAN countries' strong trade and investment patterns with their long-established major partners - Japan and other industrialised East Asia countries, the US and certain Western European countries;
- (b) ASEAN's bloc approach in certain international trade negotiations and discussions; and
- (c) ASEAN attitudes to proposals for enhanced forms of regional economic co-operation such as the various Pacific Community concepts.

(a) ASEAN Trade Relations with Third Countries

3.58 It is instructive to contrast ASEAN-Australia trade and investment flows with the far greater flows between ASEAN and Japan, the US and West Europe. The relative shares of ASEAN's total import and export trade are as follows:⁵⁶

Japan	21%
US	15%
Europe	13%
Australia	2%

Japan's dominance is evident in all countries other than the Philippines which enjoys close traditional trade ties with the US. It is also significant that Japan, the US and Western Europe have been performing better than Australia in maintaining their shares of the ASEAN import market. This disappointing feature of Australia's export performance is discussed in Part C of this chapter.

3.59 The relative importance of ASEAN's trading partners is similarly reflected in their shares of foreign investment in ASEAN countries. Bureau of Industry Economics (BIE) figures⁵⁷ suggest that Japan's share, between 25% and 35% in each country other than Singapore, is about double the average for the US and EC respectively: in Singapore and the Philippines American investment is highest. Australia's average investment is less than 3% of total foreign investment in each country. While contributing relatively high levels of overseas aid to the ASEAN region, on per capita basis, Australia's total contribution cannot compare with Japan's, the United States' or the European Communities'. Those countries also have much larger mixed credits budgets for assisting the participation by their export industries in major capital projects. Australia's dialogue partnership is strong, however, and not at present subject to the degree of market access discord being experienced by Japan and the US.

(b) ASEAN Involvement in International Trade Issues

3.60 ASEAN's role in external economic diplomacy is generally regarded as much more successful than in intra-regional economic co-operation. The ASEAN group of countries has enjoyed relative success and increasing influence when negotiating international

trade issues of common interest. ASEAN's group criticisms of inadequate trade access for its exports to developed countries, especially its 'dialogue partners' including Australia, are taken seriously by those countries. As the Treasury commented in its submission:

'... a most important aspect of ASEAN is as an association for economic diplomacy ... ASEAN has proved an effective means of bringing its members' combined bargaining power to bear on Japan, the USA, the EC, Australia and other economic partners. In particular, the combined weight of ASEAN has been used in pressing for access to developed countries' markets for the manufactured exports of its member countries, and in countering protectionism. This can be done with relatively little conflict of interest among ASEAN's members.⁵⁸

3.61 The International Civil Aviation Policy (ICAP) dispute with Australia is another example of the success ASEAN has achieved in seeking freer market access.⁵⁹ Such success in part reflects developed countries' perception of the importance and potential of trade and investment with ASEAN. At the ASEAN-dialogue partner talks in July 1984, Japan 'faced with criticism over ASEAN's restricted trade access to the Japan market ... agreed to hold an economic conference with ASEAN ministers in 1985'.⁶⁰

3.62 Also at the annual discussions in 1984 between ASEAN and her dialogue partners, the ASEAN Foreign Ministers expressed their disappointment that the London economic summit had not been more forthcoming on issues of particular ASEAN concern, such as trade liberalisation, trade in commodities, financial flows and foreign debt problems.

3.63 Similarities in external trading interests among most ASEAN countries are an important basis also for common or co-ordinated ASEAN approaches in international producers' associations and commodity agreements, and in global economic

forums such as GATT and UNCTAD.⁶¹ ASEAN and ASEAN countries have become important developing country representatives in the campaign to improve access to developed country markets for primary products and labour-intensive manufactures. Indeed, Australia and ASEAN share a degree of common interest especially in facilitating international trade in commodities. This is reflected in the apparent consensus between Australia and ASEAN countries, initiated by the Australian Government, that a common regional strategy should be developed on commodities for the next round of Multilateral Trade Negotiations.

(c) ASEAN and 'Pacific Community' Proposals

3.64 The great economic potential of the ASEAN (and East Asian) region and the relative failure to date of efforts to reduce global trade barriers and protectionism has helped focus Australian attention on the various 'Pacific Community' concepts for planning better trading arrangements among countries of the Pacific Basin.

3.65 The last three or four years have witnessed intensifying interest, especially on the part of the United States and Japan, in discussing proposals for various types of Pacific economic co-operation: these have ranged from a free trade area to more modest - and feasible - proposals for trade and manufacturing arrangements to take advantage of economic complementarity in the region. ASEAN countries - especially Indonesia - have taken a cautious view of such proposals, preferring instead to develop their own economic co-operation (which, as noted, has been slow and limited). There has also been concern about the risk of domination or undue influence in any Pacific community by the major economic powers and about membership that might extend to Asian countries with which some ASEAN countries have strained relations.

3.66 However, there are some signs of readiness by ASEAN countries, including Indonesia, to discuss more limited concepts of Pacific Basin co-operation. As Professor Arndt noted,

'They [the ASEAN countries] are more cautious than the developed countries that are involved, but I think something is happening'.⁶²

Indeed, ASEAN initiated a cautious proposal on wider regional economic co-operation at its annual ministerial meeting in July 1984. According to the joint communique, President Soeharto 'touching on the need for ASEAN to co-operate with the countries in the Pacific region, ... hoped that through consultation with those countries the present trends would lead to co-operation among the Pacific countries'. At the July 1984 discussions between ASEAN Foreign Ministers and ASEAN dialogue partners other than the European Communities ('a Six Plus Five Meeting'), the Indonesian Foreign Minister is reported to have unveiled an ASEAN initiative which he described as the 'human resources development co-operation program'. This involves the establishment of a training program based on existing institutions and facilities which would be of immediate benefit to users from the Pacific region. The initiative received support from all five Pacific dialogue countries. The initiative will again be discussed at the 1985 dialogue talks. The 'Six Plus Five' meeting was proposed to become a permanent feature of the talks providing a forum for discussing Pacific co-operation, but avoiding an institutional approach and the bureaucracy which might accompany it.

3.67 Malaysia's Foreign Minister is reported to have said at the 1984 dialogue talks 'We should no longer be limiting our efforts within ASEAN to build up our strength and regional resilience.⁶³ In a speech to the National Press Club, Canberra, in August 1984, the Malaysian Prime Minister stated that:

'... Malaysia is greatly encouraged by the decision taken in Jakarta to explore and expand further the concept of cooperation between ASEAN and our Pacific Dialogue partners. ... It is typical of the

ASEAN approach - which is pragmatic and down to earth that the concept of a broader regional cooperation in the Pacific region took the form of a decision to expand present cooperation with the Pacific dialogue partners rather than a pronouncement on some grandiose schemes of future collaboration in the vast Pacific region ...'

3.68 Whether ASEAN's Pacific co-operation 'initiative' suggests an emerging consideration by ASEAN decision makers that Pacific economic arrangements, with appropriate geographic and functional limits, might prove worthwhile - in addition to ASEAN's own intra-regional community, is open to speculation. While there might be more economic justification for giving greater ASEAN priority to external co-operation, there continue to be important regional political considerations for concentrating on ASEAN co-operation. One interpretation is that, at least for the interim, ASEAN is signalling an interest merely in having discussions on economic strategies and issues of shared interest in its neighbourhood, and that these ideas are little more than a restatement of primarily ASEAN-centred regional proposals sufficiently general to maintain ASEAN flexibility in responding to any further developments in the major powers' 'Pacific Basin' philosophies. Nevertheless, the Committee considers that regular discussion of Pacific Basin co-operation among ASEAN, Australia and the other dialogue partners will assist towards longer term planning for trade and investment in the region, and in the development by Australia of an appropriate economic strategy and role in the region.

3.69 Another, somewhat different, indication of regional planning is a scenario introduced by Malaysia's Prime Minister, Dr Mahathir, at the Australia, ASEAN and Japan symposium held in Kuala Lumpur in May 1984.⁶⁴ He speculated about trilateral industrial and trading co-operation between ASEAN, Australia and Japan. In this proposal ASEAN countries would be a half-way house for intermediate processing of Australian raw materials, which would then be used in higher technology industry in Japan for re-export to the region; in other words, one strategy for

maximising what he perceived to be comparative advantages within the region of Australian resources, cheap ASEAN labour (and energy) and Japanese technology and marketing. Dr Mahathir also referred to a need for protectionist barriers among the three parties to be 'gradually dismantled' before there could be 'meaningful economic relations'. Where manufacturing were undertaken by joint ventures involving ASEAN, Japanese, and Australian companies, buy-back arrangements involving reduced trade barriers should be encouraged in order to provide ready markets which, in turn, would support large-scale production.

3.70 In his submission to the Committee, Mr Healey commended the proposal made by Sir John Crawford for establishing an Australian-Pacific Co-operation Committee to advise the Government on Australia's economic co-operation with neighbours in Asia and the Pacific. Mr Healey also stated that

'It would be desirable to ensure that the work of the ASEAN-Australia Economic Co-operation Program be integrated with the Australian-Pacific Co-operation Committee - should the latter come into being. This would ensure that the Australia-ASEAN relationship is understood as being but a component - albeit a major one - of the broader "Pacific Community".'⁶⁵

3.71 The implication for Australia of the various types of Pacific (or West Pacific) Rim proposals are largely beyond the scope of this Report. In general terms, it is likely that any encouragement of economic complementarity and freer trade within the region should benefit the economies of the region. Australia would also stand to benefit,⁶⁶ at least in respect of its primary product and commodity exports. However, any Australian economic role limited mainly to primary sector exports - as Dr Mahathir's proposal might suggest - would be unsatisfactory in the Committee's opinion. Australia should also expect to benefit from any re-structuring of its manufacturing sector and from the development and export of higher technology merchandise and services.

PART C AUSTRALIA AND THE ASEAN ECONOMIES

3.72 The combination of continuing economic growth in the ASEAN region, and the challenges and opportunities for Australian involvement in that development, is well illustrated by the following excerpt from the Foreign Affairs submission:

'The key question in ... Australia's future economic relations with ... the ASEAN region is to what extent Australia will be able to take advantage of the opportunities opened up by rapid economic change and development in the region and, in so doing, both contribute to and benefit from that process.'⁶⁷

1. Aggregate Trade Flows⁶⁸

3.73 In assessing the trends in Australia-ASEAN economic relations and anticipating how to maximise further mutual opportunities, it is helpful first to summarise and explain trade flows over recent years, by reference to departmental submissions:⁶⁹

- 'The development of Australia's two-way trade with the ASEAN countries has been impressive in quantitative terms - growing from A\$487 million in 1972/73 to A\$3.43 billion in 1983/84,⁷⁰ equivalent to an annual average increase in real terms of over 8%.⁷¹
- 'Australian exports to ASEAN grew at an average rate of 15% per annum [from 1978/79 to 1983/84], compared with [the growth in total exports] 11.7%. At the same time, imports from ASEAN grew at an annual average of 14.1%.'
- 'Taken together the ASEAN countries constitute Australia's fourth largest trading partner, both for imports (5.2% of all Australian imports) and exports (8.8%)
- However, "so far as ASEAN's total global trade is concerned, Australia remains a minor supplier and purchaser accounting for only 2.6% of ASEAN exports and providing only 3% of her imports (1981 figures). [In 1983 these figures were smaller - 1.7% and 2.5% respectively.] In a trading sense,

therefore, ASEAN is far more important to Australia than Australia is to ASEAN".'

3.74 The 1983/84 trading year witnessed a considerable reduction in Australian imports, largely resulting from much lower petroleum purchases from Indonesia and Brunei. A 47% drop in Indonesian imports, compared with the previous year, resulted in the first merchandise trade surplus with Indonesia for some years. Whereas in 1982/83, ASEAN countries sourced 7.1% of Australian imports, the figure for 1983/84 fell to 5.2%.⁷² The year was marked also by a good improvement in two-way trade with Thailand and by significant increases in Australian exports to Brunei and Singapore.

3.75 It has been emphasised that 'ASEAN, which is essentially a political organisation, has tended to divert attention from the fact that ASEAN countries remain ... six individual markets'. 'Strong emphasis' should therefore be placed on Australia's bilateral trade links, although there are 'important collective ASEAN components' in Australian trade relations.⁷³ Similarly, it is likely that ASEAN countries will continue to take a primarily bilateral perspective on economic relations with Australia. While trade access has been an ASEAN group issue, individual ASEAN members have also criticised Australia bilaterally for its continuing merchandise trade surpluses.

3.76 While Australia now enjoys bilateral merchandise trade surpluses with all ASEAN countries, its overall region-wide surplus with ASEAN has traditionally been offset by a net invisibles deficit. For example, Australia's \$180 million balance of trade surplus in 1981/82 [latest figures] reduced to a \$365 million deficit on current account.⁷⁴ The invisibles deficit 'largely reflects Australia's relatively unfavourable shipping costs vis-a-vis the ASEAN countries, the repatriation of [ASEAN] earnings derived from investment in Australia and the substantial level of Australian travel in and through the ASEAN region.'⁷⁵

2. Bilateral Trade Flows and Prospects

3.77 Current two-way merchandise trade and investment will now be summarised for each ASEAN country together with the Trade Department's future trade outlook. Trade in services and its considerable potential is regarded by the Committee as warranting special treatment later in this chapter.

(a) Brunei

3.78 The level of Australia/Brunei trade has traditionally been small - only \$22.8 million two-way trade in 1982/83 - with Australian imports of crude petroleum generally dominating the total trade. Australian exports totalled \$6 million in 1982/83, in contrast with \$16.8 million for imports (almost all crude petroleum). Australia's exports have shown steady growth albeit from a very small base. The main items in 1982/83 were: live animals (\$1.7m); beef and veal (\$0.5m); vegetables (\$0.3m); fruit and nuts (\$0.3m); passenger motor cars (\$0.3m) and non-alcoholic beverages (\$0.3m). In 1983/84, when Australia imported no Bruneian petroleum, total two-way trade plummeted to only \$8 million, composed almost entirely of Australian exports.

3.79 The total Brunei import market is relatively small (US\$890 million in 1982) and is dominated by Singaporean and Japanese exporters. It has been impeded by the slow development of industries outside of the petroleum sector, and by the uneven distribution of wealth within Brunei, which affects consumer demand and import volumes. It is not expected therefore that Australia's exports to Brunei will expand significantly in the immediate future. If, however, the Brunei Government's longer term plans for diversification of industry outside of the petroleum sector can be realised, significant opportunities may arise for Australian exporters prepared to compete with traditional suppliers from Singapore and Japan.

3.80 Australian investment in Brunei is negligible, with only a handful of Australian firms currently having representative offices in the country. The reportedly large number of foreign investment and trade inquiries made to Brunei since independence include potential Australian investors.⁷⁶ In late 1981 the Brunei Government purchased the long term lease of a property in the Northern Territory, where live cattle are being raised for shipment to Brunei for Islamic ('halal') slaughter. There are prospects for further Bruneian investment in Australia, and these are discussed in Part B, Section 1(b) of this chapter. Bruneian education and training needs are considerable, in the absence of a skilled work force needed to diversify the economy. Prospects that Australia may enhance its role as a regional centre for advanced education of foreign students are discussed in Chapter IV.

(b) Indonesia

3.81 The value of two way trade between Australia and Indonesia increased significantly from \$280.4 million in 1977/78 to \$946.5 million in 1982/83 before falling to \$696 million in 1983/84 when Australia's oil imports nearly halved. In that period Australia's exports to Indonesia increased steadily from \$196.3 million to \$396 million in 1983/84. Imports from Indonesia grew markedly from \$84.1 million to \$561.6 million (1982/83) before falling to \$300 million in 1983/84, which emphasises that oil imports comprise over 90% of Australian imports from Indonesia. Australia traditionally supplies wheat, refined petroleum products, dairy products, metal ores and concentrates and Indonesia contributes crude oil, coffee, tea and rubber. The mutual importance of each country to the other as trading partners remains relatively small. In 1982/83 Indonesia was Australia's sixteenth largest export market and ninth largest source of imports. The 1983/84 pronounced fall-off in Australian import of Indonesian crude oil, through a

combination of increased availability of local crude and a reduction in domestic consumption of refined products, underlines the disappointing extent to which the trade relationship has continued to depend on petroleum products.

3.82 Nevertheless, Indonesia represents a large potential import and export market close to Australia. Export opportunities for Australia include foodstuffs (especially wheat), raw materials and semi-manufactures, as well as machinery and equipment to assist with Indonesia's economic development. Australia's exports to Indonesia can therefore be expected to increase significantly in the longer term, but may be limited in the short term by current Indonesian economic stringency and in the longer term by any continuation of the uneven distribution of wealth within Indonesia. Indonesia's exports are expected to continue to be dominated by crude oil, coffee, tea and rubber, with longer-term prospects for increased manufactured exports dependent on the development of an export orientation for Indonesia's ambitious secondary industry development program.

3.83 It is thought that the total value of Australian investment in Indonesia including retained earnings is in excess of \$180 million,⁷⁷ a modest amount less than Australian investment in Malaysia. Around 50 Australian firms are involved in joint ventures in Indonesia, mainly in manufacturing and processing items such as cement products, industrial gases, glass containers, metals and aluminium products. It is likely that many Australian businesses view the Indonesian commercial environment as more regulated and not quite so familiar as in Singapore and Malaysia.⁷⁸ It has also been noted by an Indonesian bank president that 'Australian bankers are poorly represented in Jakarta and vice versa and there are no comprehensive trading houses linking both countries'.⁷⁹ Other factors which may limit what otherwise might be expected to be

highly promising investment opportunities in Indonesia include recent legislative changes to reduce 'tax holiday' benefits for foreign investors, continuing official policies to 'localise' jobs previously held by expatriates and government encouragement for higher levels of domestic saving and investment.

Nevertheless, foreign investment and expertise will continue to be needed if Indonesia is to satisfy its ambitious industrialisation strategies. Indonesian investment in Australia is negligible.

(c) Malaysia

3.84 Two way trade between Australia and Malaysia has grown slowly since 1979/80 after significant growth throughout the 1970s. Nevertheless, the value of two-way trade in 1983/84 was \$726 million, replacing the Australian-Indonesian trade as the second highest in value between Australia and an ASEAN country. The trade imbalance in Australia's favour rose throughout the 1970s to reach \$265.5 million in 1982/83, but this reduced to \$212 million in 1983/84 after a 20% increase in Malaysian exports to Australia. Significant imports of Malaysian crude petroleum have restrained the trade imbalance, of which Malaysia continues to be critical and which could increase if Australia were to become a major minerals and energy (e.g. iron ore and coal) supplier for Malaysia's planned steel and petrochemical industries.

3.85 Australia's exports to Malaysia remain dominated by sugar, tin, and to a lesser extent wheat. Principal imports from Malaysia are crude petroleum, wood and railway sleepers, animal and vegetable oils, palm oil, natural rubber latex, and fish products. It is not expected that the composition of Australian imports or exports will alter significantly in the immediate future. Australia should continue to supply essential foodstuffs and raw materials, especially tin and sugar, with the

possibility of more coal and some iron ore. The growth of Australian exports will be largely dependent on the Malaysian economy regaining the high rates of growth achieved before the global recession, and will be assisted by any further increases in Malaysian exports to Australia.

3.86 Malaysia is second only to Singapore as a location for Australian investment in ASEAN. Australia was the second largest foreign investor in Malaysia in 1981 with over 110 manufacturing and non-manufacturing approved joint-ventures.⁸⁰ The flow of direct Australian investment, including retained earnings, to Malaysia reached \$25 million in 1982/83.⁸¹ In August 1984 it was reportedly announced in Kuala Lumpur that 'thirty-three Australian companies with a total investment potential of about A\$58 million have proposed to set up medium-scale manufacturing projects in Malaysia within the next two years'.⁸² Total Malaysian investment in Australia has been increasing rapidly. Malaysia was the fifth largest source of foreign investment in 1982/83, when 78% of Malaysian investment was intended for real estate. Proposed Malaysian expenditure on projects approved by the Foreign Investment Review Board in 1982/83 was \$103 million, and included a number of hotel projects.⁸³

(d) Philippines

3.87 Two way trade was valued at \$271.5m in 1982/83, the fourth highest bilateral flow between Australia and ASEAN. In 1982/83, Australia's exports to the Philippines were valued at \$187.5 million and consisted mainly of iron ore and concentrates, malt, dairy products, iron and steel, meat, and base metals. Imports from the Philippines were valued at \$84 million and consisted mainly of textiles, clothing and footwear, wood and railway sleepers, coconut products, miscellaneous manufactured articles, wood and furniture. The trade imbalance

in Australia's favour has been largely offset by the trade in invisibles (e.g. tourism, remittances from Filipinos working in Australia, and bilateral aid).

3.88 In view of current import restraint measures imposed by the Philippine Central Bank, to restrict the availability of foreign exchange to the import of only essential products, Australian exports in 1983/84 were down 24% in 1982/83. As most of Australia's exports to the Philippines comprise basic raw materials, notably foodstuffs, and iron and steel, Australia has more than a reasonable chance of maintaining its level of exports to the Philippines in the longer term; provided the Philippines can successfully restructure its foreign debts, gain import loans from its trading partners, and earn sufficient foreign exchange from its exports. In this context, the Australian Government supplied the Philippines \$50 million worth of export credit in early 1984, in response to a Filipino request and this has already proved useful for Australian exporters.⁸⁴

3.89 Philippine export performance in the Australian market has been disappointing, notwithstanding a market increase for imported clothing items. The Philippines has regularly protested about the level of Australian tariffs imposed on its wooden furniture and other items which it has considered should be regarded as covered by tariff concessions for 'handicrafts'. This disagreement continues. Future growth in Philippine exports is likely to be limited by increasing competition from other ASEAN countries and by Australia's self-sufficiency in most raw materials and foodstuffs.

3.90 Australian investment in the Philippines has remained steady in recent years, with most in the metal forming industry. Investment by Philippine interests in Australia has been small and directed mainly to the primary sector.

(e) SINGAPORE

3.91 Two way trade continues to expand, totalling over \$1.4 billion in 1983/84, Australia's highest trade flow with an ASEAN country. Australia's exports to Singapore were valued at \$952 million in 1983/84, representing a 30% increase over 1982/83 and continuing a long and steady growth trend. Singapore ranks as Australia's sixth largest market and the largest in ASEAN. Main exports from Australia were refined petroleum products, raw cane sugar, photographic supplies, meat, fruit and vegetables, and industrial machinery. Australia's imports from Singapore totalled \$599.8 million in 1982/83, also continuing a long and steady rise, but slipped to \$470 million in 1983/84. Singapore ranks eighth as a source for Australia's imports and is our largest supplier within ASEAN. Imports include refined petroleum products, television and radio receivers, and electrical machinery and appliances.

3.92 While Australia is not a major market or supplier for Singapore, Singapore has developed into an important trading nation for Australia. Australian prospects will improve as average levels of affluence continue to grow, although the Singapore market is limited overall by its small population. Particularly promising is the fruit and vegetable market with slightly lesser prospects in the building and construction industry. Singapore is also a significant market for Australian manufactures. Opportunities for growth in imports from Singapore will develop with diversification in Singapore industry.

3.93 Singapore has long been the most popular ASEAN country for Australian investment.⁸⁵ Over 150 Australian based firms have an investment in Singapore, especially in manufacturing ventures including steel, glass and electrical products, and industrial equipment. Several Australian banks are involved in the banking and finance sector. Many Australian firms have developed sales and warehousing operations, using Singapore as a

base for the wider ASEAN market. Singapore is by far the largest ASEAN investor in Australia, supplying \$813 million in 1982/83. This made Singapore the fourth largest foreign investor in Australia. However, it is possible that many of these funds originate in other countries, notably Hong Kong.⁸⁶

(f) THAILAND

3.94 Trade with Thailand had traditionally been smaller than with any other original ASEAN member country. However, the value of two way trade increased steadily (from \$105.1 million in 1977/78 to \$265.2 million in 1982/83) and jumped to \$340 million in 1983/84, when the two-way flow supplanted the Australia-Philippines trade as the fourth largest with ASEAN. Exports to Thailand were valued at \$218 million in 1983/84 while imports totalled \$89.4 million, up 37% from the previous year. Australia's exports to Thailand have traditionally been semi-processed materials for use in Thailand's industries, especially zinc, lead, iron and steel, chemicals and hides, as well as a range of machinery. Imports from Thailand comprise mainly tinned cattood, seafood products, textiles and clothing, and iron and steel pipe.

3.95 Two way trade can be expected to expand steadily, but remain relatively small. Thailand's exports to Australia have expanded significantly of late, albeit from a low base and are gradually gaining wider acceptance. Australia's exports in Thailand are likely to increase gradually, in line with Thailand's development and industrial needs. Earlier indications that Thailand might import substantial quantities of Australian steaming coal for power generation have not yet materialised, partly because of uncertainty about Thailand's off-shore natural gas resources.

3.96 The level of Australian direct investment in Thailand is low, an estimated \$50 million.⁸⁷ Around 20 Australian firms are involved in ventures in Thailand, mainly in manufacturing. However, interest by Australian industry in investing in Thailand increased in 1983 with Australia ranked number two in terms of approvals for foreign investment in 1983.⁸⁸ Thai investment in Australia has been negligible to date.

3. Trade in Services

(a) Existing trade flows

3.97 Differences between trade in merchandise and trade in services and the special prospects for exporting Australian services, recognised by numerous witnesses,⁸⁹ warrant separate treatment of services trade. Trade in 'invisibles' - traded services such as transport, travel, tourist spending, finance, insurance, business and technical consultancy - forms over a quarter of the world's trade and is growing fast.⁹⁰

3.98 In its submission, Trade detailed particular areas of Australian expertise currently being utilised in the ASEAN region, including:

- . integrated rural development including agricultural development, dams, irrigation, flood control, water supply and sewerage
- . mining and mineral development
- . hydro power generation and power reticulation
- . transportation facilities in the fields of roads, railways and seaports

- . urban and regional planning
- . energy conservation
- . education
- . management and financial planning.⁹¹

Professor Arndt commented that 'earnings from consultancy services in terms of foreign exchange are now quite significant ... in the order of \$30 million per annum from Indonesia alone'. Dr Hill mentioned that 'Australian companies are engaging in a fairly modest way in technology licensing..., and the payments in terms of royalties ... have grown quite quickly'⁹²

3.99 Services are a large and growing factor in the Australian and ASEAN economies and in their mutual trade flows. In Australia and the five original ASEAN countries, the tertiary sectors account on average for over 40% of GDP, rising to over 60% in the case of Australia and Singapore.⁹³ Services accounted for over 35% of all exports from Singapore and the Philippines and for over 27% for Thailand, in 1982. Australia's figure was about 15% (reflecting its lesser export orientation), Malaysia's about 15% and Indonesia's only 7%.⁹⁴

3.100 It is significant that trade in services between Australia and ASEAN countries is growing faster and becoming 'more intense' than merchandise trade flows. Whereas Australian merchandise exports to ASEAN represented about 8.5% of total Australian merchandise exports in 1981/82, services exports to ASEAN comprised 10.1% of total services exports. Australian imports of ASEAN services were 13.4% of total services imports compared with 6.5% for merchandise imports.⁹⁵ Further, Australia's share of the ASEAN import market for services nearly doubled between 1973 and 1979, whereas Australia's share of the merchandise market actually declined⁹⁶

3.101 Tucker⁹⁷ speculates on at least four reasons why there appears to be a more intense flow of services with ASEAN than for merchandise trade, at least when compared with Australian trade flows with the rest of the world: first, geographic proximity for intra-regional transportation and travel services; second, the numerous merchandise trade restrictions between Australia and ASEAN may tend to result in greater compensatory flows of expertise, technology and investment; third, greater complementarity (than for Australian manufactured exports) between Australia's technological and educational base and ASEAN's development needs; and fourth, intra-regional specialisation in services such as transportation and travel may result from the region's distance from other transport specialists such as Europe, US and Japan (and for whose travellers the region is a convenient staging point).

3.102 While these encouraging trends augur well for continuing growth in services flows between Australia and ASEAN, three qualifications should be noted. First, the balance of 'invisibles' (including transport, travel and insurance services), is still very much in ASEAN's favour: for example, Australia operates a net invisibles deficit with each and every ASEAN country, which totalled \$545 million in 1981/82.⁹⁸ This however, is not unexpected for a developed country like Australia which is primarily an exporter of bulk commodities, using shipping services not predominantly Australian-owned, and whose relatively affluent population travels and spends more overseas. A second qualification is that the optimistic services sector still represents only a small, albeit fast growing, sector of Australia's trade. Third, there remain significant barriers to services trade, especially protection of the financial sectors of ASEAN countries (although this is less in Singapore and is reducing in Australia following recent 'deregulatory' decisions in respect of foreign exchange dealings and foreign bank licences). These three qualifications for

services trade should not, however, be allowed to overshadow the generally bright prospects for expanding trade flows to the mutual benefit of Australia and the ASEAN region.

(b) Prospects for trade in Australian services

3.103 Numerous witnesses emphasised a comparative advantage for Australia in the supply to the ASEAN region of services, especially those based on 'human skills'.⁹⁹ Compared with ASEAN countries (with the possible exception of Singapore) Australia has a high proportion of persons highly skilled in scientific, technical, educational and business services: 'The sorts of services that typically come to mind are telecommunications, consultancy services, financial services, research and development services.'¹⁰⁰ Most of these areas were also mentioned by Dr Hill.¹⁰¹ Trade referred to Australia's 'proven expertise in ... telecommunications, medicine, education, as well as in agriculture, construction and engineering, which should be able to secure greater opportunities.'¹⁰² Education and medicine were prospects emphasised by both Foreign Affairs and Dr Edwards.¹⁰³ Increased involvement by Australian construction contractors in ASEAN's industrial development is another opportunity, for example in building roads, ports, and other infrastructure requirements.

3.104 Foreign Affairs also presented Australia's advantages and opportunities in the services export sector, but in a context wider than Australian export earnings:

'More important than a simple quantitative increase in Australia's trading and/or investment relationship with individual ASEAN members, however, is the opportunity to extend the range of economic linkages between ourselves and the ASEAN countries.

'In a number of areas Australia has material and technical capabilities which could play a vital role in the economic development process in the

ASEAN countries - to both their and our benefit. In addition to providing consultancy skills and equipment in areas such as agriculture, engineering and communications there appears to be scope for Australia to provide middle and upper level technologies and to establish itself as a major regional centre for education and health services, both in terms of provision of training and services in Australia and on the ground in ASEAN countries. There would also appear to be scope for Australia to become a major regional banking, finance and insurance centre (although this will depend on policy decisions of the Government)".¹⁰⁴

3.105 It is likely that ASEAN countries will continue to welcome transfers of technology and expertise in the services sector, as they seek to develop their economies e.g. with computer equipment and expertise. At the same time, ASEAN authorities are understandably concerned to encourage local services. Accordingly, numerous Australian firms have opened offices in the region in joint venture arrangements with local firms. According to Trade,

'this is recognised by all concerned as a mutually acceptable, significant and profitable means of meeting the requirements of ASEAN authorities and transferring technology ...The Department encourages consultants and contractors ... to seek work in South East Asia' [detailed later in this chapter]¹⁰⁵

3.106 The Committee also wishes to emphasise Australia's potential to provide tourist services for travellers in the ASEAN countries. Tourism services are valuable in terms of tourist expenditure and foreign currency receipts, expanded employment and their potential for greatly improving understanding of Australia in the ASEAN region. These potential benefits could be at least as valuable as similar benefits from ASEAN students, of whom there are presently fewer than 12 000 at any time, as levels of affluence and disposable income in the region rise. The Committee notes that the much larger number of Australian tourists relative to ASEAN tourists contributed

significantly to the net travel deficit of \$94 million in 1981/82: that year nearly 235 000 Australians were short-term visitors to ASEAN countries, over three times the number of ASEAN visitors in Australia.¹⁰⁶ Relative increases in ASEAN tourism should therefore assist in reducing Australia's significant invisibles deficit and in improving mutual understanding.

3.107 The Committee also notes the comment in the ASEAN Australia Business Council (ASEAN Section) submission, that tourism 'has a vast potential for all of us [ASEAN countries and Australia] and its development is surely in our interests to pursue'. The Council added that 'Australia's visa requirements are a source of irritation to those countries of ASEAN that permit visitors without [a prior] visa'.¹⁰⁷ The Committee considers that the potential for, and the financial and cultural advantages from, promoting tourism from the ASEAN countries should be thoroughly investigated by relevant public and private sector bodies as should the associated question of promotional airfares and package holidays.

3.108 The Committee notes with approval the Foreign Affairs submission that 'governmental initiative is highly desirable [in] the development and implementation of policies which facilitate Australia projecting itself as a regional services centre',¹⁰⁸ especially since several of the promising services areas are largely within the government sector, for example, Telecom. Areas of particular promise include medium and high technology (such as computer technology, telecommunications - including Australian satellites and distance education, and specialised medical services), business consultancy, accountancy and information services, energy technology and industrial processes, engineering and construction services and tourism. The Committee notes that the Department of Trade is expanding its services trade establishment, and is continuing to receive and disseminate advice from the Trade Commissioner (Projects and

Consultancy), Manila, about opportunities for Australian firms eligible to bid for Asian Development Bank-funded projects. The Committee considers, however, that more needs to be done, in consultation with key business representatives such as the AABC, to communicate services trade opportunities to the services industries.

(c) Financial Services including Banking

3.109 The Foreign Affairs submission anticipated some 'scope for Australia to become a major regional banking, finance and insurance centre (although this will depend on policy decisions of the Government).¹⁰⁹ Among the decisions already taken are the 'floating' of the Australian dollar, the deregulation of most restrictions on foreign exchange transactions, the issuing of additional foreign exchange dealer licences and the Treasurer's announcement of the Government's intention to issue a number of banking licences to foreign bank applicants willing and able to obtain 50% Australian equity in their operations or, short of that, able to offer compensating benefits. The way is opening therefore for Australia to provide some 'off-shore' finance services for the region; however whether Australia can join Singapore and Hong Kong as a regional finance centre is still highly uncertain.¹¹⁰ For this reason, and because this issue is not specific to ASEAN, the Committee concerned itself mainly with the questions of mutual foreign bank access in Australia and the ASEAN region and its implications for trade and investment flows.

3.110 One of the basic questions is whether Australian banks will be allowed by ASEAN Governments to participate more fully in their countries' banking systems, and vice versa. Treasury stated that 'all major Australian banks have branches in Singapore but representative offices (only) in one or two other ASEAN countries ... that would indicate that some ASEAN

countries do have similar policies towards bank entry as we do at the moment'.¹¹¹ The Committee was informed that some Australian and ASEAN banks are interested in gaining access, although some ASEAN banks might reconsider if strict Australian equity requirements were applied. The ASEAN-Australia Business Council - Australian Section (AABC) considered that Australian banks would be unlikely to gain fuller access to banking services within ASEAN until ASEAN banks could gain similar access. It suggested that mutual access be sought on a bilateral basis.¹¹²

3.111 It appeared likely to the AABC and to Trade and Treasury, that trade and investment flows would be encouraged if banks could provide their importer/exporter clients with full financial services in the foreign country.¹¹³ The AABC was more definite than Trade and stated that 'there is a great risk that this [bank finance for bilateral trade] will be done by third country banks' if Australian and ASEAN banks do not come to operate off-shore full bank services within the region.¹¹⁴

3.112 The Committee considers that expanded access for both ASEAN and Australian banks to provide more effective financial services to their exporting and investing nationals (and to local purchasers of Australian exports) would be a desirable adjunct to the expansion of Australia-ASEAN trade and investment which the Committee anticipates. Recognising that banking services, even in Singapore,¹¹⁵ have traditionally been highly protected sectors of the Australian and the ASEAN economies, because of legitimate national concerns about foreign influence in national finances it suggests that improved access be considered on a reciprocal basis by ASEAN and Australian Governments in close consultation with the banking industry.

4. Australian Direct Investment in ASEAN

3.113 The ambitious development strategies of ASEAN countries continue to require large amounts of foreign investment and the supplementary benefits of technology transfer. Joint manufacturing ventures have generally been encouraged, and these constitute about one half of Australian investment.¹¹⁶ There are reportedly ¹¹⁷ over 400 Australian firms with operating interests in ASEAN, concentrated in the manufacturing and light engineering fields but with numerous firms in primary (especially mining) and tertiary sectors, some operating in more than one country. Australian investment in ASEAN services sectors, especially in Singapore, has increased steadily to the point at which it represents about one third of Australia's investments in ASEAN and is displacing primary sector investments (except in Malaysia).¹¹⁸

3.114 Of the \$A301 million direct Australian investment accumulated in the ASEAN region as at 1983, about 13% of total Australian foreign investment, almost half (\$140 million) was placed in Singapore and about a quarter (\$75 million) in Indonesia.¹¹⁹ The other ASEAN countries have received less attention, although Australia is becoming one of the larger investors in Malaysia and Thailand. The AABC stated that the 'available official statistics considerably understate the size of the investments'.¹²⁰ This was confirmed by Trade, which explained that retained earnings are not included. Australia's investment contribution to ASEAN is, however, considerably less than for the major three foreign investors in ASEAN - Japan, US, and EC.¹²¹ Australian experts such as the AABC nevertheless expressed confidence that Australian investment was generally of significant benefit to both Australia and the ASEAN region.¹²² The Bureau of Industry Economics reported in 1983 that 'Australian investment in ASEAN has been growing rapidly in recent years and occupies quite an important position in certain industry sectors'.¹²³

3.115 There appears nevertheless to be considerable scope for expansion of Australian investments in ASEAN. Submissions from both ASEAN and Australian sources¹²⁴ anticipated joint venture opportunities in ASEAN Industrial Joint Venture scheme projects. Increased Australian investment would be welcomed in most ASEAN countries, where some disappointment has been expressed¹²⁵ with the low level of Australian investment relative to that from other developed country investors. The Treasury referred to the foreign exchange restrictions, recently lifted, which may have discouraged foreign investment in general. It confirmed that 'With the floating of the Australian dollar on 12 December 1983 a major part of the [exchange control] restrictions ... were abolished ...'¹²⁶ Witnesses generally expected the deregulatory measures to result in greater Australian investment in the region,¹²⁷ and that the ASEAN investment climate would continue to be generally attractive. The few regulatory problems in ASEAN countries referred to by the AABC, especially regulatory delays in the issue of operating and export licences, restrictions on Australian bank services, and policies towards localising ownership and employment (especially in Indonesia and Malaysia) did not significantly diminish the Council's enthusiasm for investment in the region.¹²⁸

3.116 The Australian domestic implications of expanded investment in ASEAN were addressed by the AABC:

'The Council's experience has shown that Australian joint venture operations in S.E. Asia have in fact boosted employment in Australia and have enabled a much stronger and diversified basis of local operations ..., have been extremely successful and boost our national image'.¹²⁹

These were reasons given by the Council against any imposition of a foreign tax credit system in Australia that might - according to it - be motivated in part by a fear of Australian jobs being 'exported'.¹³⁰ Both the AABC and Price Waterhouse argued that any such taxation proposal would 'seriously

prejudice substantial Australian business investments in SE Asia and elsewhere'.¹³¹ The Australian Council of Trade Unions responded in evidence that it was concerned that Australian jobs might be lost to overseas positions. Specific concern was expressed about 'some companies that have done well out of [Australian] protection and have ... invested those profits offshore [to] take ... advantage of low labour costs'.¹³²

3.117 The Committee recognises significant advantages to both ASEAN and Australia of Australian foreign investment in the ASEAN region. While mindful of possible shorter term disadvantages to Australian industry (largely beyond its terms of reference, however) the Committee queries whether, overall, Australia would suffer any losses that would not be compensated by improved business opportunities and repatriated profits benefitting the Australian economy. The Committee anticipates that, with the deregulation of Australian overseas investment, a generally encouraging investment climate in ASEAN and the comparative advantages for some businesses of operating within the highly competitive ASEAN market (rather than exporting to it), Australian direct investment in the region will enjoy increasing opportunities, which, on balance, will be beneficial to employment and economic activity in Australia. This should also enhance ASEAN economic development and recognition of Australia as an effective economic partner.

5. Australia-ASEAN Shipping Services

(a) Australia's shipping interests

3.118 The very high proportion (93% by value) of total trade carried by sea between Australia and ASEAN countries highlights the significance of economic, reliable and efficient shipping in the maintenance and development of our trading relationship with the ASEAN region. The Department of Transport considered that shipping services are 'economic, reliable and efficient',¹³³ but the economic aspect of this judgment was queried by the representative of Australian exporters, the Australian Shippers Council (ASC).¹³⁴

3.119 Shipping may be viewed both as a tradeable service, and as an important factor in the price and competitiveness of a country's merchandise exports. Not surprisingly, the ASC viewed shipping primarily as a cost factor in Australia's export effort, which it considered threatened by recent rises in freight rates imposed by the regional shipping conferences and, in turn, by wasteful over-tonnaging provided by conference lines. ANL considered that its services and those of other conference lines satisfied the interests of Australia and ASEAN exporters: that shipping services (if not freight rates) are competitive and that regularity of service, technical services and long-term stability are also important benefits.¹³⁵ ANL also addressed its prospects for an expanded involvement in regional trade as that trade itself expanded. A major interest of the Department of Trade was that Australia's continuing invisibles deficit with ASEAN countries 'largely reflects Australia's relatively unfavourable shipping (and airline) costs vis-a-vis the ASEAN countries and lack of opportunity to utilise Australian flag vessels' [as well as a substantial imbalance of outflowing Australian traveller expenditure].¹³⁶

3.120 While recognising the unfortunate size of the transportation deficit, the importance of efficient and reliable national shipping services, and the apparent desire of ANL to gain a greater share of ASEAN trade,¹³⁷ the Committee placed greater emphasis in its inquiry on the impact of freight rates on the competitiveness of Australian exports.

(b) Shipping costs and export competitiveness

3.121 The questions as to whether Australia's shipping costs are unfavourable on routes to the ASEAN countries relative to costs for foreign competitors, and whether, if they are, they impact adversely on the competitiveness of Australian trade with ASEAN are important but difficult questions to answer. The evidence given the Committee was not conclusive either way, due both to differences of opinion between witnesses, to the technical complexity of the issues and to the general lack of transport costs data. For example, land-based factors¹³⁸ such as port handling charges and the costs of dock strikes, may constitute at least 40% of total transport costs. Yet another difficulty is to determine whether any lack of competitiveness of Australian exports is due to their basic (f.o.b.) cost or to their landed (c.i.f.) cost.¹³⁹ Some specific - but inconclusive - freight rate comparisons (between Australia/ and US/ ASEAN services) were prepared specially by the Department.

3.122 The ASC asserted that freight charges did represent a significant part of landed costs for Australian exports in South-East Asia - for example, between 10% and 20% for common exports like steel products, dried fruits, meat and dairy products. The ASC complained of the 7% increase in regional freight rates imposed by the regional conferences from 1 May 1984, after negotiations between the ASC and the conferences had broken down. Some ASC member organisations, notably meat exporters were reported to have indicated that 'the increase

would "severely disrupt" their export positions (mainly in the Singapore and Malaysian markets) and make new business uneconomic'.¹⁴⁰ However, when asked by the Committee whether any of its members would actually lose export orders, the ASC replied that it had not yet [as at 21 May 1984] been advised of any prospective losses. The Department of Transport had also not been so advised. It estimated that the 7% increase would increase the landed cost of Australian exports in ASEAN by only .06% on average (an estimate with which ASC expressed some difficulty).

3.123 The ASC further asserted that 'the competitiveness of Australian exports in the East Asia region was reduced' as a result of industrial action in 1983 by Australian maritime unions concerned to protect ANL (their major employer) from lower rates competition from non-Conference lines. The result of this industrial action was said to be agreements by the non-Conference lines with the major regional shipping conference ('ANSCON'), to limit their cargo market share and to reduce their rate discounting. 'The additional freight costs to exporters on the East Asia Trade alone have been conservatively estimated at over \$16 million'.¹⁴¹

3.124 An even more serious problem according to ASC is the significant and costly shipping over-capacity offered on all East Asian routes, estimated [by ASC] at 17% in excess of the tonnage required for current trade volumes, and costing the lines some \$50 million per annum.¹⁴² Some of this cost was said to be passed on as increased freight rates: 'the operating costs of shipping lines are an important factor in the determination of freight rates'.¹⁴³ This latter assertion was queried by the Department:

'... it may well be that the very, very severe competition has shaken rates down to such a level that in fact it is the shipowners who are bearing the brunt of the overtonnaging rather than the people who are shipping their goods.'¹⁴⁴

The apparent implication is that should over-tonnaging continue when there is insufficient price competition among shipping lines (for example from non-conference operators), the over-tonnaging costs might be fully passed on to shippers.

3.125 Evidence from ANL and the Department on competition and rate levels was not fully consistent with that from the ASC. ANL, a member of the major regional conferences, commented

'Probably every day somebody rings us up and tells us he cannot sell his goods because of the freight rate. Then we investigate [rates available to third country exporters] ... nine times out of ten we come back to f.o.b. price being the principal factor ... generally speaking I cannot see that the Australian exporter is disadvantaged in the Asian area in any way'.¹⁴⁵

Similarly, the Department stated that it had received few complaints about shipping services between Australia and ASEAN¹ and that the present level of freight rates reflects the reasonably high level of competition in the ASEAN trade'.¹⁴⁶

3.126 Both the Department and ANL indicated that much of the competition came from non-conference operators whose rates were about 10% on average lower than Conference rates: these operators 'help to keep the trade fairly honest and at a competitive level' (ANL).¹⁴⁷ According to the Department, ANL's cost structure - widely assumed to be the highest of the Conference lines¹⁴⁸ - has not resulted in higher Conference rates, because of freight rate competition from non-Conference lines.¹⁴⁹ The Department's view underlines a point common to all shipping witnesses, namely the important competitive role played by non-conference lines, estimated officially to carry at least 30% of two-way trade with ASEAN countries.¹⁵⁰ In other words, external competition rather than internal shipping line costs is - presently at least - the major determinant of freight rate levels.¹⁵¹

3.127 This conclusion need not be inconsistent with ASC's assertion that shipping line costs are a significant part of exporters' landed costs. The evidence that operator costs form a major part of the Conferences' argumentation in freight rate negotiations tends to confirm that agreed freight rates levels will be a function of both costs and competition; costs becoming a more dominant factor if competition among operators decreases. The fact that ANL's ASEAN routes are profitable (its own evidence)¹⁵² raises some possibility that lower rates could be negotiated. The fact that there is considerable 'discounting' by Conference members below agreed rates is both advantageous for exporters, and a possible indication that rates are agreed at levels which allow Conferences a profit margin which can be cut if competition with non-conference operators requires.

3.128 However, as with much of the evidence which might connect costs, competition, rates and export competitiveness, firm conclusions are impossible without the benefit of better data. The Committee was presented with some freight rate comparisons, extracted by the Department of Transport, for a small range of items for shipment to ASEAN from Australia and the US West Coast respectively.¹⁵³ No overall pattern of benefit to either American or Australian exporters was apparent, although rates for meat and fruit exports appeared to favour Australia.

3.129 While the Committee considers it unlikely, on the basis of the evidence given to it, that the present level of freight rates is harmful to the competitive position of Australian exporters to the ASEAN region, it considers that better data is needed before definite conclusions can be reached. The Committee notes that the results of research into Australia-ASEAN shipping services, being conducted by the ASEAN-Australia Research Project, are expected to be published later this year; also that the Australian Government is continuing its own investigations of shore-based components of shipping costs, such as stevedoring and container handling charges, which have been estimated to comprise

up to about 40% of total shipping costs.¹⁵⁴ The Committee recommends that the Australian Government, on the basis of this research and any further independent investigation that may be necessary, seek to isolate the significance of shipping and related transport costs for Australian exporters and to develop and implement transport-related measures designed to improve the competitiveness of Australian exports, especially in Asian markets.

3.130 One of three possible options suggested by Trade to improve Australia's invisibles account was 'increasing usage of Australian shipping in our trade with ASEAN, which would require an improvement in our relative shipping costs',¹⁵⁵ an important qualification also for the Department of Transport.¹⁵⁶ The Government's research mentioned above should also question whether any expansion of ANL's services would significantly reduce Australia's invisibles deficit, and whether any such reduction would be desirable overall taking into account any effect which such expansion might have on freight rates and the competitiveness of Australian exports.

3.131 For a highly competitive market like that for ASEAN imports, cost reductions along the entire export chain are desirable. The Committee is pleased that the ANL is pursuing cost reduction policies as stated in its evidence.¹⁵⁷ It also notes that the Government is presently studying the significant land-based components of shipping costs.¹⁵⁸ For the sake of Australia's export performance in the region, it is important that ANL and other conference lines seek to maximise their efficiency, and that the Australian and ASEAN Governments facilitate circumstances conducive to price competition and efficiency in their shipping industries.

3.132 Assuming the extensive over-tonnaging on ASEAN routes is resulting, or could result, in higher freight charges and the shipping industry continues to be unable or unwilling to rationalise its services accordingly,¹⁵⁹ the Australian Government should consider consulting with ASEAN Governments with a view to persuading shipping lines (including governmental lines) to reduce their tonnage on Australia-ASEAN routes. While the Committee recognises that the over-tonnaging problem is not confined to ASEAN routes, and that shipping demand - especially on those routes - is expected to increase steadily, the Committee is mindful that ASEAN government line services are also likely to expand in accordance with ASEAN country policies.

(c) ASEAN shipping policies

3.133 Pursuant to the United Nations Code of Conduct for Liner Conferences (the 'U.N. Liner Code'), to which all original ASEAN members except Singapore have acceded or will be acceding, the importing and exporting country on any bilateral sector are each entitled to carry up to 40% of outward liner trade in its flag ships; [cross-traders, some of which would be non-conference operators, would be limited to 20%]. If this were to occur, and if the government operated component of national fleets were greatly expanded, it could be difficult - asserted the ASC - to maintain competition and freight rates at levels necessary for the export trade. This was qualified by the Department of Transport, which summarised current policies of ASEAN countries as follows:

'The main thrust of most ASEAN members' shipping policies is directed towards the development of larger national fleets and gaining a greater share of the cargoes their country generates. At the same time, this has generally been tempered by an acceptance of commercial realities and a desire not to overly disrupt trade by excessive governmental interference.¹⁶⁰

3.134 The Committee notes that the Malaysian Prime Minister mentioned, in a recent address on future economic projects in the region, the need 'to avoid excess shipping tonnage between Australia, Japan and ASEAN'.¹⁶¹ Both the Department and the ANL considered that ASEAN cargo reservation objectives would not necessarily result in less efficient, more costly services, because ASEAN exporters and countries recognised the importance of competitively-priced services. The ASC was more pessimistic:

'ultimately ... with the possible exception of Singapore, the other ASEAN governments will increasingly move to demand shares of the trade in a way which will have the effect of inflating freight costs.'¹⁶²

It even suggested Australian legislation might be needed to 'safeguard the free flow of shipping' which could be endangered if foreign shipping interests threatened to take a greater share of the market contrary to Australian Government policy.¹⁶³ The Committee considers that the foreign policy implications of any such Australian reaction could be significant and would warrant close assessment beforehand.

3.135 The longer term possibilities of expanded ASEAN national fleets and reduced participation by non-national flag carriers in regional shipping warrant the Australian Government's close attention. There could be cause for concern to Australia's export competitiveness if over-tonnaging was thereby to worsen or if a commercially competitive transport environment were threatened. These concerns should be considered carefully by the Government in its deliberations on whether to accede to the U.N. Liner Code and in consulting with ASEAN Governments on future shipping developments in the region.

6. Market Access and Trade Barriers

(a) Australian Market Access: an issue for ASEAN

3.136 ASEAN criticism of protectionism by industrialised nations against imports from developing countries especially their labour-intensive manufactures, has been a central, on-going feature of ASEAN economic philosophy and trade negotiations. A typical recent statement is that included in the Joint Press Release of the Sixteenth ASEAN Economic Ministers Meeting, May 1984:

'The Ministers reviewed the progress of ASEAN cooperation with its dialogue partners and expressed concern over the continuing trade imbalance and protectionist measures practised by dialogue partners which have impeded ASEAN exports from gaining greater access to their market. The Ministers urged the dialogue partners to display concretely their commitment to the stand-still and roll-back of protectionist measures made on several occasions, including the last Economic Summit at Williamsburg.'

3.137 This critical philosophy has been applied regularly by ASEAN countries, both individually and as a group, to Australian market access and import restrictions. Australian trade barriers on textiles, clothing, footwear (TCF) and timber products, including 'handicrafts', have received particular criticism. A major ASEAN campaign was mounted between 1976 and 1979. While the protection issue has not since had such a high profile, the Committee was warned that economic developments in ASEAN indicate that it may resurface as the dominant negative issue in Australia's economic relationship with the ASEAN region.¹⁶⁴ (The other major economic issue is the bilateral trade surpluses enjoyed by Australia).

3.138 A vigorous example of ASEAN criticism of Australian market access is the reference in the submission from the Centre for Strategic and International Studies, Jakarta, to 'rising Australian protectionism' being the most important negative aspect of economic relations between Australia and ASEAN:

'It is difficult to imagine how the ASEAN countries can proceed in their industrialisation if the markets such as the Australian one are practically closed to their manufactured exports'.¹⁶⁵

A prominent Malaysian economist [Professor Ariff] confirmed to the Committee that

'The question of protectionism in Australia has been one of the thorniest issues with ASEAN. In spite of the fact that Australia brought about a major tariff revision in the 1970s, Australia has one of the highest protectionist profiles among developed countries. In fact it is much worse than the EC and much worse than the United States, but ASEAN has been a little more tolerant with that in the 1970s because Australia's economic performance was not too good'.¹⁶⁶

3.139 While the Department of Trade and the AABC pointed to Australia's continued progress towards lower overall levels of industry protection (e.g. Trade exhibit), there was some recognition among Australian witnesses that Australian trade barriers in the TCF sector are high by world standards, and that ASEAN concerns - at least in part - are well-founded.

The Treasury commented:

'... the tariffs and quotas that are imposed on their [ASEAN country] imports tend to be higher on average than the average level of protection that is provided for Australian manufacturing, so in that sense ... ASEAN countries see it as a reason for grievance that the goods that are of particular importance to them are subject to higher tariffs and quotas than exports from other countries'.¹⁶⁷

Dr Hill made a similar point and also commented that

ASEAN countries are moving increasingly into this [TCF] field, and pressures for market access ... from ASEAN are likely to intensify'.¹⁶⁸

3.140 At the same time, Australian witnesses emphasised that Australian quotas are not intended to discriminate against ASEAN exporters,¹⁶⁹ and that their low market share [only 5% of TCF imports - IAC, Trade] is due to lack of competitiveness (vis a vis other Asian exporters) and market awareness.¹⁷⁰

In some areas, say, in the textile, clothing and footwear regime, importers have a choice on source ... There are no country-based quotas. When they have a free choice as to where they use up their quota, they are using only modest amounts in ASEAN'.¹⁷¹

3.141 The Trade Department described the 7 year program of gradually reduced protection for Australia's TCF industries as 'designed to encourage a predictable and gradual change in local production of TCF products', and 'deliberately aim[ed] at improving trading opportunities especially for developing countries who receive preferences on most TCF items' [Trade exhibit] Another Australian response to ASEAN criticism is that expanding ASEAN exporters have over-estimated the size of the Australian market, which has led to their disappointment. Australian efforts to increase ASEAN exporters' market awareness are seen therefore as important. Australian witnesses, including the AABC and the ACTU emphasised the relatively transparent, highly visible, nature of Australia's tariffs and quotas; and contrasted the numerous non-tariff restrictions on imports into ASEAN countries.¹⁷²

3.142 Is the actual impact of Australian manufacturing protection policy on ASEAN exports as serious as claimed by the numerous and critical ASEAN participants in the inquiry? The Australian System of Tariff Preferences for Developing Countries (ASTP) was introduced in 1966 to assist developing countries

(DC) to overcome their disadvantages in competing with [developed] third countries in the Australian market, not, it was emphasised to the Committee, to reduce general levels of protection for Australian industry. Until amended in 1981, the ASTP did not extend to D.C. clothing and footwear imports from developing countries, because those imports were regarded as already competitive (as well as injurious to Australian industry). This TCF exclusion from the ASTP margins of preference for developing countries, generally 10 to 15 percent below the General Tariff Rate, was very contentious with ASEAN countries, as were the quota restrictions on TCF imports from all sources (non-discriminatory). For example ASEAN, in a formal group memorandum to Australia in November 1978, asserted that

'... The ASTP has not really contributed towards any substantial increase in exports of the ASEAN member countries to Australia, the main reason being, among others, the limited product coverage, the low level of tariff reductions, the existence of a quota system and the stringent definition of handicrafts pursuant to Item 36 of Schedule 2.'¹⁷³

3.143 The extension of the ASTP to the TCF sector in 1981, albeit with lower preference margins of 5%, has not stifled criticism of Australian market access by ASEAN countries which want further increases in the scope of ASTP and in preference margins.¹⁷⁴ The continuing quota system is also seen as unsatisfactory, although Trade notes that in 1982 only 2.2% of ASEAN imports were subject to quota type controls and that, under the 7 year program of (declining) assistance to the Australian TCF sectors, there will be annual increases to the worldwide import quota.¹⁷⁵ Trade's other response to these criticisms is that tariff rates and margins of preference are regularly reviewed in public Australian industry assistance inquiries - of which ASEAN countries are given special notice under the 'Early Warning System', (a special concession extended only to ASEAN countries and India) and that

'Only 9.6% of imports from ASEAN are subject to duty at other than developing country rates. Ninety per cent enter at developing country [DC] preferential rates or are free of duty at other than DC rates',.176

3.144 Trade warned that further liberalisation is limited without undermining the levels of assistance determined by the Government for a particular industry'.177 The A.C.T.U. drew the Committee's attention to the 7 year program (commenced in 1982) for phased reduction of assistance to the Australian TCF sector, and argued generally that 'neither current nor foreseeable future economic conditions justify a reduction in protection levels'.178

3.145 The Industries Assistance Commission (IAC) commented to the Committee that many cases of low ASEAN shares of the Australian import market were due to lack of competitiveness with other Asian exporters, and that ASEAN countries in fact benefit considerably from ASTP preferences.

'In 1982, the latest year for which details are available only 2.3 per cent of Australia's imports from ASEAN were subject to quantitative type restraint measures. This compares with 6.2 per cent from all countries and 7.5 per cent from all developing countries. Further, despite the existence of restraint measures, principally on certain textiles, clothing and footwear items, total imports of items subject to restraint from ASEAN have increased from \$16.8m. in 1978 to \$40.1m. in 1982. However, ASEAN supplies only about 5 per cent of the total TCF import market, a clear indication that their own marketing and competitiveness vis a vis other suppliers are important factors in explaining their market share.

'... imports under preferential arrangements grew from 16 per cent of total imports from ASEAN in 1978-79 to 30 per cent in 1980-81. On average, imports from ASEAN included a higher proportion of preferential imports than was the case for imports from all Developing Countries as a group ... In 1977-78 the preferential share of imports from ASEAN countries ranged from 2 per cent for

Indonesia to 38 per cent for the Philippines. In 1980-81 the range was from 11 per cent for Indonesia to 63 per cent for Thailand.¹⁷⁹

3.146 The ACTU also noted that 'the major beneficiaries of the [ASTP] system were the most advanced among the developing countries including the ASEAN nations', and that 'it [is] important [that] preferential treatment be directed to those least developed countries who will benefit most'.¹⁸⁰ The Committee notes that similar concerns have been put by some areas of Australian industry to the Government's current major review of the ASTP. The AABC stated its understanding that the Australian Government 'is considering the adoption of a mechanism that will facilitate the identification of genuine developing country status'.¹⁸¹ The Trade Department was more cautious in its evidence. 'Clearly if a formula approach, along the lines that industry is interested in, was introduced that would result in removing preferences from quite a number of ASEAN countries. That would be a matter of very considerable concern to those countries'.¹⁸²

3.147 It appears therefore that the ASTP preferences are generally helpful to ASEAN countries. While ASEAN's exports of labour-intensive manufactures have improved despite quotas and relatively low ASTP preferences - largely it seems because Australian products are suffering reductions in market share, this improvement has not matched the strong performance of competitive products from East Asian industrialising countries.¹⁸³ Trade commented as follows:

'... if there were an easing of some of the present quantitative restrictions that apply to a limited range of products affecting ASEAN, the countries that would benefit most would not be the ASEAN countries - they would be China [with 9% share of TCF imports], Hong Kong [12%], the Province of Taiwan [12%] and the Republic of Korea [6%].¹⁸⁴

The Committee notes that, at least until 1980-81 (the latest figures available to it), Taiwan, Hong Kong and Korea collectively benefitted more from ASTP concessions than the ASEAN countries, and that only one ASEAN beneficiary - Singapore - benefitted more than any one of the East Asian developing countries.¹⁸⁵ Also in this regard, the Committee notes the ACTU's call for the regular review of developing country preferences 'to ensure that products in which particular ASEAN nations have attained world standards of production efficiency are not assisted at the expense of poorer countries.'¹⁸⁶ The Committee also notes that the general ASTP scheme is presently being reviewed by Government.

3.148 However, it is reasonable to assume that ASEAN exporters, initially in the labour intensive sectors but increasingly in ASEAN developing manufacturing sectors¹⁸⁷ will be increasingly attracted to, and competitive in, the Australian market. A second factor, recognised by a number of witnesses including Dr Hill, Dr Edwards, Professor Ariff and Price Waterhouse, is an ASEAN expectation that Australian economic conditions and markets will improve. Price Waterhouse added that 'It is only in comparatively recent times that ASEAN countries have begun to recognise Australia as a small but valuable export market.¹⁸⁸ A third factor noted by Dr Hill, is that 'there is substantial [trade] liberalisation occurring in the [ASEAN] region, ... Australia will benefit from it but ... there will be pressure on Australia to liberalise concomitantly'¹⁸⁹

3.149 The Committee noted with approval Australia's present policies - explained by Trade¹⁹⁰ - to assist ASEAN countries to promote their exports to Australia. In addition to the ASTP preferences there is the Trade and Investment Promotion Program (TIPP), originally (in 1981) a 3 year \$4 million program funded by ADAB under the ASEAN Australia Economic Co-operation Program to assist ASEAN exporters to ascertain the commercial

acceptability of their products in the Australian market. TIPP projects include Australian assistance to organise trade displays, missions and the training of government officials. The TIPP has been extended beyond 30 June 1984 for another three years and with a \$3 million budget.

3.150 The Committee also notes with approval the need, emphasised especially by Price Waterhouse for greater Australian efforts to promote ASEAN awareness of the Australian market:

'Enhanced ASEAN knowledge of the Australian market is we suggest a fundamental issue in ASEAN/Australian economic relations and is of fundamental importance in the context of ASEAN desire for enhanced "market access"

'... if ASEAN exporters were better informed of the Australian market, their selling efforts could be more effectively targeted ... This in turn would have a positive impact on trade balances ... and could contribute to reduced pressures on Australian ASEAN relations...'191

The issue of ASEAN awareness of the Australian market underlines the importance the Committee places on fostering more informed and accurate perceptions between Australia and ASEAN. In this regard, the Committee notes the AABC's comment that 'a lot of Australian government policies are not understood and there is a perception that we are very protectionist ... we ought to do something about getting the good policies recognised.'192

3.151 In the longer term, however, it seems likely that present Australian restrictions will meet increasing ASEAN opposition as ASEAN competitiveness and import prospects are enhanced - and as the restrictions offer increasingly less economic protection for Australia. In this context, the following comment from Professor Ariff is notable:

'... ASEAN manufacturers are fairly competitive in the Australian market and have been able to penetrate ... in spite of the high protection that you do have ... as a study by ... the ANU has

shown, even if you reduce, ... your tariffs by 10 per cent, it is not going to have much of an impact upon imports from ASEAN. If tariff reduction is not going to matter, why do you not then reduce the tariff? That is the kind of argument that you will get from the ASEAN side.¹⁹³

As already noted, however, a significant tariff reduction would be expected - in present conditions - to lead to a significant increase in imports from East Asian countries. The Committee notes Dr Edwards' comment that, as for ASEAN and our ASEAN relations, little would be gained on balance by lowering TCF protection, taking into account the consequences for Australian industry.¹⁹⁴

(b) Lower Australian trade barriers?

3.152 The economic - and political - advantages of lower Australian (and ASEAN) trade barriers, and the relatively low protection offered by existing high barriers, were emphasised by numerous Australian and ASEAN witnesses and commentators. According to Senator Button, Minister for Industry and Commerce,

'... tariff protection, while it has undoubtedly saved some jobs, has not prevented significant erosion of employment. The proportion in manufacturing has fallen about 6 percentage points since 1974. Even highly protected industries such as textiles and motor vehicles have contracted.'

'we cannot, in general, increase our protective walls. That will lead to stagnation and withdrawal ... There are sound international imperatives why we should become more closely integrated with the region, not insulate ourselves from it.'¹⁹⁵

3.153 A different perspective was given by the ACTU which, while appreciating that 'Australian industry must change to allow long run growth to be maximised', asserted that 'neither current nor foreseeable future economic conditions justify a reduction in protection levels'.¹⁹⁶ The ACTU's view was that restructuring should depend on gradual adjustments including

orderly schemes for creating new jobs and retraining for occupants of existing positions. It emphasised, for example, that there was in place already a 7 year scheme for adjusting the TCF sector to import competition.

3.154 The Committee notes the more positive views of the Minister for Foreign Affairs:

'Mr Hayden has publicly suggested ... that while structural change will not be easy or painless it is going to happen. The real question is to what extent it will be foisted upon us, and to what extent we can shape it to maximize benefits and minimize negative aspects. We can seek to delay change but only at the cost of a decline in Australia's living standards, relative to those countries which adjust more rapidly'.¹⁹⁷

The Committee also notes the following submissions indicating ASEAN's concerns with Australian market access:

- 'ASEAN does not expect Australia to sacrifice its own economic stability by opening its gates to unrestricted imports from ASEAN, ... Australia's economic stability and a resurgence of its economic growth are in the interests of ASEAN. But what we do hope for is easier market access in those fields where ASEAN countries can contribute to Australia's growth in a competitive manner by encouraging Australia to enhance the efficiency of its own productive capacities'.¹⁹⁸
- 'Any relaxation in Australia's industrial protection will contribute to a more efficient division of labour in the industrial sector and, thereby, to the intra-industry trade between Australia and ASEAN countries. It will give concrete substance to the ASEAN-Australia dialogue, which so far has been limited to issues of minor importance such as joint research projects'.¹⁹⁹
- 'So far, the ASEAN-Australian consultative machinery, Australian aid and trade assistance and Australian diplomacy in the North-South dialogue have been sufficient to contain ASEAN hostility, despite incompatibilities between Australian trade policies and those sought by

ASEAN. These measures will continue to be useful to enable Australia to pursue trade policies appropriate to Australian needs while attempting to preserve effective co-operation with ASEAN in economic and other matters but they are not in themselves likely to prove sufficient if not supplemented by some trade concessions to assist in the further economic development of the ASEAN region.²⁰⁰

3.155 It is beyond the scope of this Committee's inquiry to reach firm conclusions or recommendations about the structural problems of Australian industry. The Committee does emphasise, however, that from the perspective of Australia's political and economic relations with ASEAN countries, mutual benefits will result from freer two-way trade flows. Australian manufacturing industry must become more technology- and capital- intensive and more export-oriented if it is to be revived to its proper potential. In respect of protection for the Australian TCF sector, the Committee considers that any increase in access for foreign importers - additional to the scheme included in the current seven year plan - would not at present be justified, at least in the context of Australian relations with ASEAN countries given that they would not likely be among the significant overseas beneficiaries.

(c) ASEAN Trade Barriers

3.156 While barriers to Australia-ASEAN trade are often assumed to be mainly Australian tariffs and quotas, the Committee received evidence of significant non-tariff restrictions employed by most ASEAN countries. For example, the ACTU contrasted Australia's 'highly visible and easily quantifiable' tariffs and quotas with a wide range of Singaporean non-tariff protective devices, especially taxation concessions for Singapore companies.²⁰¹ The ACTU concluded that 'in any comparison of national protection levels, Australia will appear relatively more protected than is actually the case'.²⁰² The Department of Industrial Development, Western Australia, reported 'instances of local companies (W.A.)

protesting about what they believe to be excessive tariff levels in the ASEAN countries'.²⁰³ and considered that the Australian Government should monitor ASEAN tariffs; but it gave no examples.

3.157 The services, especially finance, sector of ASEAN economies receives significant protection throughout the ASEAN region, to foster the development of local services. 'Even such a highly export-oriented service ... economy as Singapore is no exception', with foreign bank and insurance company licencing requirements.²⁰⁴ Areas of restrictions in the region include foreign exchange dealings by foreign banks; Indonesian limits on the extent to which foreign banks can finance imports; Malaysian limits on the number of nationals who can be employed in foreign banks; and Thai prohibition on more than one foreign bank branch in Bangkok and limits on foreign equity holdings in local banks.²⁰⁵ Other restrictions, in other than the finance industry, include Indonesian requirements that foreign engineering and insurance firms enter into joint ventures; national reservation for insurance business (Thailand) and for local shipping in relation to government cargoes (Philippines); and preferential tax treatment for local companies.

3.158 Reference is made in Section 2, Part B of this chapter to the opinion of numerous ASEAN-based commentators that the import-substitution policies and self-reliance objectives of many ASEAN Governments maintain local industry protection at substantial levels; and that this has been a major limitation on the development of trade and services among ASEAN countries. It was also noted there that effective tariff levels among ASEAN countries had not reduced substantially despite many attempts at increased intra-ASEAN economic co-operation.

7. Trade Performances and Prospects

(a) Australian Export Performance

3.159 The Foreign Affairs submission aptly summarised, in broad terms, Australia's export performance and prospects, which was an important focus of the Committee's economic inquiry:

'While Australian exports to the ASEAN countries have increased significantly in the last decade, Australia's performance relative to others such as the US, Japan, NZ, the EEC and Canada has been disappointing ... the heat generated by trade issues [such as ASEAN criticism of its access to the Australian market] ... does point to the need for forward looking policies, ... for the countries of the region including Australia to determine more precisely just what they can do competitively and to rationalise their activities', 206

The Committee would not limit any 'comparative advantage' approach to an unimaginative fatalistic assessment of Australia's opportunities in the ASEAN region; otherwise, Australia's main economic role in the region might be seen as very much limited to that of efficient primary producer and raw material supplier.

3.160 The Committee notes that the Minister for Trade and his Department are responding to Australia's relatively poor export performance by reviewing and redirecting their trade promotion efforts towards better targetted objectives, with higher priority to Australia's trade partners in Southeast (and East) Asia and to non-traditional sectors such as services. These initiatives, and suggestions by other witnesses, will be considered in this section, together with the opportunities - and challenges - in a region likely to remain among the world's economically dynamic groups of countries.

3.161 At least four major witnesses - Trade, Foreign Affairs, Treasury and Dr Edwards - remarked that while Australia-ASEAN trade has increased significantly each year for at least the

past decade [e.g. 13% in current value terms between 1977/78 and 1982/83,²⁰⁷ these increases were due to growth in ASEAN demand alone and not to any corresponding increase in Australian export competitiveness and performance. All witnesses agreed that Australian exports comprise a decreasing share of total ASEAN merchandise imports (about 2.8% in 1982, down from 4.3% in 1970),²⁰⁸ a share which has been declining against many of Australia's export competitors.

3.162 All witnesses agreed that the decline in Australia's share of ASEAN imports was due largely to a much higher proportion (by value) of higher priced petroleum imports:

'The dramatic rise in the price of oil [between 1970 and 1980] meant that the proportion of ASEAN's imports accounted for by minerals and oil almost doubled, whilst other sectors of the ASEAN import market declined in relative importance'.²⁰⁹

Trade emphasised that the ASEAN market shares of even the EC, Japan and the US declined and that 'the only major supplier to increase its share of these markets across the board was Saudi Arabia the reason being, quite simply, exports of oil.'²¹⁰

3.163 Oil alone is not, however, the sole explanation of Australia's relatively poor export performance in the ASEAN region. First, Australia's share in all its overseas markets has been declining in the past decade.²¹¹ Second, some of Australia's competitors - for example, the US, EC, Canada and New Zealand have lost less ground relative to Australia and, in fact, have increased market shares in some individual ASEAN countries or sectors. Third, Australia's poorer performance is despite what is often assumed are relative Australian advantages in proximity (freight costs) and economic complementarity. Fourth, even after discounting the petroleum factor from Australia's market share, two Australian export sectors have not fared well - foodstuffs and machinery. Trade commented that with the petroleum factor taken out, Australia had about maintained its overall ASEAN market share. Edwards, however, estimated that

'if there had been no change in the commodity composition of [ASEAN] imports ... Australia's share ... would have decline(d) ... by 7% [between 1970 and 1980].²¹²

3.164 The reasons for what the Committee views as a disappointing export performance are apparent from export sector analyses given by Dr Edwards and by Trade. These show that 'Australia's exports to the ASEAN countries were concentrated in commodity categories [e.g. wheat, meat, sugar, tin] where, in value terms, growth in import demand ... in the 1970s was low relative to that of total imports'.²¹³ They also show 'a change in the pattern of ASEAN imports and the fact that the goods Australia supplies have not been the most rapidly growing in the ASEAN import market'.²¹⁴

3.165 In short, Australia's traditional exports are no longer as well matched to the developing pattern of ASEAN imports; economic complementarity between Australia and ASEAN may not be as high as often assumed. After discounting the petroleum factor from ASEAN imports, Trade estimated²¹⁵ that between 1970 and 1980, ASEAN imports in each of the following five sectors increased [in current value terms] as follows:

• mineral-intensive(including oil)	15-1/2 times(1550% increase)
• technology-intensive	10 times
• human-capital intensive(eg paints, motor vehicles, watches)	7 times
• agricultural and resource-intensive	5-1/2 times
• labour-intensive	45%

Neither of the two fastest-growing categories (mineral- and technology-intensive sectors) account for much of Australia's export value to the region. Australia has not begun to export coal and iron ore to ASEAN in significant quantities (tin has been the major export - mainly to Malaysia). In the secondary sector, which includes jet and car engines, computers, agricultural machinery and telecommunications equipment, there is relatively little Australian manufacture.²¹⁶ In the

agricultural and human-capital (including machinery not involving high technology) sectors, areas in which Australia would be expected to do well, these sectors declined in ASEAN's import mix and Australian market shares within each sector have fallen.²¹⁷

3.166 Trade estimates Australia's agricultural market share fell between 1970 and 1980 by only 1% (from 10% to 9%),²¹⁸ but Edwards claims a more significant fall in the latter five years.²¹⁹ Trade was concerned that wheat exports to Indonesia, Malaysia, Singapore and Thailand had reduced market shares, especially a reduction in Indonesia from 70% to 25% between 1977/78 and 1982/3 attributed to lower priced soft wheats from EC and Canada.²²⁰ Dairy and sugar exports experienced significant declines, due in part to EC, Thai and New Zealand competition. Despite Dr Edwards' prediction that meat, sugar and cereals should henceforth maintain market shares, and Trade's optimism for future wheat exports to Indonesia, overall 'it is probable that the contribution of food products to Australia's share of imports by ... ASEAN ... will slip further'. This is because the share by value of foodstuffs in total ASEAN imports will tend to decline, because food prices increase more slowly than other merchandise prices].²²¹

3.167 The 'human-capital-intensive' sector - mainly lower technology manufactures including some machinery - is the worst performed area for Australian exports; in which market share was halved [from 4% to 2% of total ASEAN imports in this sector between 1970 and 1980].²²² The ASEAN-Australia Business Council assumed that Australian machinery (and technology) would be well-suited to ASEAN development needs because of similar scale and level of technology,²²³ but Dr Edwards concluded that 'the facts do not bear out these arguments' and that the reasons should be researched.²²⁴ Certainly, competition from Japan, US, EC, Korea and Taiwan is considerable. Research presently being undertaken by the Bureau of Industry Economics may show that foreign competitors' mixed credit schemes are a major factor especially in the heavy engineering area where

Australia's recent record is not good. Given the present low proportion of Australian manufactured exports to ASEAN, any continuation of present trends will not - at least in a negative sense - make much difference to Australia's overall performance. However, this would be rather too negative an approach, at least without market research into specific ASEAN needs: machinery 'is not only the fastest growing area of imports into the ASEAN countries, aside from oil, it is their most important import'.²²⁵ So, while the export challenge is considerable, so too are the potential opportunities.

3.168 To summarise, despite steady increases in the value (and often the volume) of Australian exports to the ASEAN region, Australia's shares of that market for most export types have steadily declined. Implicit in the problem areas discussed above are most of the reasons why Australia's export performance in the ASEAN region needs improvement. First, Australia's export pattern - dominated by agricultural commodities - has not been well matched to the changing sectors of greatest ASEAN demand, (and export prices) namely, petroleum and technology-intensive; Australia's sophisticated and heavy machinery have not performed well in this very fast growing ASEAN import sector.

3.169 Second, Australian exports - in all sectors - have experienced increasing price competition from foreign exporters anxious to consolidate their places in one or the world's fastest growing markets. With wheat and sugar, EC government subsidised exports show no sign of letting up; and both EC and Canadian soft wheat has made large inroads into Australian hard wheat exports, especially in Indonesia. N.Z. dairy products have also been doing well, [Australian fruit and meat are, however, holding their own.] In supplying sophisticated manufactures and machinery to the development project sector, Australian exporters have faced intense competition recently from Japanese and EC country mixed credit schemes.²²⁶ Historically, Japan, EC and the US have established very strong positions in the market and it is difficult for other countries to make inroads.

3.170 A third reason is what some witnesses saw as a lack of export orientation within (secondary) Australian industry, which has enjoyed high tariff barriers over many years. For example, the Australia-Philippines Business Co-operation Committee commented that - 'We are less international traders than the people in ASEAN. We have had less experience at it and as a general rule we stay at home rather than go overseas to do business'.²²⁷

3.171 Fourth, AABC was 'firmly of the view that insufficient attention has been given to the promotion of Australia in ASEAN. This is reflected ... particularly [in] ... the general lack of understanding of Australia',²²⁸ including its industry and trading policies and export opportunities. This view was confirmed by Trade.²²⁹

(b) Current Export Promotion Efforts, including mixed credit schemes

3.172 The AABC stated that it was

'... firmly of the view that insufficient attention has been directed to the promotion of Australia in ASEAN. This is reflected in many ways, but particularly would account for the frequent misconceptions held by ASEAN about Australia and the general lack of understanding of Australia and its significant role in the region.'²³⁰

'Such ASEAN misconceptions ... about Australia have related to Australian Government policies, particularly in the area of industry protection, foreign investment, banking, trade balances etc.'²³¹

The AABC also emphasised the need for greater business awareness of opportunities in the region. The education aspects of this issue are addressed in Chapter IV. The Committee also noted with interest the Council's suggestion that an information service be provided for smaller businesses lacking their own market

research capacity: reference was made to a 'one stop shop' which could provide full statistical and other current information services.²³²

3.173 The Department of Trade commented that

'The Minister for Trade certainly wants to increase the marketing effort world-wide. He is not satisfied with the level of marketing effort that is being put in at present. In terms of trade commissioner resources in the region ... we are currently looking at proposals to increase the strength of trade commissioner representation in the region ... The 17 trade commissioners that we have in the area are a very modest share of Australia's total representation in the region ... and it will remain so even if all our proposals are accepted.²³³

3.174 The Committee is pleased to note that more Trade Commissioners, with greater specialisation, are now being appointed in the ASEAN region. New positions include a special Trade consultant on Fruit and Vegetables and a Trade Commissioner (Agriculture) stationed in Singapore and with region-wide responsibilities. In 1981 a specialist Trade Commissioner (Projects and Consultancy) was appointed in Manila to assist Australian bidders obtain Asia Development Bank and other internationally-financed contracts. The Committee also notes that greater and more professional efforts are being attempted to survey and promote particular ASEAN markets. One such survey is of the effects of income increases on consumption patterns in Singapore. As another aspect of this more targetted official approach, Trade has re-organised its structure for a more effective export-orientation, including a special division to promote and support export of services. Australian consultancy services are being encouraged by the Consulting Services Feasibility Study Fund.²³⁴

3.175 The provision of credit and investment insurance and concessional loan facilities by the Export Finance and Insurance Corporation is an important government-backed service for

Australian exporters which might not otherwise have access to such (affordable) services.²³⁵ EFIC emphasised that these facilities were helpful to Australian suppliers even within the development sector (to which the DIFF and other mixed credit schemes are limited by OECD guidelines):

'Australians are still winning contracts with the ordinary EFIC-OECD-type support. In those cases where they are competitive, where the goods are what are wanted, business is still going ahead ... without DIFF.'²³⁶

Mixed Credit Schemes

3.176 'Mixed credit' schemes for financing capital goods purchases by developing nations, have become much more important in recent years for OECD country exporters, in their efforts to become more competitive in tendering for ASEAN development projects. Australia's own scheme - the Development Import Finance Facility (DIFF)²³⁷ was introduced specifically for exports to ASEAN countries in 1980 and is administered by ADAB; it has since been extended to all recipients of Australian aid. Mixed credits are normally characterised by extremely long loan repayment periods of up to 25 years, often incorporating a substantial grace period before repayment commences, and very low rates of interest (2-3%). The DIFF scheme provides for aid grants to be used in conjunction with an EFIC concessional loan, to go some way towards matching mixed credits provided by competitors. Guidelines for the use of the DIFF scheme include:

- . the contract must meet EFIC's guidelines for the provision of a concessional loan;
- . the scheme applies only to machinery, capital equipment or services related to development projects;

- . the proposal must demonstrably contribute to the recipient government's economic and social development objectives and should be accorded priority in the recipient's development plans;
- . proposals should be broadly consistent with Australia's development assistance objectives in the recipient country.

Between DIFF's inception and early 1984, 30 offers had been made in connection with tenders in ASEAN. The intensity of competition for these orders can be gauged by the fact that as at April 1984 only three tenders backed by DIFF have been successful, involving aid funds of \$4.6 million. From the 1983/84 budgetary allocation of \$15 million for DIFF expenditure, only \$936 000 was actually spent.²³⁸

3.177 Most evidence received by the Committee concerned the trade-related issue of the impact of foreign mixed credit schemes on Australia's export competitiveness. The issue of how Australia should be seeking to maintain competitiveness in the face of foreign mixed credit schemes raises special and difficult questions of both trade and aid policy, addressed also in the 'Jackson Report'.²³⁹

3.178 The dilemma whether Australia's aid policies should be oriented more towards its commercial advantage is raised in Part D of this chapter. One example is whether mixed credit schemes unduly favour donor rather than recipient country interests. A trade-related concern is the possibility that Australian equipment for ASEAN development projects - otherwise competitive - cannot be supplied as cheaply as that from rival exporters in Japan, Europe or the US because of the large aid fund component provided by their governments and used to reduce tender bid prices. Australia's export performance in ASEAN machinery and equipment markets was assessed as poor,²⁴⁰ and this may be due

in part to Australia's low rate of winning development projects, on which rival European, Japanese and American mixed credit schemes are targetted.

3.179 While this manufactured sector represents about 35% of Australia's exports to ASEAN, it is a sector in which Australia ought to be doing better: because Australian secondary industry (and technology) is thought to be at an appropriate level and scale for ASEAN development requirements, because co-operation with ASEAN in such projects is politically valuable (especially in Indonesia where many proposed industrialisation projects are located); because the currently depressed Australian metals industry relies significantly on Asian exports and would benefit from increased ASEAN export orders; and finally, because the sophisticated manufactures sector is the fastest growing area of ASEAN demand.

3.180 The dilemma for both Australia's trade and aid prospects is that the competition from European, Japanese and American mixed credit schemes, with access to much larger government aid budget funds,²⁴¹ probably cannot be matched out of Australia's limited aid budget. In its submission to the Jackson Committee, Trade - a vigorous DIFF supporter as were the AABC and Price Waterhouse - suggested that, to be internationally competitive, DIFF funds should rise to between 5% and 10% of Australia's official development assistance budget (on 1984/85 ODA budget figures between \$50 and \$100 million, compared with the actual budgetary allocation of \$16 million). The Committee queries, however, whether such an allocation would be cost-effective against international competition, which could presumably be increased in a particular bidding contest to match any Australian aid component. The Committee is unaware of any internationally-regulated upper limit on the aid component in mixed credits. Illustrative of the overwhelming competition for Australia's DIFF scheme are the following figures for national mixed credit budgets for 1983 published by the OECD:²⁴²

Australia	\$ 15m (1983/84)
Canada	\$ 23m
France	\$427m
F.R. Germany	\$ 34m
Italy	\$ 54m
Japan	\$ 51m (1982)
Netherlands	\$ 43m
U.K.	\$ 63m
US	\$275m (see Jackson Report, p.125)

3.181 The Jackson Committee report appeared to recognise that Australian suppliers needed some interim assistance, pending a tighter international regulation of mixed credit schemes. It recommended that 'the proportion of aid used for mixed credits should be allowed to grow, although only slowly and should not exceed a ceiling of 5% of total aid'.²⁴³ It was generally critical of DIFF and similar foreign schemes for both trade- and aid-related reasons:

'Mixed credits are dubious from the standpoint of developing countries, given their capacity to distort development priorities. By appearing to offer bargains in capital goods, they encourage countries to increase their debt exposure. They tend to divert aid from low income to middle income countries where debt service is less of a problem ...

The OECD ... "Guiding Principles" ... ask members to confine mixed credits to priority development projects or programs; not to finance packages with a grant element of less than 20 per cent; and to use mixed credits on the basis of international competitive bidding. Unfortunately, the guidelines have proved ineffective in practice, and have been manipulated to suit some donors ...

The ... Development Import Finance Facility ... should be regarded as an interim measure to operate only until better international trade rules are in effect. ...

There are dangers in the DIFF scheme for Australia. One is that short-term pressures may lead to the application of aid funds as a hidden subsidy for inefficient producers, regardless of development impact. This would result in even greater pressure for the growth of DIFF on the basis of equity among producers, and a large part of the aid program could be eaten up by this form

of aid. Another danger is that the mixed credit programs of some large donors could be of such a size that Australia could not make a commensurate response from its limited program.²⁴⁴

The Jackson Committee's approach takes into account both aid and trade factors, but gave less priority to shorter term problems of excessive aid-funded competition for Australian exporters. To this extent at least, it parts company from trade-related witnesses, such as the AABC and Trade, who viewed an expansion of DIFF as highly desirable for Australian exports and not necessarily inconsistent with the proper objectives of Australia's aid program.

3.182 The Committee generally shares the aid- and trade-related concerns of the Jackson Committee about mixed credit schemes. At the same time, it is mindful of the prejudice to Australian manufacturing exports and industry resulting from the extensive use of mixed credit schemes by foreign competitors. The Committee therefore urges the Government to call for and participate fully in multilateral attempts to regulate and enforce tighter rules for the operation of such schemes. Such rules should include the strict requirements that projects be development-oriented, and that competitive tendering be strictly followed [possibly on the basis of non-subsidised prices before application of a standardised aid-funded percentage reduction]. The Committee would prefer that any Government assistance to Australia's manufacturing export sector be not funded from the overseas assistance budget. If however extensive use of mixed credit schemes by foreign competitors persists, the Government should consider alternative sources of support.

(c) Prospects for Australia's ASEAN Trade

Opportunities

3.183 The prospects for Australia-ASEAN (two-way) trade are good. Substantial expansion both of ASEAN's population and average per capita income is likely, although it is uncertain whether the present uneven distribution of wealth will improve. Development of heavier and more capital intensive industry will also increase ASEAN demand for imports. The most likely sectors, in which ASEAN is not self-sufficient, include commodities and food products, minerals and metals for industrial processing, machinery, technology, foreign investment and consultancy and financial services. ASEAN demand for such requisites for its economic development is likely to continue at levels sufficient to predict significant increases in Australian exports, if Australia maintains its present levels of competitiveness in ASEAN markets. It is apparent, however, that relative improvements in Australia's performance, especially a better matching between Australian export production and developing ASEAN demands (eg. for machinery), should bring much greater benefits to Australia, including greater respect and political influence for Australia in the region.

3.184 Specific Australian export opportunities anticipated by witnesses and commentators include the following:

- . processed foodstuffs (e.g. wheat noodles - rather than just wheat - to compete with rice noodles)²⁴⁵
- . fruit, especially tropical fruit - e.g. durians - which could be airfreighted to the Singapore market and other major Chinese centres²⁴⁶
- . horticultural services, e.g. pot plants for major ASEAN cities²⁴⁷

- . steaming coal for use in cement plants, electricity generation and future steel plants; subject however to how the region's natural gas (especially Thailand's) is developed²⁴⁸
- . pork meat for Singapore (where pigs are no longer to be raised)²⁴⁹
- . nickel for use in proposed steel plants, as well as other processed metals such as steel and aluminium
- . technological equipment and expertise,²⁵⁰ and research and development collaboration and joint ventures,²⁵¹ e.g. in telecommunications
- . education and health services to ASEAN students and patients, both in the region and in Australia, including tropical education and medicine²⁵²
- . consultancy services for banking, insurance, engineering, computing, business and agriculture.
- . tourist services in Australia for a small but growing proportion of increasingly affluent ASEAN residents²⁵³
- . off-shore banking
- . Australian investment in ASEAN joint manufacturing ventures, especially under the AIJV scheme²⁵⁴

3.185 There are limits, however - both political and economic - for any increases in Australian exports which might threaten unacceptable trade imbalances. Trade imbalances as well as Australian market access are critical issues likely to be

raised again by the ASEAN countries as a group. This is especially a risk if Australian tariff and quota barriers on key ASEAN exports were unreasonably high at times when ASEAN export competitiveness and opportunities otherwise increased, and Australia's economic health no longer justified such a degree of industry protection.

3.186 If ASEAN and Australian economies develop further areas of clear comparative advantage, bilateral trade flows and mutual benefits should increase without the need for excessive barriers. For example, import of ASEAN labour-intensive consumer good manufactures like TCF and electrical products could increase as the more highly developed East Asian economies restructure and as Australia gradually rolls back its barriers [as presently planned in the seven year TCF plan]; at the same time, Australia could sell more iron ore and possibly coal (depending on the ASEAN energy sources to be used in their proposed steel, metal processing, cement and electricity plants), as well as food products, higher technology goods and business and technical consultancy services. In the longer term is 'the likely growth in ASEAN import competition in the Australian market across a broader range of products in increasingly capital-intensive and higher technology areas'.²⁵⁵ Such longer term developments, for Australian export and domestic industries, offer both challenges and opportunities.

Challenges

3.187 In considering its recommendations for developing economic relations between Australia and ASEAN, the Committee assessed four or five major limiting factors which could prejudice what otherwise seem very attractive trade and investment prospects. It is important that Australian businessmen and officials not assume that significant

improvements will occur without efforts to better their export performance. While the opportunities appear considerable so too are the possible challenges.

3.188 In the Committee's view (based on its evidence), an absence of a well-developed export instinct within much of Australia's secondary and tertiary industry is a significant constraint. The decline in Australia's traditional export markets in culturally and linguistically familiar import countries (e.g. in Europe) is coinciding with the challenges of doing business in relatively unfamiliar Asian environments. It is notable that Australia's best export performances are in Singapore and Malaysia, with which Australia shares a similar colonial heritage. Unfortunately, the degree of interest in Asian studies among Australian businessmen and students is low [see further Chapter 4]. The Committee was nevertheless encouraged with the appreciation of these problems displayed by the AABC and by certain educationists.

3.189 A second, related, limitation is the Australian tradition, declining in recent years, of high import barriers to protect import-substituting local industry, which has tended to discourage successful Australian exporting innovation and to make certain industry structures resistant to change. The Committee views a commitment to structural adjustment as increasingly necessary if Australia is to better match its export industries to regional import demands. Australia should avoid becoming limited to mining and agricultural roles. While such adjustments may be painful in the short term to entrepreneurs and workers in affected industries, the cost to the general Australian community of continuing costly support for such industries at the expense of cheaper imports is likely to be more painful in the longer term. A further risk if Australia does not play a better integrated role in the region's development, is that Australia may become largely 'irrelevant' to ASEAN economic development.²⁵⁶ This in turn could

significantly reduce Australia's political influence in the region. An even worse scenario could be ASEAN hostility to any continuation of Australian industry protection regarded by them as unjustifiable.

3.190 The challenge for Australia, to develop the ability and will to facilitate a process of greater complementarity with the region's growth economies (not only ASEAN), should however be a two-way process, as Mr Hayden has indicated.²⁵⁷ There should be regional consultation and planning of long term industry and trading strategies. If this consultation and co-operation does not occur between ASEAN countries and Australia, there will continue to be a significant risk of small-scale inefficient competitor industries within each country of the region, rather than each country doing that for which it is well suited and sharing that economic advantage around the region.

3.191 Another major limitation is the sometimes overwhelming competitiveness of Japanese, American and European exporters to ASEAN. Australia's competitiveness should steadily improve if its export effort is better targetted and promoted and Australian industry becomes more export-oriented (and if trade barriers are progressively reduced). Nevertheless, there may remain the problem of foreign government subsidies for its national exporters; e.g. European agricultural exports and European and Japanese extensive use of mixed credit schemes to assist their manufactured exports. Australia must continue to voice its concern internationally for more equitable trading processes. In this respect, the Committee is encouraged by the Australian Government's recent initiative - and the ASEAN responses - for a regional approach to the next round of multilateral trade negotiations (MTN), an approach which would emphasise common Australian and ASEAN concerns over protection and subsidy of commodities and other primary products. If such an approach should fail, the Committee considers that the

Pacific Basin countries [or at least those in Asia and Australasia] may be more encouraged to pursue mutually beneficial processes for long-term economic co-operation.

3.192 While the Committee received little evidence²⁵⁸ about the impact that Australian industrial disputes may have on commercial relations between Australia and ASEAN countries, it notes with approval the following conclusions of the Senate Standing Committee on Foreign Affairs and Defence in its 1980 report on 'Australia and ASEAN'

'It is of great importance that other countries understand that Australian industrial disputes are not an act of discrimination against them by the Government or the general community. This is particularly relevant to the ASEAN countries where trade union movements are not so well developed. ... The Committee supports the proposal for a Labour Attache. ... [to] achieve a better appreciation within ASEAN of Australian industrial relations ... It is equally important that industrial relations in ASEAN countries should be better understood in Australia.'²⁵⁹

The Committee understands that the work of the Australian Labour Attache in Japan has been effective.²⁶⁰ It emphasises the importance to Australia's export performance and prospects of promoting better understanding of industrial relations as they may affect trade between Australia and ASEAN. The Committee therefore recommends that the Australian Government again consider the desirability of appointing a Labour Attache for the ASEAN region, along the lines proposed by the Senate Committee in 1980, to: liaise with the ASEAN Governments and with employer, industry and union groups; to report on labour developments in the region; and to promote bilateral exchanges in the industrial relations area.

d) Conclusions and Recommendations on Australian Exports

3.193 The Committee emphasises the need for Australian Governments, industry and trade unions to foster a national awareness of both the importance of export opportunities in ASEAN (and other East Asian) countries and of ASEAN business and cultural affairs and economic opportunities (for recommendations on business education see Chapter IV).

3.194 To more effectively identify and promote Australian exports in the ASEAN region, the Committee recommends that:

- the Australian Government continue to give appropriate priority and resources to Australian trade representation and promotion efforts in ASEAN countries;
- the Australian Government intensify its efforts, through the Department of Trade, to research and promote ASEAN markets, targetting particularly on geographic and product areas of greatest value or potential to Australia;
- the insurance and credit facilities provided by the Export Finance and Insurance Corporation to Australian exporters and investors be continued at levels appropriate to any increases in Australian export and investment opportunities in the ASEAN region (recommendations on the DIFF scheme administered partly by EFIC were made separately in this Chapter);
- Australian firms (especially smaller firms lacking their own market research capacity) be assured convenient access to trade information and statistics, by well-publicised government services, maintained in close consultation with appropriate business organisations.

- consideration should be given to combining the information and statistics held by the Department of Trade and the Australian Bureau of Statistics, with those held by the ASEAN-Australia Business Council, the bilateral Business Co-operation Committees and by the ASEAN-Australia Research Project, so that an Australian exporter can obtain all available trade and market information through a single well-publicised agency, 'a one-stop shop', with branches in major industrial centres and with expert staff or consultants experienced in regional business.
- . this important service could be based on, or developed from, the Department of Trade's offices in each of the States.

PART D Australian Development Assistance

3.195 This Report does not attempt a general assessment of Australia's development assistance to ASEAN countries. The Committee expects to be reporting generally on aid issues when it has considered the report of the 'Jackson Committee' appointed to review the Australian overseas aid program, a report referred to the Committee for comment by the Minister for Foreign Affairs. Evidence on aid matters in the present inquiry was concerned mainly with education of students from the ASEAN region and was relevant in some submissions concerned with Australian responses to human rights issues in the region. These topics, especially education aid, are treated in this report.

3.196 For the interim, this Committee notes two major programs in Australia's aid efforts which are directed wholly or primarily to the ASEAN region. The Australian Universities'

International Development Program operates mainly in the ASEAN region and is directed to strengthening the capacity of education institutions in the region (see further Chapter IV, section 7). Second, the ASEAN-Australia Economic Co-operation Program (AAECP) has, since its inception in 1974, contributed about \$56.5 million for promoting ASEAN development through intra-regional co-operation. A further \$13.1 million has been allocated for 1984/85. As Foreign Affairs commented,

'There is now a clear distinction between aid to ASEAN as a regional grouping typified by the AAECP and aid to the individual countries. The history of the AAECP has paralleled the political development of the ASEAN grouping. From small and tentative beginnings with a focus on the non-controversial areas of protein and food handling projects it has grown to embrace trade and investment, population and energy.²⁶¹

3.197 Among AAECP components is the Trade and Investment Promotion Program (TIPP) aimed at improving ASEAN trade prospects in the Australian market and at supporting ASEAN countries to attract more Australian investment in the region. The TIPP program is detailed in Part C, section 6 of this chapter. Another AAECP program is the ASEAN-Australia Joint Research Project,²⁶² which has been researching economic issues of regional importance since 1981 and which is due to report to ASEAN and Australian Governments later in 1984 on matters including long term economic relationships between ASEAN and Australia. A further AAECP program is the ASEAN Energy Co-operation Project by which Australian experts have been advising on energy technologies appropriate for regional co-operative projects. The improvement of mutual awareness is an important part of the AAECP, through its ASEAN Special Visits Scheme, and the Media and Information Program for assisting the development of ASEAN journalists, technicians and film-makers.

Aid and Trade

3.198 If Australian services are to increase their benefit to both the region and Australia - as Foreign Affairs advocated - a potential dilemma is raised. On the one hand, numerous witnesses, including Trade, Price Waterhouse, the ASEAN-Australia Business Council (Australia Section) and Dr Edwards argued for a greater commercial orientation for Australia's aid program.²⁶³ For example, Australia should 'sell' more of the educational and other development services presently part of its aid program. On the other hand, to what extent should Australia consider commercially exploiting services traditionally regarded as covered by Australia's aid programs?

3.199 Perhaps the most important and mutually beneficial governmental service is education and training of ASEAN students, both in Australia and in the region. This issue, including the question whether higher charges should be paid by overseas students, is detailed in Chapter IV. The question whether there should be a greater commercial orientation for Australian aid program is raised also by the growing use by developed countries of 'mixed credit' funds to facilitate their export of capital goods for development project contracts. This issue, particularly Australia's Development Import Finance Facility, was discussed in section 7 of this chapter.

ENDNOTES [Chapter III]

1. See, for example, submissions from Price Waterhouse (Evidence, p.S249-50) and Dr Hill (Evidence, p.S739-41, and 1 May 1984, p.445).
2. Evidence, 6 April 1984 (Trade), p.80.
3. Evidence, p.S663 (Treasury).
4. Evidence, p.S690 (Treasury).
5. Evidence, 6 April 1984 (Trade), p.80.
6. Ibid.
7. For example, Foreign Affairs (Evidence, p.S370), Dr Hill (p.S739).
8. See, for example, Evidence, p.S370 (Foreign Affairs).
9. For example, Foreign Affairs (Evidence, p.S370)
10. Evidence, p.S370 (Foreign Affairs).
11. SGV & Co., ASEAN: an Economic Profile, Manila, 1982, p.36.
12. Evidence, p.S690 (Treasury).
13. 1981 figures for merchandise exports, ASEAN: an Economic Profile, p.87.
14. Evidence, p.S665-7 (Treasury).
15. Far Eastern Economic Review, 15 March 1984, p.58.
16. Evidence, p.S667 (Treasury).
17. Evidence, p.S392 (Foreign Affairs)
18. Evidence, p.S668 (Treasury).
19. Ibid.
20. Australian Financial Review, 8 May 1984, (article by Michael Byrnes on World Bank report on Indonesian economy).
21. Australian Financial Review, 3 July 1984, p.23 (article by Dr H. Hill).
22. Ibid.
23. Paper delivered by Dr H. Hill at 'Indonesia Update 1984' seminar, Canberra, 6 September 1984.
24. For example, Indonesia's manufactured exports comprised only 4% of total Indonesian exports in 1982, only one-fifth the Malaysian figure and one-twelfth the Singaporean figure: Hill, op.cit., Table 3.
25. Repelita IV growth projection, in Hill, op.cit., Table 12.
26. Australian Financial Review, 3 July 1984, pp.23-4 (Hill article).
27. Evidence, p.S398 (Foreign Affairs)
28. Australian Financial Review, 8 May 1984, p. (article by Michael Byrnes).
29. Evidence, p.S690 (Treasury).
30. Evidence, p.S604 (Trade).
31. Evidence, p.S403 (Foreign Affairs)
32. Evidence, pp. S605-6 (Trade).
33. For example, 1978 per capita production levels are unlikely to be achieved before 1989 - Australian Financial Review, 17 August 1984, p.15.
34. Australian Financial Review, 14 August 1984.
35. Australian Financial Review, Financial Review Survey, 28 June 1984, p.15.
36. Evidence, p.S683 (Treasury)
37. Evidence, p.S690 (Treasury).

38. Far Eastern Economic Review, Asia 1984 Yearbook, p.108.
39. Far Eastern Economic Review, 15 March 1984, p.62.
40. Far Eastern Economic Review, Asia 1984 Yearbook, p.108.
41. Evidence, p.S593.
42. Far Eastern Economic Review, 15 March 1984, p.62.
43. Evidence, p.S662.
44. Far Eastern Economic Review, 15 March 1984, p.63.
45. Evidence, p.S769 (ASEAN-Australia Business Council).
46. Evidence, p.S769 (AABC-ASEAN Section) and p.S309 (ISIS, Malaysia); see also Evidence, p.S900-1 (Dr Edwards recommendations for joint production co-operation agreements).
47. See especially Evidence, p.S594-5 (Trade)
48. See further Evidence, p.S595 (Trade) and p.S769 (AABC).
49. Evidence, p.S661.
50. The report of the Task Force has not been published, although detailed reviews appeared in the Far Eastern Economic Review, 15 March 1984, 8 March 1984, 2 August 1984; see also Evidence, pp.S769-771 (AABC) and 6 April 1984, pp.32-33 (Foreign Affairs).
51. Evidence, p.S772.
52. Asia 1984 Yearbook, p.108.
53. Ibid.
54. Evidence, in camera, 14 June 1984.
55. Evidence, p.S659 (Treasury).
56. 1981 figures based on Asian Development Bank data, in ASEAN: an Economic Profile, p.86.
57. Australian Direct Investment in the ASEAN Countries, Bureau of Industry Economics, Canberra, 1983, p.10, 37.
58. Evidence, p.S660.
59. For a more detailed treatment of ICAP, see paragraphs 2.163 to 2.169 of this report.
60. Australian Financial Review, 3 August 1984, p.17.
61. See, for example, D.K. Crone The ASEAN States: Coping with Dependence, New York, 1983, pp.141-154; also Evidence, 6 April 1984, pp.48-9 (Treasury).
62. Evidence, 1 May 1984, p.466.
63. For reports on the talks see Melbourne Herald, 23 July 1984, p.15; Far Eastern Economic Review, 26 July 1984, pp.32-33; and Australian Foreign Affairs Record, July 1984.
64. Dr Mahathir's address was reported in Australian Financial Review, 8 May 1984.
65. Evidence, p.S868.
66. Evidence, p.S866 (Mr Healey).
67. Evidence, p.S366.
68. Figures cited for trade values are, unless otherwise stated, provided by Trade and in Australian dollars.
69. All references are to Trade's evidence, unless otherwise stated.
70. Evidence, p.S368 (Foreign Affairs).
71. Evidence, p.S281 (Mr Healey).
72. Evidence, p.S574 (Trade).
73. Evidence, p.S573 (Trade).

74. The record merchandise trade surplus recorded by Australia in 1983-84 may, however, result for the first time in recent years in a current account surplus; notwithstanding the likely invisibles deficit (but the invisibles figures are not yet available for 1982/83 or 1983/84).
75. Evidence, p.S573 (Trade).
76. Evidence, p.S622 (Trade).
77. Evidence, p.S597 (Trade).
78. See, eg, Australian Business, 15 August 1984, p.108; also Evidence, p.S169-70 (Australia-Indonesia Business Co-operation Committee).
79. Australian Business, 15 August 1984, p.108.
80. Evidence, p.S603 (Trade).
81. Ibid.
82. Australian Financial Review, 3 August 1984, p.6, reporting an announcement from the Malaysian Industrial Development Authority.
83. Evidence, p.S604 (Trade), 18 April 1984, p.312 (Price Waterhouse); see also letter from Trade to Sub-Committee Chairman dated 28 May 1984, comprising Exhibit 3.
84. Evidence, 7 May 1984, p.500 (APBCC).
85. Evidence, p.S614 (Trade).
86. Evidence, 6 April 1984, p.55 (Treasury).
87. Including retained earnings, see Evidence, p.S618 (Trade)
88. Evidence, p.S618 (Trade).
89. For example, Dr Edwards, Dr Tucker, Foreign Affairs, Trade, Dr Hill, and Price Waterhouse.
90. Tucker, Services in ASEAN-Australia Trade, ASEAN-Australia Joint Research Project, 1983, p.7; the UNCTAD 1983 Handbook of International Trade and Development Statistics suggests a 1981 figure of about 28%.
91. Evidence, p.S589.
92. Evidence, 1 May 1984, p.462
93. Tucker, p.18; see also Key Indicators of Developing Member Countries of the Asian Development Bank, ADB, 1984.
94. 1982 figures supplied by Trade; see also Tucker, p.18.
95. Figures supplied by Trade; see also Tucker, p.39.
96. Tucker, pp.32-4.
97. Tucker, pp.39-40.
98. 1982/83 and 1983/84 invisibles balances not yet available.
99. For example, Foreign Affairs (Evidence, p.S367), Dr Edwards ('knowledge-intensive tradeable services' Evidence, p.S904), and Dr Tucker (Evidence, 12 April 1984 p.148).
100. Evidence, 12 April 1984 p.148 (Dr Tucker).
101. Evidence, 1 May 1984, p.453.
102. Evidence, 6 April 1984, p.76.
103. Evidence, pp.S367, 369 (Foreign Affairs) and p.S902(Edwards).
104. Evidence, pp.S369-370.
105. Evidence, p.S589
106. Evidence, P.S700 (Treasury).
107. Evidence, p.S887.
108. Evidence, pp.S371-2.
109. Evidence, p.S370.

110. Evidence, 1 May 1984, p.497 (Dr Hill); 6 April 1984, p.52 (Treasury).
111. Evidence, 6 April 1984, p.58; see also Exhibit 2 (listed in Appendix 4)
112. Evidence, 7 May 1984, pp.502-3.
113. Evidence, 7 May 1984, pp.502-4(AABC); 6 April 1984, p.85 (Trade); 6 April 1984, p.57 (Treasury)
114. Evidence, 7 May 1984, p.502.
115. See, e.g., Tucker, p.37.
116. Australian Direct Investment in the ASEAN Countries, BIE, Canberra, 1983, p.36.
117. Evidence, p.S763 (AABC)
118. Australian Direct Investment in the ASEAN Countries, loc.cit., p.36.
119. Ibid.
120. Evidence, p.S763.
121. See paragraph 3.59 of this Report.
122. Evidence, p.S760 (AABC)
123. Australian Direct Investment in the ASEAN Countries, loc.cit., p.11.
124. For example, submissions from AABC-ASEAN Section (Evidence pp.S309); and Institute of Strategic and International Studies, Malaysia (Evidence, p.S887)
125. Reported in Australian Financial Review, Financial Review Survey, 28 June 1984, pp.7, 8 and 2.
126. Evidence, p.S716.
127. Although see Evidence, 7 May 1984, p.501 (AABC).
128. Evidence, pp.S769,773.
129. Evidence, p.S760; similarly, see Evidence, pp.S251-2 (Price Waterhouse).
130. Evidence, p.S760.
131. Evidence, p.S760 (AABC); also pp. S252-3 (Price Waterhouse)*.
132. Evidence, 10 August, p.821.
133. Evidence, Department of Transport, p.S272.
134. Evidence, p.S1067.
135. Evidence, 12 April 1984, pp.130.
136. Evidence, p.S573.
137. Evidence, 12 April 1984, p.130.
138. See, further, Shore-Based Shipping Costs Seminar, Sydney, July 1984 - Papers and Proceedings, especially pp. 5, 17, 32, and - A Review of Performance and other System Characteristics, especially p.28; see also Gallagher F. and Meyrick S., S.E. Asia - Australia Liner Shipping Services: a Cost-Based Simulation Analysis in Ninth Australian Transport Research Forum, Canberra, May 1984, p.485 ff.
139. 'f.o.b.', 'free on board', is the cost of goods without insurance and freight charges (these are included in 'c.i.f.' costs).
140. Australian Financial Review, 27 April 1984.
141. Evidence, p.S1067 (ASC).
142. Evidence, p.S1070 (ASC).
143. Evidence, 21 May 1984, p.634 (ASC)
144. Evidence, 21 May 1984, p.607.

145. Evidence, 12 April 1984, p.139.
146. Evidence, p.S277.
147. Evidence, 12 April 1984, p.136 (ANL); see also Evidence, 21 May 1984, pp.615-617 (Department of Transport).
148. Evidence, 21 May 1984, pp.618-9.
149. Evidence, 21 May 1984, pp.618, 622.
150. Evidence, 21 May 1984, p.618 (Transport).
151. Evidence, 21 May 1984, p.622 (Transport).
152. Evidence, 12 April 1984, p.143 (ANL).
153. Comprising Exhibit 9 to the inquiry.
154. See endnote 138.
155. Evidence, p.S574 (Trade).
156. Evidence, 21 May 1984, p.622.
157. Evidence, 12 April 1984, p.142.
158. At the Shore-Based Shipping Costs Seminar, Sydney, July 1984, organised by the (Commonwealth) Bureau of Transport Economics, the Minister for Transport announced the establishment of an Industry Task Force: Seminar Papers and Proceedings, p.iii.
159. Evidence, p.S1066, 1070 (ASC).
160. Evidence, p.S278.
161. Quoted in Evidence, 21 May 1984, p.614. (Senator Sibraa).
162. Evidence, 21 May 1984, p.645.
163. Evidence, 21 May 1984, p.645.
164. Evidence, P.S156 (CSIS, Jakarta), 1 May 1984, pp.448-9 (Dr Hill)
165. Evidence, p.S157.
166. Evidence, in camera, 14 June 1984.
167. Evidence, 6 April 1984, p.51.
168. Evidence, p.S741.
169. Evidence, p.S581 (Trade).
170. See, for example, Evidence, p.S581 (Trade); 7 May 1984, p.497 (AABC); and p.S253 (Price Waterhouse).
171. Evidence, 6 April 1984, p.88 (Trade).
172. Evidence, 7 May 1984, p.499 (AABC) and 20 August 1984, pp.744-5 (ACTU submission).
173. Australia and ASEAN: Report from the Senate Standing Committee on Foreign Affairs and Defence, Canberra 1980, p.34.
174. Evidence, p.S581 (Trade).
175. Evidence, p.S581(Trade); quotas criticised by Professor Ariff, Evidence, in camera, 14 June 1984.
176. Evidence, 6 April 1984, p.77 (Trade)
177. Evidence, p.S581 (Trade)
178. Evidence, 10 August 1984, p.742 (submission)
179. Letter from IAC to Sub-Committee Chairman, dated 3 July 1984; comprising Exhibit 7.
180. Evidence, 10 August 1984, p.743 (ACTU submission)
181. Evidence, p. S776
182. Evidence, 6 April 1984, p.98
183. Trade, (Evidence, 6 April 1984, p. 88), the AABC (7 May 1984, p. 641) and Price Waterhouse (p.S253) emphasised the low market share of ASEAN imports; according to statistics from the Department of Industry and Commerce, Australian product share in the total Australian footwear and clothing market declined from 78% to 70% between 1979/80 and 1982/83 - see Exhibit 13.

184. Evidence, 6 April 1984, p.88; see also 7 May 1984, p.497 (AABC).
185. Evidence, p.S705 (Treasury)
186. Evidence, 10 August 1984, p.743
187. Evidence, p.S250 (Price Waterhouse); see also Evidence, p.S741 (Dr Hill)
188. Evidence, p.S253.
189. Evidence, 1 May 1984, p. 447
190. Evidence, p.S581, and 6 April 1984, p.77
191. Evidence, p.S254
192. Evidence, 7 May 1984, p.641
193. Evidence, in camera, 14 June 1984
194. Evidence, 11 May 1984, pp.519-520.
195. From his address to the Australian Institute of Political Science Conference 'Australia - Poor Nation or the Pacific?', Melbourne, 26 May 1984; at the same conference, paper by Dr Michael Porter noted that 'over the period 1968-82 the trend growth in employment in textiles, clothing, footwear and motor vehicles has been -5.9%, -4.1% and -0.8%, with levels of effective protection in the range of 43% to 22% [based on IAC figures].
196. Evidence, 10 August 1984, p.742.
197. Evidence, p.S371 (Foreign Affairs).
198. Evidence, p.S886 (AABC-ASEAN Section).
199. Evidence, p.S158, (Centre for Strategic and International Studies, Jakarta).
200. Evidence, p.S265 (Dr Angel).
201. Evidence, 10 August 1984, p.743 (ACTU submission).
202. Evidence, 10 August 1984, p.745 (ACTU submission)
203. Evidence, p.S179.
204. Tucker, Services in ASEAN-Australian Trade, p.37; see also letter dated 17 May 1984 from the Treasury to the Sub-Committee, comprising Exhibit 2.
205. Tucker, p.35.
206. Evidence, pp.S368-9.
207. Evidence, 6 April 1984, p.70 (Treasury).
208. Evidence, p.S368 (Foreign Affairs) and p.S709 (Treasury).
209. Evidence, p.S574 (Trade).
210. Ibid.
211. Evidence, 6 April 1984, p.79 (Trade)
212. Evidence, p.S893.
213. Evidence, p.S891 (Dr Edwards).
214. Evidence, 6 April 1984, p.74.
215. Evidence, p.S575.
216. Evidence p.S575.
217. Evidence, p.S575.
218. Evidence, p.S575.
219. Evidence, p.S888.
220. Evidence, p.S575 (Trade)
221. Evidence, p.S898 (Edwards).
222. Evidence, p.S575 (Trade).
223. Evidence, p.S760 (AABC).
224. Evidence, p.S899.
225. Evidence, 11 May 1984, p.523 (Edwards).
226. This issue is detailed in section (b) below.

227. Evidence, 7 May 1984, p.629.
228. Evidence, p.5777.
229. Evidence, 6 April 1984, p.86.
230. Evidence, p.5777
231. Evidence, p.5753.
232. Evidence, 7 May 1984, p.473.
233. Evidence, 6 April 1984, p.86; the AABC was supportive of increased trade representation (Evidence, pp.776-7).
234. See further, Evidence, p.S589 (Trade)
235. See further, Evidence, p.S579 (Trade)
236. Evidence, 18 April 1984, p.346 (EFIC)
237. See further Evidence, pp. S579-580 (Trade)
238. 1984-85 Budget Paper No. 9, p.9, Table 4. However, it is understood that the provision of DIFF funds of \$13.6 million was agreed in August 1984 to assist Indonesia's purchase of 20 000 tonnes of Australian steel bridging, with the balance of the finance package in the form of normal export credits from EFYC (\$41.3 million) - see Australian Financial Review, 23 and 24 August 1984.
239. Report of the Committee to Review Australian Overseas Aid Program, Canberra, 1984, pp.24-5.
240. Evidence, p.S899 (Edwards).
241. See table at the end of para. 3.180.
242. Development Co-operation 1983 Review, November 1983, Paris.
243. Jackson Report, p.125.
244. Jackson Report, pp.124-5.
245. Evidence, 6 April 1984, p.75 (Trade) and p.S900 (Edwards).
246. Evidence, 11 May 1984, p.516 (Edwards)
247. Ibid.
248. Evidence, 6 April 1984, pp.101-2 (Trade)
249. Evidence, 6 April 1984, p.83
250. Evidence, p.S369 (Foreign Affairs).
251. Evidence, in camera, 14 June 1984 (Professor Ariff); 12 April 1984, p.148 (Dr Tucker).
252. Evidence, 11 May 1984, pp.519 (Edwards); and pp.S367, 369 (Foreign Affairs)
253. Evidence, p.S901 (Edwards); see generally paras. 3.106, 7.
254. Evidence, p.S887 (AABC-ASEAN Section); see also para. 3.115
255. Evidence, p.S250 (Price Waterhouse)
256. See, eg. Evidence, p.5773 (AABC)
257. Evidence, p.S369 (Foreign Affairs)
258. See Evidence, 7 May 1984, p.495 (AABC).
259. Australia and ASEAN: Report from the Senate Standing Committee on Foreign Affairs and Defence, Canberra, 1980, p.38.
260. Evidence, 7 May 1984, p.495 (AABC).
261. Evidence, p.S377 (Foreign Affairs)
262. See generally Evidence, p.S377 ff (Foreign Affairs)
263. For example, see Evidence, p.S761, 789 ff (AABC); but a commercial orientation was questioned by Treasury - Evidence, pp. S728-9.

CHAPTER IV
PROMOTION OF MUTUAL AWARENESS AND COMMON INTERESTS

1. The importance of promoting mutual awareness

4.1 The promotion of accurate mutual perceptions between Australia and ASEAN is vital to the ability of Australia to fulfil a regional role which meets its interests. In the political sphere, Australia's ability to fulfil a role in the region will depend to a considerable extent on the degree to which it is regarded with trust and confidence and its policy aims are clearly understood. Mutual perceptions can also affect Australia's regional economic prospects. In the area of trade in services, which will be of increasing importance, the willingness of ASEAN businessmen and governments to do business with Australia will depend partly on the quality of personal and institutional relationships which can be sustained and on the maintenance of a favourable 'image' of Australia as a country different from, but sympathetic towards and relevant to, ASEAN countries.

4.2 At present, the level of mutual awareness and understanding in Australia of ASEAN is inadequate and the reverse is also likely to be so. As one submission emphasised,

'If Australians are guilty of ignorance of Southeast Asia the same can be said of many Southeast Asians in relation to Australia ... Australian misperceptions of the ASEAN countries are matched by stereo typed images of Australia within ASEAN which means that misunderstandings will often attend the necessary task of widening cooperation between them'.¹

4.3 As another submission pointed out, there is a substantial ongoing basis for problems in Australia-ASEAN relations arising

'from differing and often sharply contrasting views in ASEAN countries and in Australia on such matters as human rights, legal systems, legitimate political processes and the roles of opposition parties and the media ... Mutual ignorance of the cultural and political values and traditions underlying the respective political systems adds to the problem since people in each country are prone to judge the activities of neighbours by inapplicable criteria'.²

4.4 Barriers to mutual awareness are also posed by inadequate flows of news and information through the news media of both Australia and ASEAN members. The significance of this issue was underlined by the visit of ASEAN journalists to Australia in mid-1984 (see Section 5 below). The Committee is aware that while the ASEAN journalists appreciated the level of interest shown by the Australian Government and by Australian journalists in seeking greater understanding between Australia and ASEAN, both sides saw major gaps in communication and awareness to be bridged.³

4.5 Improvements in mutual awareness cannot remove the considerable bases for differences in perspective and differences of values between Australia and ASEAN countries. However, improved levels of awareness would enhance Australia's abilities to maintain effective political, social, and commercial relationships in the ASEAN region. The degree to which this occurs will depend to a considerable extent on the factors discussed in this Chapter.

2. Asian Studies in Australia

(a) Overview

4.6 It has become commonplace in Australia to declare rhetorically that Australia's future is likely to be 'bound up' or 'enmeshed' with the ASEAN region and its future prospects. The Department of Foreign Affairs, for example, opened its

submission by declaring that 'Australia's future is inextricably linked to developments in South East Asia'.⁴ The Committee would agree to a considerable extent with this view, but points out that such views are not reflected in Australia's present level of commitment to Asian studies in general and the promotion of awareness of the ASEAN region in particular.

4.7 The continuing lack of emphasis on Asian studies is particularly notable despite a series of well-documented reports in the past decade that have drawn attention to the need to expand the study of Asia in Australia. In 1970, for example, the Commonwealth Advisory Committee on the Teaching of Asian Languages and Cultures in Australia chaired by Professor J.J. Auchmuty recommended that 'Australian undergraduates should have adequate opportunities to study the languages and cultures of Asia,' and made particular mention of the needs of mature age students and teachers in this regard. In 1979, the Report of the Committee on Australia's Relations with the Third World (the 'Harries Report') stressed the need for Australia's policies towards its Southeast Asian neighbours to be 'based on very good information on what is happening in the region,' and called for 'a continuous effort to eliminate outdated and inappropriate attitudes towards the region and Australia's role in it, both in the community at large and in the minds of decision-makers ...'. In August, 1980, a Committee of the Asian Studies Association of Australia under the Chairmanship of Dr Stephen Fitzgerald released a report on a comprehensive inquiry into Asian Studies in Australia. The Fitzgerald Report found that 'the overall picture in both schools and tertiary institutions was one of very slow growth, with the study of Asian cultures and languages involving a very small proportion of the student population.' The Fitzgerald Report called for 'fresh approaches to the enterprise of making Australians more aware of the countries of the Asian region.' In the same year, the Senate Standing Committee on Foreign Affairs and Defence, in its report entitled Australia and ASEAN, concluded that there should be 'increasing

efforts to promote the teaching of Asian languages as they are a means of achieving deeper understanding of Asian traditions and cultures and this will in turn assist with Australia's relations with Asian countries.'⁵

4.8 Despite these reports, the emphasis on Asian studies in Australia continues to be low. The latest inquiry by the Asian Studies Committee of the Asian Studies Association of Australia (ASAA) presented in a report to the 5th Conference of the Association in Adelaide (13-18 May 1984), indicates that while the decline evident since 1975 in participation in Asian studies has levelled off, the number of school and tertiary students studying any aspect of Asia is very low. Furthermore, the findings for Asia as a whole are probably better than for the ASEAN countries in particular 'because the study of Chinese or Japanese languages and Chinese or Japanese history, politics or economics involve a very high proportion of the small number of students.'⁶

b) Asian studies: the 1984 ASAA Report

4.9 The 1984 ASAA report on Asian studies points to a number of factors inhibiting the development of the study of Asian-related subjects in primary and secondary schools. Trends towards school-based curriculum and non-prescriptive syllabuses and a general reduction in the provision of assistance to schools to develop their curriculums have continued. In addition to these internal problems, the economic recession has had an impact on the selection of courses, 'with students (and parents) concerned to select subjects which will be useful for job prospects (either because of the possibilities they offer for high marks in the examinations used to decide entry to tertiary institutions or because of their content)'.⁷ The move towards the teaching of 'community languages' has however provided some increased opportunities for the study of Asian languages. A

further significant factor affecting the study of languages has been the presence of large numbers of overseas students in some language courses with a substantial prior knowledge of the particular language they take as part of their higher school certificate candidature. This has discouraged Australian-born students from taking these subjects for fear that their mark average will be disadvantageously low in the context of Higher School Certificate averages. Moves are underway in New South Wales to develop separate courses for overseas students already fluent in a language they seek to study at Higher School Certificate level.⁸

4.10 At present the range of courses offered on Asia-related subjects at the primary and secondary school level is modest, as are participation rates. In New South Wales, for example, the junior secondary course 'Asian Social Studies' was taken by 8.6% of year 10 students in 1981 and 6.9% in 1983. Efforts are continuing in some states (such as South Australia and Western Australia) to develop Asian history courses which will be attractive to students.⁹

4.11. Asian language study at both the primary and secondary level continues to be very limited. The ASAA study indicates that while there is a small amount of language teaching in primary schools, this lacks stability and continuity, partly because of the difficulty of finding suitable teachers. At the secondary level, the proportion of language candidates studying particular Asian languages seems to have changed little over the last five years; these languages appear to be holding their own relative to other languages, although at a lower level than French or German.¹⁰ The ASAA report also suggests that the tendency for overseas students studying the HSC in Australia to take their language of overseas education as a HSC subject is a complicating factor. 'The important point to note', the report states, 'is that the presence of overseas students in the HSC

candidature gives an inflated picture of the strength of many Asian languages in Australian schools'.¹¹ The development or integrated primary and secondary level language training is a promising area which is just beginning to be explored.

4.12 The ASAA report stresses that there are wide areas of lack of knowledge about the status of Asian language teaching in Australian schools. It is hoped that this problem will be alleviated by the survey of language learning being conducted by the Commonwealth Department of Education and Youth Affairs.¹²

4.13 At the tertiary level, the ASAA reports that the overall picture of the state of Asian studies in Australian universities 'continues to give cause for serious concern in three respects':

'First the gradual increase in undergraduate participation in Asian Studies that characterized the 1970s, an increase which started from a near-zero base level in the late 1960s, has slowed down alarmingly, almost to a stop. The phase of steady growth seems to be over, long before Asian Studies have achieved a level that could be considered appropriate to Australia's needs. The most encouraging observation that can be made is that the numbers are not actually declining in the way the FitzGerald Report had feared on the basis of the 1979 figures. Second, the degree of undergraduate participation in Asia-related courses is still extremely low ... especially in Asian languages - rarely rising much above 2-3% of total student load. Third, there has been positive decline in undergraduate enrolments in some of the major Asian studies centres; moreover some of the smaller departments and courses appear to be particularly vulnerable to the threat of closure in the face of staff-cutting economy measures, because they are commonly deemed to be "peripheral" offerings.'¹³

Undergraduate participation rates continue to be low. After rising throughout the 1970s, participation seems to have settled on a modest plateau, as the figures below suggest.

Table

Student load in Asian studies programs including Asian language programs as a proportion of total undergraduate student load in Arts/Economics/Education 1983. (Note: not including Asia-related studies in discipline-based departments.)

Centre

Brisbane	6.9%
Melbourne	2.1%
Perth	1.9%
Sydney	1.6%
Adelaide	1.3%

[Source: ASAA 1984 Report, p.12]

4.14 The ASAA report concludes that there is no evidence of increasing demand for Asian studies in undergraduate university courses. In the college sector or tertiary education, the Asian studies position is also marginal. Asian studies has not been advancing in the critical area of teacher education; in New South Wales, in fact, there has been a considerable decline in course content in this area. The ASAA concluded that, 'Penetration of Asian studies into the professional courses offered at colleges has not gone much beyond Education and some very limited initiatives in Business Studies.'¹⁴

4.15 The Committee noted with approval the ASAA submission that the results of its most recent inquiries and surveys into the state of Asian studies underlined the need for a national policy to redress the situation, beginning with the establishment of an Asian Studies Council (see section (d) below). It stated:

'A central task of the Australian government if it wishes to promote long-term, mature Australia-ASEAN relations must be an educational program in Australia about the ASEAN countries. This cannot be simply an "optional extra" - something rather nice to do providing we keep our eyes fixed on the primacy of trade or strategic considerations - but must be a basic pre-condition for good long-term political and trading relations.'¹⁵

c) Asian studies and the business sector

4.16 One important aspect of the lack of emphasis in Australia on Asian studies is that it can inhibit Australian business in its attempts to benefit from increased interaction with the ASEAN region. The importance of encouraging an increasing awareness of Asia in general and of the ASEAN region in particular among the business community was stressed by several witnesses.¹⁶ One witness, (Dr Lim) involved in teaching undergraduates, commented that,

'The thousands of Australian students I have taught in the last 12 years have acquired very little knowledge of Asia during their high school years. The little they have been taught seems, in many cases, to have been worse than nothing ... It is not surprising that we cannot compete, for example, with Singapore in the Asian software markets while we continue to produce computer and electrical engineering students who know nothing about consumer tastes in the region.'¹⁷

The ASEAN-Australia Business Council emphasised that,

'If Australia is to take advantage of the opportunities in the region and to be a real part of the region, increasingly we must think and understand "Asian" ...'

'Australian investment and trade wholly depends on people. As Australians we must ensure that we educate our future businessmen to be totally conversant with and at ease in, the Asian environment.'¹⁸

4.17 As the Council suggested in its submission, the development of a more aware and informed business sector will depend to a great degree on Australia's overall degree of emphasis on Asian studies in education.¹⁹ However, there is also considerable scope for providing specialist courses for business people involved with Asia and the ASEAN region, and for increasing the Asian studies component in tertiary business courses.

4.18 The AABC has promoted several programs to expand regional awareness among Australian business.²⁰

- . The ASEAN/Australia International Business Management Program has been developed to '... enhance understanding of the differences in business practices, cultures, social customs, etc. in Australia and the ASEAN countries.'²¹ Two courses have been held (at the Australian Administrative Staff College) which have been attended by a wide cross section of Australian and ASEAN business people; the courses have been funded under the Australia-ASEAN Economic Cooperation Program (AAECP).
- . The ASEAN Special Visits Scheme (ASVS) also funded under AAECP provides opportunities for ASEAN businessmen, technicians and scientists to visit appropriate Australian organisations.
- . The Australian Executive Service Overseas Program, administered by the Confederation of Australian Industry in association with ADAB, promotes business contacts with ASEAN by enabling Australian executives to serve on a volunteer basis to provide skills and expertise to neighbouring countries, including ASEAN members.

4.19 While the AABC supports strongly programs to enhance business awareness of the ASEAN region, the Committee was informed that the Council has found it difficult to attract business interest. Difficulty was experienced in getting private sector members to attend the International Business Management Program seminars.²² A representative of the Australia-Indonesian Business Cooperation Committee pointed to the irony of companies who were unwilling to fund training for their executives, but risked much more costly failures by sending ill-prepared representatives into the ASEAN region.²³

4.20 The Committee notes with approval that steps are being taken by the ASEAN-Australian Business Council and its associates to promote business awareness of the ASEAN region, and that some tertiary colleges are beginning to increase emphasis on business-oriented Asian studies courses. The 1984 ASAA report noted that several colleges have taken this step, including the New South Wales Institute of Technology, Swinburne Institute of Technology, the Philip Institute (Preston Campus) and the South Australian Institute of Technology.²⁴ A highly relevant example of an ASEAN-oriented course has been provided by the David Syme Business School. In its 1983/84 Summer Semester, it organised for 30 students in its Bachelor of Business Program - studying marketing, finance and management - to visit Hong Kong, Kuala Lumpur and Singapore. They visited over 70 companies and spoke with managers, trade commissioners and government officials; their reports on the visit were assessed as part of their degree program.²⁵

4.21 The Committee notes with approval that one of the Guidelines from the Minister for Education and Youth Affairs to the Commonwealth Tertiary Education Commission for the 1985-1987 Triennium is that attention should be given to:

'The importance of equipping Australian industry with the knowledge, attitudes and skills necessary to exploit effectively the potential opportunities presented in the Asian and Pacific regions...'²⁶

The Committee urges the Commission to give priority to this guideline.

d) Australia's commitment to Asian studies: the Asian Studies Council proposal

4.22 The importance of a more concerted and coordinated commitment to the promotion of Asian studies was emphasised in a number of submissions. The ASEAN-Australia Business Council commented that if business awareness of ASEAN is to increase '... such education must start at an early age and should therefore be part of our primary and secondary education'.²⁷ The Asian Studies Association of Australia put the case forcefully:

'A central task of the Australian government if it wishes to promote long-term, mature Australia-ASEAN relations must be an educational program in Australia about the ASEAN countries.'²⁸

4.23 The ASAA, in its submission, argued that the creation of an Asian Studies Council would be the 'single most important way in which broader public knowledge and awareness of Asia can be promoted. This is essential in long-term relations between Australia and Asia in general and ASEAN in particular.'²⁹ In supporting its case, the ASAA pointed out that the solution to the problem of inadequate emphasis on Asian studies does not lie just in the allocation of more funds and additional staff. The development of Asian studies courses in Australian schools and universities, it pointed out, has occurred almost entirely as a result of local initiatives throughout the last 20-30 years, with very little government funding 'and virtually no coordination or rationalisation of effort at any level'.³⁰ The effort has also been concentrated disproportionately within the universities; far too little has been done in our schools and teacher-training institutions. The ASAA believes that while additional funds are likely to be necessary,

...any such request (for funds) needs to be coupled with a plan to bring an entirely new approach to bear on the whole question of what our rationale and objectives should be in advancing the study of Asia in depth and in breadth at various levels of Australia's educational system.³¹

4.24 The ASAA places particular emphasis on the need for planning and coordination in Asian studies and its submission highlighted the lack of this in Australia at present. In the area of teacher training for example,

'It is no one's responsibility in any State or Australia to ensure that at least some prospective teachers take Asia-related courses (not necessarily languages) so that they will be equipped to teach effectively subjects with an Asian content in our schools. That is entirely a matter of chance. Because of this there has been very little improvement in the overwhelmingly Eurocentric orientation of most of our secondary school teaching. Very few Australian students are learning about Asia in our schools from teachers adequately trained about Asian countries.'³²

Increasing expenditure on the various uncoordinated educational sectors focussing on Asian studies would be an inadequate response. ASAA has recommended an Asian Studies Council because,

'.... over the course of time such a Council would accumulate a good deal of expertise about the place of Asian studies in the curricula of our schools, colleges and universities, as also about the linkages between different types of courses at the various levels. Hence it would be well placed to provide the sort of coordination and formulation of broad national policy priorities which at the moment are provided by nobody.'³³

4.25 It is envisaged that the Council should contain representatives of relevant community interests (including business), the bureaucracy and the educational sectors. Its annual cost has been estimated by the ASAA at approximately \$A500 000 exclusive of staff and accommodation. The Council could fulfil a number of valuable specific functions. In particular, an Asian Studies Council could

- provide direction to tertiary and other institutions, about the skills and expertise required by employers, Government and others;
- provide co-ordinating advice on the desirable spread of teaching facilities across academic and other institutions in order to minimise their competition for scarce student numbers; and
- liaise with employers, Government and others in order to ensure a two-way flow of information about the needs of decision-makers and the resources available to meet these needs.³⁴

4.26 The Asian Studies Council proposal is intended to cover Asia as a whole rather than any one region (such as ASEAN) but it is appropriate that the promotion or Australian awareness of ASEAN should develop in the context of development of Australia's interests in Southeast and East Asia overall. The Committee endorses the concept of an Asian Studies Council, with resources adequate to co-ordinate nationally initiatives in Asian studies and recommends that a working party as proposed by ASAA in 1981, be established at the earliest opportunity, to consider and report on the feasibility of establishing the Council under Commonwealth auspices.

3. Information exchanges

4.27 Another important aspect of promotion of mutual awareness between Australia and ASEAN is interchanges of information and educational expertise. Useful projects are underway in both areas, but limited funding has imposed severe restrictions.

4.28 The National Library has had formal cultural relations with the ASEAN member countries for over 35 years, during which it has both developed substantial collections of books and materials relating to ASEAN countries and provided library materials, advice and assistance to their developing library and information systems. Formal agreements for the exchange of official and learned publications operate between the Library and over 100 institutions in ASEAN countries. Australian libraries, particularly the National Library, have come to be seen by libraries in the ASEAN countries as a prime source for a variety of articles and library and information services and for advice on the development of such services. In 1980, the National Library developed its Regional Cooperation Program, which aims to assist the emerging national libraries of the region. All ASEAN member countries are included in the Program. An important aspect of the Program is the supply of Australian commercial and official publications to the ASEAN countries.³⁵

4.29 In developing its own collection, the Library has placed emphasis on the ASEAN region, with a special emphasis on Indonesia. The National Library submission stated that 'While the Library's collections of materials from the ASEAN countries are excellent, its Indonesian collection is outstanding'.³⁶ In this context, the Committee notes with concern the effects of recent staff cutbacks on the maintenance of acquisitions of contemporary Indonesian materials. The Library established an Indonesian Acquisition Office in 1971 to acquire Indonesian publications for itself and other interested libraries. Until 1981 the Office was staffed by a National Library officer. In 1981, following the Review of Commonwealth Functions, the position was down-graded to that for a locally-engaged officer and the Committee was informed, both by the Library and by the Bibliographic Information on Southeast Asia (BISA) project, that this had an adverse effect on the acquisition of materials.³⁷ The Committee notes with approval that the Library is seeking to have the position up-graded again to that for a National Library officer.

4.30 A further valuable asset in the area of information flows between ASEAN and Australia is BISA based at the University of Sydney. Designed to encompass all material in Australian libraries from or about Southeast Asia, the database currently contains over 20 000 items. To date, the prime emphasis has been placed on Indonesia with second priority being given to Singapore, Malaysia, and Brunei, but a start has been made on including Thailand, the Philippines and Vietnam.³⁸

4.31 The construction of the database has been carried out over five years 'with uncertain and at times precarious funding'.³⁹ The University of Sydney has given assistance (including some funding, accommodation and computer resources), and ADAB has assisted with some funding oriented towards BISA's function in training personnel from the region. BISA has the potential to become a basic research resource on Southeast Asia. It has attracted interest from the region and from the United States. But at present, it does not have sufficient consistent funding to place 'on line' the bulk of Australian library holdings on Southeast Asia. Were it able to do this, BISA 'could be developed to its full potential to enable Australians to keep abreast of and understand the political and economic developments in the countries in the ASEAN region ...'⁴⁰ It might also be possible to develop the BISA database into a joint Australia-ASEAN project.

4.32 The Committee considers that the BISA project constitutes the nucleus of a valuable database of relevance to government, business, education and the community generally. It supports BISA's request for sufficient on-going Commonwealth funding to enable it to consolidate its database and provide comprehensive coverage of Australia's library holdings on the Southeast Asian region.

4. Human rights issues

4.33 Human rights issues are likely to continue to be a significant element in Australian relations with ASEAN countries. Human rights have become an important part of the international agenda and each ASEAN country has been subject to varying degrees of international criticism of its human rights performance. In a number of instances, human rights have become a major foreign policy problem for the governments concerned. The Department of Foreign Affairs commented on the significance of human rights issues in the relationship:

'Australians have taken an increasingly active interest in the international human rights debate, and human rights issues are now significant items on our bilateral agenda with several members of ASEAN. Australia has raised human rights issues with specific ASEAN governments as a reflection of its concerns to see internationally recognised human rights standards protected and promoted in all countries.'⁴¹

4.34 As the Department observed, human rights issues have not been accorded priority by ASEAN as a regional association and Australian consultations with ASEAN as an entity do not include consideration of human rights. The Department added:

'This is in contrast with Europe, Africa and Latin America where regional bodies have developed significant regional human rights machinery. This reflects the cultural and historical experience of ASEAN members, most of whom, upon independence, focussed on the need to curb subversion and to build national identity, and who now emphasise economic growth.'⁴²

While ASEAN as a governmental grouping has not itself placed emphasis on human rights issues in member countries, the Committee notes the moves made in 1983 by non-governmental organisations in the region to establish the Regional Council on Human Rights in Asia.⁴³

4.35 In its submission to the Committee, Amnesty International noted with concern that all ASEAN countries, retained or used the death penalty and most had powers of detention without trial of political opponents.⁴⁴ Additional attention was given to human rights issues in Indonesia and the Philippines. In Indonesia Amnesty's concerns focussed on the continued detention of prisoners held in connection with the 'coup' of September 1965, and extra-judicial executions or alleged criminals. Special attention was directed to the situation in East Timor.⁴⁵ The 1981 Amnesty International mission to the Philippines concluded that: despite the lifting of Martial Law, the President and armed forces retained and exercised powers to arrest and detain persons suspected of offences of a political nature; that members of the security and paramilitary forces had acted outside the framework of the law in alleged violations of human rights; and that procedures for investigating, prosecuting and punishing suspects were 'seriously deficient'.⁴⁶

4.36 Restrictions throughout the ASEAN region on the right to form and operate trade unions and on the right to strike were noted in the ACTU's submission. Particular concern was expressed about trade union rights in Indonesia and the Philippines.⁴⁷

4.37 There was broad concurrence among witnesses heard by the Committee that Australian interest in human rights questions should be a part of its foreign policy concerns in relation to the ASEAN region. One witness (Dr Girling) commented in relation to the issue that,

'There is no need to be apologetic about it. Australian support does much to encourage courageous liberals and religious people in those countries of Southeast Asia where regimes are oppressive ... Leaders of some regimes may well be annoyed by foreign interference in cases of abuse of human rights. But whatever their exasperation I believe that they grudgingly respect a country that stands up for its principles.'⁴⁸

4.38 On the question of how Australia might best pursue policies aiming at the protection of human rights in the ASEAN region, two major viewpoints were advanced to the Committee. Amnesty International argued that consideration of human rights issues should be an essential component of any foreign policy deliberations. It suggested that:

'Australia can play an important role in promoting and protecting human rights in Asia. The Australian Government, in addition to seeking to make a place for human rights matters to be raised in its dealings with ASEAN nations, should initiate discussion within the region on the promotion and protection of human rights.'⁴⁹

4.39 Amnesty (and the ACTU) submitted that human rights factors should be considered when a government is contemplating granting economic aid. Amnesty did not argue that the granting of aid should be conditional on the human rights record of the receiving country, but it recommended that the Australian government pass on concerns about human rights issues to aid-receiving countries 'as a matter of course', that non-governmental organisations be notified of the dates of reviews of the annual aid budget, and that any budgetary review of foreign aid should continually take into account the need to ensure that aid is not used in human rights violations.⁵⁰

4.40 In the area of military aid, Amnesty argued that legislation should be established so that human rights are taken into account when a supplier country is considering a transfer of military, security or police aid.⁵¹

4.41 Other witnesses, while accepting that human rights issues are likely to be an ongoing part of Australia's perceived interests in the ASEAN region, argued for a flexible and restrained approach. Dr Girling commented that, 'There are cases where "quiet diplomacy" is more effective than outright

criticism ...' although sometimes candid measures would be in order.⁵² Dr Angel saw the differences between the political cultures of Australia and the ASEAN members as a continuing potential source of friction. Tensions that may arise in this area could be contained by sensitive and perceptive diplomacy, but he suggested that:

'... any suggestion that aid should be curtailed because of Australian disapproval of domestic policies in an ASEAN country should not be lightly accepted in a mood of righteous moral indignation. Careful consideration of the implications and precedents would need to be given before such a potentially serious decision were made.'⁵³

4.42 The Committee recognises the widespread interest in Australia in human rights issues and the continuing role which these issues may play in Australian relations with the ASEAN region. In the light of the substantial differences in historical background and in political cultures between Australia and its ASEAN neighbours, it is likely that Australian expressions of concern about human rights issues will involve conflicts with values advanced by ASEAN governments. The level of influence which Australia can exert on human rights issues will depend partly on the overall quality of Australia's multilateral and bilateral relationships in the region. If Australia has established a well-conceived set of political and economic policies towards its ASEAN neighbours, it can argue with credibility that human rights concerns are an ongoing part of Australia's interest in the region. The Committee notes the statement by the Minister for Foreign Affairs (Mr Hayden) in his speech of 9 December 1983 that there is

'... no reason why the ordinary relations between states in trade and diplomacy need be disrupted by drawing attention to the existence of human rights violations. Both diplomacy and commerce should be resilient enough to accommodate a concern for human rights.'⁵⁴

4.43 Australia will need to continue to approach human rights issues in ASEAN countries with sensitivity. Attempting to draw direct associations between the extension of aid (military or civil) and human rights performances of regional governments would not, except in unusual circumstances, be appropriate. Any such actions would need to be weighed against the importance of maintaining channels of communication with regional governments on these issues.

5. Media relations

4.44 Effective communication through the media is of obvious importance for the promotion of mutual awareness and understanding between Australia and the ASEAN region. The Committee's inquiries in this area of relations focussed on the role of Radio Australia, although the print media is also clearly of major importance in conveying information and influencing perceptions. Australian media relations with ASEAN countries have encountered some tensions, notably with Indonesia. The potential for some difficulty in this area is likely to continue given the somewhat differing roles of the media in Australia and most ASEAN members.

4.45 The ASEAN region is an area assigned high priority by Radio Australia. It broadcasts extensively to the region in English. It also broadcasts in Indonesian and, to a lesser extent, in Chinese and Thai. Broadcasts are not directed to the Philippines in a Filipino language at present; the Controller of Radio Australia, in testimony said that the organisation saw the establishment of a service in Tagalog as an important long-term priority. Its listening audience in Indonesia is estimated at about 15 million.⁵⁵ In its submission, the Australian Broadcasting Corporation saw Radio Australia as having an important role in relations with the region:

'Radio Australia, the Overseas Service of the Australian Broadcasting [Corporation], plays a major part in promoting good relations between Australia and ASEAN nations. In its broadcasts throughout the region, it has consistently depicted Australia as a country with significant Asian interests which are compatible with the interests of Asian countries. In doing so it has done much to overcome the misunderstandings which flow from our differences of culture. By making its audiences of many millions in ASEAN nations more aware of Australia's presence and interests in the region, and through programs about Australian trade, investment, science and technology, Radio Australia is providing many opportunities for Australia to sustain and develop its role in South East Asia.⁵⁶

4.46 The Dix report into the ABC in 1980 examined the role of Radio Australia and concluded that it was desirable that it should be seen to be independent, but that this independence should not mean that the body can operate with indifference to Australia's international objectives and purposes. The Dix report concluded that Radio Australia's policies should properly be subject to a wide range of influences, one or which would be government policies.⁵⁷ The relationship between Radio Australia and the Department of Foreign Affairs operates under guidelines agreed between the ABC and the Department in 1975, which state that Radio Australia 'can play a valuable role in presenting an objective Australian voice in the regions of immediate concern to us. It should be able to present itself as a believable, independent broadcaster and not an instrument of Australian government policy.'⁵⁸ The Department is to bring to Radio Australia's attention any news reports considered damaging to Australia's foreign policy interests and Radio Australia would have the responsibility of taking the Department's representations into account, while retaining the right of final editorial decision. In testimony, the Controller of Radio Australia (Mr Barnett) stated that the relationship between the Department of Foreign Affairs and Radio Australia worked effectively.⁵⁹

4.47 Several factors have inhibited Radio Australia's operations in recent years. The destruction of its transmitters near Darwin, by Cyclone Tracy in 1974, weakened substantially its broadcasting power to the Southeast Asian region. The Darwin facilities were due to return to operation in September 1984 (almost a decade after their destruction). Radio Australia's broadcasting capacities will also be enhanced by the introduction of a new transmitter at Carnarvon, and expanded facilities at Shepparton.⁶⁰

4.48 Radio Australia has also been affected by problems in relations with Indonesia. In 1980, Radio Australia's representative (Mr Joe Coman) was refused a visa and the ABC staff correspondent in Indonesia, (Mr Warwick Beutler), was expelled. Radio Australia has not since been able to regain representation in Indonesia. The Controller of Radio Australia told the Committee that he could not see, in the foreseeable future, the prospect of a Radio Australia or ABC correspondent working out of Jakarta. In other ASEAN countries, while occasional issues of contention may have arisen, Radio Australia has not had problems to a similar degree; ABC/Radio Australia correspondents have been able to operate without their continued presence being brought into question.⁶¹

4.49 The Committee considered that it did not have sufficient evidence to determine how successfully Radio Australia performs the function of promoting awareness of Australia in the ASEAN region. The Committee is therefore unable to confirm that Radio Australia is performing this function as successfully as the organisation itself claims. In addition to the function of promoting awareness of Australia in the region, which in itself is a normal and accepted role for a national broadcaster, Radio Australia also broadcasts English language courses which it maintains are particularly popular in Indonesia. Apart from Radio Australia's own evidence on the effectiveness of the English language courses, the Committee did

not have available to it evidence from other sources on which to make an assessment. Radio Australia also broadcasts in Asian languages news and commentaries on developments in the countries of ASEAN. It is this aspect of Radio Australia's activities which has caused some embarrassment to Australia in its foreign relations particularly with Indonesia.⁶² The Committee considers that the implications of this activity of Radio Australia have not been specifically addressed in recent years.

4.50 The Committee is also concerned about the extent to which ASEAN governments and listeners may associate Radio Australia with the Australian Government, and assume that views or news analyses broadcast to the region reflect government attitudes or policies. The Dix inquiry was also concerned that Radio Australia should be seen by its audience as independent.⁶³ The difficulty in presentation from the Australian viewpoint is that Radio Australia is an arm of a statutory authority, the Australian Broadcasting Corporation, and fully funded by the Australian Government.

4.51 The Committee recommends that in view of the important implications of Radio Australia's activities for Australia's foreign relations in the ASEAN region, the Parliament should conduct a review of Radio Australia's functions, relations with the Australian Government and activities in Southeast Asia.

4.52 In relation to the Australian privately owned electronic and print media, the Committee is aware both of the importance of extensive reporting of developments in the ASEAN region for Australian awareness, and of the potential sensitivities which may arise because of differing value-orientations between Australia and ASEAN governments and media. A recent expression of ASEAN sensitivities was provided by the reservations expressed by Prime Minister Mahathir about the excessive frankness of the Australian news media, during his

visit to Australia in August 1984.⁶⁴ It would be unrealistic to expect that all potential problems in media relations can be avoided. Further communication between Australian and ASEAN media personnel, however, can serve valuable functions.

4.53 In this context, the Committee notes with approval the initiative of the Australian Government and ADAB in sponsoring the joint seminar for ASEAN and Australian journalists in June 1984. On the basis of the Committee's discussions with those visiting journalists, there is room for considerable improvement in the level of awareness of Australian policies by professionals working in the ASEAN media, especially the print media. The seminar was a valuable step towards improving awareness of Australia in the ASEAN region and this type of communication should be continued and extended. The Committee also considers that awareness of Australia in the region would be improved if ASEAN print media representation in Australia were not so limited as at present.

6. Consultation, coordination and planning in Australia-ASEAN relations

4.54 Australia-ASEAN relations involve a wide variety of areas of cooperation. Bilateral relations are pursued concurrently with the multilateral association and a number of Australian government departments and agencies are involved, as well as numerous other areas of Australian society, notably the business sector. Clearly, the management of Australia's relations with ASEAN and its member countries is a complex and difficult task. The desirability of effective coordination of policy in government has been made clear by some past problems, notably the ICAP dispute.

4.55 The Standing Inter-Departmental Committee on ASEAN was established among Departments in Canberra in 1977, during the time of ASEAN's first joint trade campaign against Australia. The

importance of continuing and enhanced coordination in Government was stressed to the Committee. Professor Miller noted that close coordination among Departments, especially Foreign Affairs, Defence and Trade and Resources was necessary and that

'In public statements, ASEAN members do not distinguish between the responsibilities of this or that department within the Government of Australia, but treat each Australian policy as part of a unified governmental approach ...'⁶⁵

The Committee therefore considers it important that the formulation and announcement of policy affecting the ASEAN region be well-coordinated among Government agencies, mutually consistent, and not open to misunderstanding by ASEAN countries.

4.56 In addition to the obvious need for continual coordination, a number of witnesses saw a need for enhanced attempts at longer range research and planning in the relationship. In discussing Australia-ASEAN economic relationships, Dr Hill and Mr Healey emphasised the lack of emphasis in Australian universities on sustained research on the ASEAN economies and on Australia's relations with them.⁶⁶ Dr Hill, Research Co-ordinator of the ASEAN-Australia Joint Research Project, stated that 'the publications of the Project [during 1984 and 1985] will hopefully remedy this situation to some extent, but there is a strong case for instituting a small, policy-oriented research scheme on a more permanent basis after 1984' when the Project is due to wind up.⁶⁷ The Committee notes Dr Hill's comments and considers that the investigation which it recommends (in paragraph 4.60) into the feasibility of an Australia-ASEAN Council, should include the feasibility of a longer-term ASEAN/Australia economic research project.

4.57 Professor Miller also stressed the need for longer-term planning. He stated that it would be highly desirable if a coordinating body investigated,

'... (a) how ASEAN countries, individually and collectively, perceive their interests and priorities in Australia, in economic, military and social terms; (b) our military and intelligence relationships with ASEAN countries, and how these relate to our force structure; and (c) how our educational, military, immigration, trade and aid policies towards ASEAN countries fit together.'⁶⁸

4.58 As regards enhanced, international, coordination between Australia and ASEAN, one avenue could be the development for the ASEAN region of a body similar to the Australia-China Council and the Australia-Japan Foundation. A number of witnesses saw such a body as having a potentially valuable role in promoting Australia-ASEAN relationships.⁶⁹ The ASAA, in its submission, argued that:

'The Australia-China Council and the Australia-Japan Foundation have contributed greatly to Australia's relations with China and Japan respectively. There is a greater awareness in Australia of these two East Asian countries now than there was a decade ago and some of the credit for this belongs to these bodies. By fostering cultural, scientific and educational exchanges they have done much not only to enrich our awareness of China and Japan but also in a more limited way to deepen knowledge of Australia in China and Japan. The annual cost is relatively small and in the long-term is money very well spent.'⁷⁰

4.59 The ASAA noted that there was room for debate on whether an overall Australia-ASEAN Council or a series of bilateral councils could promote coordination and awareness most effectively, but it should be possible to achieve the desired ends under the umbrella of an ASEAN Council. Like the Australia-China Council, its governing body should have wide representation from government, business, trade unions, the arts and education. It would have a very different function from the proposed Asian Studies Council. The ASAA argued that:

'An Australia-ASEAN Council would be extremely important in promoting knowledge of Australia in the ASEAN nations. The Australian Cultural Centre and the Australian Language Centre in Jakarta and the new project of the Australian Universities International Development Program to support the development of an Australian Studies program at the University of Indonesia are all important developments. There are many other programs and initiatives being undertaken by government and universities in individual ASEAN countries. An Australia-ASEAN Council would by no means supplant existing efforts but would provide an overview, an overall stimulus and a coordinating function to what are currently piecemeal efforts. The establishment of an Australia-ASEAN Council would in the long-term contribute greatly to Australians' understanding of the peoples and countries of Southeast Asia and to more people in the ASEAN countries understanding Australia a little better.'⁷¹

4.60 The Committee considers it most important that greater efforts be made to promote communication, coordination and public awareness in relations between Australia and the ASEAN region. The Committee feels that the consideration of appropriate institutional arrangements would benefit from further detailed study. The Committee therefore recommends that the Australian Government establish a working party, to include business and research specialists, to investigate and report on the feasibility of creating a broad-based, independent Council with functions of supporting, coordinating and reviewing Australian programs seeking to advance Australia-ASEAN relations. The Committee also recommends that such investigation take account of its observations in paragraph 4.56 concerning a possible longer-term project for ASEAN/Australia economic research which might be established under the auspices of any such Council.

7. Australian assistance to ASEAN education, especially ASEAN students in Australia

(a) Benefits of Education in Australia

4.61 The education and training in Australia of post-secondary students from ASEAN countries is a major political, economic and cultural issue for both Australia and ASEAN. For Australia it involves a complex balancing of foreign policy and domestic considerations. Foreign Affairs regarded the overseas student program as 'the single most identifiable means of establishing durable personal contact and enhancing understanding of Australia by leaders in ASEAN countries', contributing also to 'closer economic relationships with ... the region'.⁷² The political and economic value of friendships and contacts with students, many of whom become decision-makers in the region, extends to a better ASEAN awareness of the economic and trading role which Australia can play in the region as well as a better understanding of the ASEAN region for Australians who interact with ASEAN students. In recognition of these 'two way benefits ... of improved understanding of the respective societies and business practices', it is ASEAN-Australia Business Council policy to support provision of additional educational opportunities for ASEAN students in Australia.⁷³

4.62 Australian education is appreciated by ASEAN governments as assisting their efforts to develop skilled manpower essential to national development, an important objective for Australia's overall aid program. Economic development in the region has proceeded faster than the development of local education facilities needed to support it. For example, some 50 000 Malaysian students study overseas, especially in business, administrative, scientific, technology and engineering courses. Australian education appears to be well regarded in terms of its standards, relevance, low cost and

geographic proximity. ASEAN countries benefit financially from Australia's foreign student program. The combined annual savings for ASEAN countries, including building and other capital savings, could easily exceed \$50 million, given that ASEAN students comprise about 70% of all foreign students in Australia and given the estimate in the 1984/85 Australian overseas aid budget of \$102.5 million⁷⁴ for the cost of educating foreign students. The Committee is pleased to note that this sum represents the first formal recognition of what until this financial year has been a 'subsidy' hidden in Australia's general education budget.

(b) ASEAN Education Needs

4.63 The following table of foreign students in Australian education highlights the high proportion of ASEAN, especially Malaysian, students.

Origin of Students Enrolled in Australian Secondary and Tertiary Institutions 30 June 1983			
Malaysia incl. Brunei	9210	Other Asia	2845
Indonesia	1060	Oceania	1183
Singapore	807	Europe	281
Thailand	216	Africa	165
<u>Philippines</u>	<u>53</u>	N. America	157
ASEAN	11 346	Middle East	62
		S. America	<u>28</u>
			4721
		TOTAL	<u>16 067</u>

Source: Department of Immigration and Ethnic Affairs

4.64 The number of foreign students in Australian formal secondary and tertiary courses nearly doubled between 1979 and 1983, and represented over 70% of all foreign private students. Malaysian students constitute, in turn, about 80% of all ASEAN students. The concerns expressed to the Committee and also by the Malaysian Prime Minister during his Australian visit in August 1984, about the need for liberal access for Malaysian students to Australian education, underline how importantly Malaysia regards this issue. This issue has become more sensitive since Britain, where about a quarter of Malaysia's overseas students traditionally studied, raised foreign student fees to cost recovery levels in 1980.⁷⁵ In the Goldring Committee's view, 'there is no doubt that the 1979 decision by the UK Government to introduce full cost fees for overseas students and, to some extent, the substantial increases ... in Canada, have been contributing factors to the increased demand ... for places in Australia ...'⁷⁶

4.65 An academic from the ASEAN region told the Committee:

'This is an area of deep concern for Malaysians. The demand for places in higher education is greater than the supply in Australia because of the re-channelling of students from the United Kingdom and the United States. If this is shut off by too high fees or too restricted quotas, this would intensify the tensions within [Malaysia's] plural society ... with a reduction in quota, there has been some resentment against Australian student policy among the Chinese.'⁷⁷

The Committee understands that Malaysians who are ethnically Chinese do not gain the degree of access to limited Malaysian education facilities as do ethnic Malays; and that this is part of the Malaysian Government's general policy to increase political, economic and social opportunities for Malay people. Through its acceptance of ethnically Chinese students, Australia

provides a facility without which communal tensions could become exacerbated. The Immigration Department referred to Malaysian sensitivities in its evidence, stating that the Malaysian Government 'had never liked the visa fee [Overseas Student Charge] and they do not like any increase in it'.⁷⁸ The Department also stated that:

'Australia recognises the importance Malaysia attaches to increasing the number of Malaysian Government sponsored students and tries to accommodate requests for increased numbers, although this may mean that fewer places will be available, particularly in public schools, for private students'.⁷⁹

4.66 The number of Indonesian students, traditionally modest, has increased steadily since 1980 (to over 9% of ASEAN students in 1983), a trend expected to continue as development needs and the use of English as a second language both expand. According to Foreign Affairs, 'it is important for fundamental foreign affairs objectives that Australia be able to meet a significant proportion of Indonesia's training requirements'.⁸⁰ Singapore provides the third highest proportion of ASEAN students (about 7% in 1983) and - like Malaysia - is attracted to Australia partly for reasons of proximity, technical standards and also English language tuition and Commonwealth ties. Thai and Filipino students remain small in number. For the Asian region overall, the judgment of the Jackson Committee is that 'demand for education services ... is likely to be quite large in the next 20 or so years'.⁸¹

(c) Foreign Affairs Implications for Australia

4.67 This Committee considers that Australia will need to show increasing sensitivity to the important issue of ASEAN student access. Because the issue appears to be of increasing significance to at least three ASEAN countries, it has the potential to be elevated from bilateral to regional concern.

Australia is regarded by ASEAN countries as an affluent Western country traditionally willing to bear most of their Australian education costs. The Committee notes that increasing demand from Malaysia combined with an increase in demand from Australian students led to a reduction in Malaysia's quota for new students in 1984 from 2300 (1983) to 1640, which was said to have 'caused an uproar'.⁸²

4.68 The Committee notes that restrictions on educational interchange among Commonwealth countries became an issue at the Commonwealth Heads of Government Meeting (CHOGM) in 1981. To quote from the final communique:

'Heads of Government reaffirmed that student mobility and educational interchange ... were important to the national development efforts of Commonwealth countries ... [they noted] that there was wide spread and serious concern that the recent very substantial increases in overseas student fees in some countries were creating impediments to the movement of students.'⁸³

This comment reflected in part criticism of the introduction by Britain in 1980 of full fees for foreign students, a policy said to have led to a 30% decline in foreign student numbers within two years.⁸⁴

4.69 The Malaysian reaction to the British introduction of full fees was particularly strong:

'Between 1979 and 1981 [when Malaysian students totalled about 12 000 in British higher and further education] new entrants from Malaysia dropped by 3000 ... the fall off in the two years from the introduction of the full-cost fees in 1980 was particularly drastic for ... Singapore [down by] 52% and Malaysia 46% ... Malaysia has decided as a matter of policy to seek training elsewhere wherever possible ... The number of Malaysian students going to the United States has leapt ... since the new British fee structure was announced ... The government of Dr Mahathir has been so

annoyed by Britain's student fee policy, as well as by other British moves felt to be provocative, that [it directed] all public orders to be placed for goods and services from Britain had first to be cleared by the Prime Minister's office. [This was said to have contributed to a loss of British export orders.]⁸⁵

4.70 The Commonwealth Standing Committee on Student Mobility (CSCSM), which was established after the 1981 CHOGM, reported to Commonwealth Governments that the developed Commonwealth countries should provide for 'reasonable numbers of overseas students and levels of fees which are not prohibitive'. The CSCSM stated that full cost fees 'are inappropriate and injurious to Commonwealth interest'. If high differential fees are charged to overseas students, the CSCSM recommended that the host country should provide a general complementary system of awards. The Committee understands that foreign student numbers in Britain recovered significantly in 1983/84 and that this was due in part to considerable efforts by British institutions in raising scholarship funds and to the later introduction of an improved British Government scholarship scheme.⁸⁶

4.71 Australia is one of a decreasing number of Western developed countries not to require full or substantial cost recovery from overseas students or their home countries. Despite a 15% increase in Overseas Student Charges for 1984/85 varying between \$2500 per annum for general undergraduate courses to \$3350 for postgraduate courses, these charges represent little over one third of education costs.⁸⁷ The United States and Britain - the countries in which most ASEAN overseas students have traditionally studied - have full fees, with British undergraduate charges varying between \$3150 and \$7650 per annum.⁸⁸ In Canada, over half the provinces have substantial cost recovery.

(d) Domestic Implications for Australia

4.72 The increasing ASEAN demand for Australian training is causing critical reassessment in Australia of its present foreign student program. The cost of the program, and the extent to which Australian students may be displaced by competition for places from overseas students, were among the major issues canvassed in the 'Goldring' Committee report, tabled in the Parliament earlier this year. The Committee notes that foreign student quotas - 'guaranteed student allocation' (GSA) - have been applied by the Australian Government since 1980 because of 'the limited number of places which can be made available without disadvantaging Australian residents'.⁸⁹ Quotas, like fee increases, have been criticised by foreign governments.

4.73 The Committee notes the submission from the Australian Vice Chancellors' Committee, which listed some major factors in any Australian review of foreign student policy:

- continuing high demand for foreign student access to Australia;
- a significant upturn in Australian student demand in 1983, leading to some displacement of qualified Australians from some courses (e.g. computing);
- increased numbers of foreign students in secondary schools (often older and more mature) seeking to matriculate into tertiary courses, with little apparent governmental control over the numbers enrolling in private schools;
- concentrations of foreign students in larger urban universities (for reasons of personal student preference and for overseas recognition of degrees);⁹⁰

The Committee notes the undesirability of foreign student concentrations in terms of undue pressure on places in certain courses, promotion or insularity among foreign students and displays of racial intolerance by minority groups.

4.74 The evidence received by this Committee on fee levels, student numbers and other foreign student issues largely reflected the differing approaches adopted in the Jackson and Goldring Committee reports. While both reports recognise the value to Australia (and ASEAN) of Australia's student program, each made inconsistent recommendations on the key issues of cost recovery and student numbers. The Committee notes that the Government is presently seeking to reconcile these two approaches.

(e) The Jackson and Goldring Reports

4.75 The Committee interprets the basic approach of the Jackson report as encouraging the growth and international competitiveness of Australian education facilities, which should be promoted and 'sold' without substantial subsidy from the Australian budget. Foreign students would be limited not by the present quota system but by academic merit, available places, which it assumed would expand as full fees were paid directly to the enrolling institutions, and by full fees which however would be gradually introduced over a decade together with an expanding scholarship system. In practice, the Committee notes there would be a numerical limit in relation to prospective students unable to obtain a scholarship and unwilling (or unable) to pay the higher fees. The Committee also notes that the larger were the scholarship funds the more they would reduce the extent to which Australia's costs would be recovered through full fees. It is apparent, from the Jackson Committee's suggestion that about 10 000 scholarships might be available by the mid-1990's - at an estimated cost of about \$150 million⁹¹ - that its approach

should not be viewed necessarily or only in terms of true 'cost recovery' for Australia. This comment is relevant in assessing some of the Goldring Committee's criticisms of what it described as the 'full-cost recovery' approach. Overall, the Jackson Committee approach appears to anticipate a substantial increase in foreign students, while seeking to avoid any substantial dislocation of the education of Australian students or of the education budget. It would, however, increase the aid budget or at least the education component of that budget.

4.76 The Goldring Committee recently reviewed private overseas student policy in the light of concern at the possible displacement of Australians from educational institutions, the cost to the Australian taxpayer and the degree to which the program was meeting its objectives. Its recommendations were made on the basis required by its terms of reference, that encouragement of overseas students should not result in reduced opportunities for Australian residents or increased public sector outlays. A generalised comparison between the 'Jackson' and 'Goldring' recommendations on overseas student policy is included in the table following paragraph 4.79.

4.77 The Goldring report - like the Jackson report - recommends the abolition of the present country quotas, and that student selection be by educational institutions and based on academic merit alone. However, its concern about the currently limited capacity of the general education system, which it saw as barely adequate for the increased Australian student demand, led it to differ from the Jackson Committee's expansionist orientation. It recommended only modest increases in foreign student numbers over the 1985-1990 period. It also recommended a more even student distribution in mainstream courses, a recommendation with which this Committee concurs, but sought to limit numbers: each institution would be encouraged by budgetary

incentives to enrol between 5% and 10% of their total full-time undergraduates as foreign students, with 25% as the limit in any one course.

4.78 The Goldring Committee also recommended no substantive changes to the present level of Overseas Student Charges, to be maintained at about 30-40% of educational costs:

'[foreign] students should make some contribution to their education in Australia, on the basis that Australian resident(s) ... contribute to their educational costs. The existing Overseas Students Charge, though unpopular, provides the best available means for collecting this contribution. Because of the considerable benefits flowing from the overseas student program, and the [limited] means of overseas students to pay, there should [continue to be] a substantial subsidy. The Charge should, to the extent possible, represent 30-40% of educational costs ... [but this factor] should not be the only one determining the level of the charge'.⁹²

4.79 Where students can demonstrate financial hardship, a limited scholarship fund to be provided institutions by the Government from Overseas Students Charge revenue may be administered by the particular institution.⁹³ However, it considered that any general scholarship scheme, necessary to provide full distributional equity, was not feasible because means testing would be quite impractical.⁹⁴ It also doubted that an expanded ADAB-administered, government-to-government scholarship scheme would be effective in producing equity, because 'academic ability and need are not always the criteria adopted by foreign governments [in nominating students].⁹⁵

SUMMARY COMPARISON BETWEEN
'JACKSON' AND 'GOLDRING' RECOMMENDATIONS

Jackson

1. Student Numbers.

Lift country quotas; numbers to be limited only by ability to win merit scholarships or eligibility for scholarships for disadvantaged groups or ability to pay full fees, and by available places in institutions.

2. Student Charges.

'Full economic fee' for students not on scholarships.

3. Scholarships

Comprehensive system of scholarships, (not means tested) most based on merit and including some development criteria, and some for disadvantaged groups.

4. Funding

Extra places for overseas students to be funded from full fees paid directly to institutions

Scholarship funds to come from aid budget (perhaps up to \$150 million by mid-1990's).

Goldring

1. Student Numbers

Lift country quotas and allow modest increase in numbers, within present education system capacity and without displacing Australian students; capacity would be encouraged by a more even distribution of overseas students among Australian institutions (5-10% of each institution's total student numbers).

2. Student Charges

Maintain Overseas Student Charges (OSC) at between 30% and 40% of education costs.

3. Scholarships

Limited scholarship fund for students in financial hardship, but with

no comprehensive scheme because means testing impractical.

4. Funding

As present, with OSC paid into general government revenue and subsidy.

Subsidy, for education costs not met by OSC, to be recognised in, and debited against, the aid budget.

4.80 The following excerpts from the Goldring Report indicate why it differed from the more expansionist and commercial approach of the Jackson Committee:

- . 'Several arguments in favour of a market-based approach to education for overseas students... after very careful consideration ... were rejected insofar as mainstream (i.e. formal) education is concerned. Education, while in some senses a commodity which can be bought and sold, is far more than that.
- . The Committee could not see that any system of fees based on recovery of full costs ... could be completely self-financing ...
- . Educational planning for 'mainstream' educational activities, particularly courses of study leading to formal awards, must primarily be based on planning for the needs of Australian residents.
- . Further, a system based on full-cost recovery would discourage overseas students from coming to Australia ... would disadvantage students of limited economic means, and could, if fees were paid direct to institutions [as recommended by the 'Jackson' Report], endanger academic standards and the quality of education offered to Australian residents.
- . Suggestions that the disadvantages attaching to ... the recovery of full educational costs could be overcome ... by ... a system of scholarships were also considered and rejected. ... Sufficient scholarships to provide for even a substantial proportion of the private overseas students already in Australia would require additional public sector outlays, diversion of existing aid funds, or the setting of fees for overseas students at such a high level that they would be a disincentive for students to study in Australia.'⁹⁶

4.81 Despite what appears to be a formidable catalogue of inconsistencies between the Jackson and Goldring approaches, this Committee considers it productive to clarify the few essential differences; those relevant to what it sees as the

over-riding issue, namely, the requirement of providing ASEAN students access on reasonable terms to Australia's education services, without at the same time prejudicing Australians' own access.

4.82 The Committee considers that the Goldring assessment that a system based on full costs could not be completely self-financing, while possibly correct, need not be applied to the Jackson approach: that approach did not argue for full cost recovery, rather that a significant proportion of foreign students should pay a 'full economic fee'. Instead, under the Jackson approach, a large number of scholarships - possibly up to 10 000 within ten years - would be progressively developed and funded from the aid program budget as fee levels were progressively raised for paying students. As Goldring speculated, such a scheme might need to involve public funding greater than at present.

4.83 Depending on the extent to which an Australian education 'industry' could attract significantly more overseas students paying significantly higher fees, differences between the two approaches in terms of net cost to Australia might not be significant. However, there would be differences in equity distribution: under 'Goldring' a similar proportion of foreign students as at present would continue to pay at relatively low and internationally competitive fee levels; whereas 'Jackson' would require possibly a majority of students to pay substantially higher fees which might or might not prove to be internationally competitive. (Considerable prior research, and later, evaluative experience would be needed). The Jackson approach has the potential to produce a broader distribution of education benefits to overseas students, among whom capacity to pay would vary considerably. Further, because fees would be paid to the enrolling institutions to fund additional places, Australian students should not be disadvantaged, assuming

courses did attract enough higher fee students. The ambitious scholarship program would still need to rely on significant aid funds.

4.84 To a large extent the economic and the international viability of the Jackson approach would appear to depend on increases in Australian Government aid funding, and on the ability to attract a significant proportion of foreign students at significantly higher fee levels. This Committee notes that the quality and relevance of Australian courses may need to improve, to continue to attract students at cost levels approaching levels charged in other educating countries. This Committee is hopeful that international competition will stimulate further development and improvement of Australian education, both for Australian and foreign students.

4.85 One of the financial questions unanswered by the Jackson Committee lies in its assumption that full cost fees would still attract a large number of overseas students. The British full fee experience,⁹⁷ with its significant initial reduction in student demand - at least, it seems, from the Southeast Asian region - deserves close analysis. So too does the adverse Malaysian political reaction, already detailed in this chapter, which is particularly worrying for Australia since its foreign affairs interests, unlike Britain's, lie primarily in the ASEAN region of developing countries. Positive lessons that may be learned, however, from the British experience, are the need to offer a compensatory scholarship system and to phase in full fees gradually and after full consultation with affected countries (which Britain did not). If a full fee approach could be planned, costed and presented so as to satisfy these important commercial and foreign relations problems, it could produce the important benefits of increased student numbers while still satisfying Australian demand, and better courses for both Australian and foreign students.

4.86 The Committee points out that any increase in the level of Australian funding needed to finance the 'Jackson' scholarship scheme, to the level needed to make up for any shortfall in foreign students numbers resulting from full fees, need not require increased contributions from Australians: such an increase could be borne either by a relatively larger aid budget or by giving education greater relative priority within an aid budget unchanged overall.

(f) Factors for Consideration in Reviewing Overseas Student Policy

4.87 Numerous witnesses,⁹⁸ emphasised Australia's comparative advantage in higher education services in the region, and recommended expanding Australia's tertiary education and technical training facilities and promoting them to the ASEAN region. Dr Edwards recommended that Australian institutions should, at the same time, tailor courses more to ASEAN needs, seeking to attract more students able and willing to pay full fees:

[the objective] would be to get them [foreign students] into Australia, into the fields that they really want to be in, [for example] ...medicine ... engineering ... business studies ... [to] expand those faculties to meet that demand ... [to] incorporate ... a reasonable element in the courses ... related to the problems those students will face in their countries. ... we ought to work towards making a distinctive contribution, one that would not be offered in America, England or Europe ...⁹⁹

The Committee notes that such courses could serve a second purpose of promoting in Australian students a better awareness of overseas conditions and interests.

4.88 While few, if any, witnesses doubted that Australia should expand its educational services to cater for greater numbers of ASEAN students, there was a marked difference over

the level of fees that should be charged; a difference that tended to reflect differing perspectives of the rationale for expanded services - on the one hand, promoting a growth industry for Australia and, on the other hand, furthering Australian development aid to the region. A few witnesses,¹⁰⁰ including two Malaysian academics, considered the present order of charges not inappropriate (as did the Goldring Committee). Most witnesses recommended either that the fees be substantially raised - for students (and Governments) able to pay¹⁰¹ - or that present charges be reduced or even abolished.¹⁰²

4.89 The Committee received opinions from ASEAN academics about the sorts of Australian policy options that might be well regarded in the region. One Malaysian witness said that

'we would like to see more students coming to Australia than going to the United Kingdom and the United States. ... Australia could be the centre of academic excellence in this part of the world ... it can be a service which can be sold profitably, and it need not be at the expense of Australian students ... but this means that you have to expand your education and infrastructure to accommodate as many students as it possibly can'.¹⁰³

He concluded, however, by stating that any commercial fee which was not competitive with US or UK levels would lead ASEAN students away from Australia and 'would defeat your foreign policy ends'.¹⁰⁴

4.90 The extent to which overseas student charges could be raised without deterring students or causing substantial deterioration of relations with ASEAN countries, or both, is a difficult but central question to address. When asked whether it would be realistic to raise fees, whether there would be a strong market among ASEAN students at full fee levels, the Immigration Department recognised that Australian education

would then have to compete with education services in other countries such as Britain and the US which charge full fees. It commented that 'despite the increasing affluence of the region, the cost of educating a student in Australia is a cause of concern to source country governments'.¹⁰⁵ The Committee has already noted that foreign student numbers in Britain declined after 1980, until broad British scholarship schemes were introduced in 1983. The Committee considers, on the evidence before it, that for both commercial and diplomatic reasons, a detailed survey of demand in the region would be desirable - in addition to consultations with ASEAN countries - before any Government consideration of raising fees for private students to levels approaching those in alternative educating countries such as Britain, the US or Canada.

4.91 The Committee notes the Goldring Committee's 'serious doubts about the capacity of large numbers of overseas students to pay full-cost' and that 'despite popular misconceptions, the majority of current and potential overseas students are not "wealthy" by Australian standards'. This Committee also notes that the consultancy survey of overseas students on which the above assessment was based (see Appendix G of Goldring Report) commented that 'If education is regarded as an investment, as many of the Chinese [the great bulk, ethnically, of foreign students in Australia] see it, it will be bought at market prices when there are limited and shrinking opportunities to secure it'.¹⁰⁶ The most commonly mentioned financial limit in the survey was about double the existing Overseas Student Charge levels.

4.92 Clearly, there will be limits - even if not readily quantifiable - beyond which any movement towards full fees could be counter-productive from both student demand and foreign relations perspectives. It is important that policy development in the education sector should be constantly considered in the context of Australia's overall political and economic interests in the ASEAN region. It is understandable and logical that

Australian policies towards overseas students should be compared with those pursued by the US, Britain and Canada. It should be expected that foreign policy considerations will play a relatively greater part in Australian policy considerations on this issue than need be the case for other Western countries not located in proximity to the ASEAN region. Full fees could, for example, be appropriate to students in professional courses, with expectations of higher-level earnings and prepared to pay more for specially relevant courses or subjects, though such fees would still need to be competitive with any comparable courses in other English-speaking countries.

4.93 To conclude, this Committee considers that the Australian Government's overseas student policy review should include the broadest possible assessment of the relative values of ASEAN goodwill and favourable personal contacts with an understanding of Australia, on the one hand, and the net financial benefits (or costs) of further developing Australia's overseas education sector. Before seeking to develop Australia's regional advantages in higher and technical education further, Australian authorities and institutions must first consult ASEAN needs and reactions, and survey the ASEAN 'market' for appropriate course types and fee levels.

(g) Conclusions: the Committee's Own Approach to Overseas Student Policy

4.94 On balance, the Committee considers that the present overseas student system, with its combination of quotas and subsidies, is not satisfactory to either Australia or those foreign countries whose students demand exceeds the supply of Australian places. In principle, the Committee recommends to the Australian Government that it give careful consideration to a new overseas student policy to include the following features:

- (i) gradual and predictable increases in overseas student charges to reach a level of operating costs as determined by the Government;
- such fees to be retained by the enrolling institutions to assist their funding of the additional places (and avoidance of any displacement of qualified Australian students) and as an incentive to attract higher overseas enrolments with improved courses.
- (ii) the parallel development of a comprehensive system of scholarships, to be funded out of the aid budget:
- an Australian government-to-government scheme similar to that presently operating
 - a scheme of 'free places' based on merit (not means-tested) but excluding living allowances, such scheme to be administered by institutions from Commonwealth (aid) funds. The Committee envisages that this category would comprise most of the scholarships
 - a supplementary system of free places, including living allowances, for financially disadvantaged categories of students, to be administered by the Government's aid authorities and intended to promote general development objectives in the students' countries. Such developmental scholarships would not be means-tested; indeed, developmental criteria would be employed and would need to take account of specially disadvantaged or under-represented categories such as Pacific Islanders and women from certain countries.

(iii) the planning, implementation, and review of such a policy must be undertaken in the closest possible consultation with all source countries especially the ASEAN countries, so that their concerns will be taken into account fully.

(h) Other Forms of Education Assistance

4.95 The Committee considers there may be promise in the proposal by the Australian Vice-Chancellors' Committee for negotiation with individual source countries of training agreements, like 'trade packages':

'with certain countries, particularly [in] the Middle East this is perfectly viable and highly desirable. We see no reason why the Australian taxpayer should fund the training of [such students] ... We would have much greater hesitation about developing trade packages with the developing countries like Indonesia.'¹⁰⁷

A similar idea was proposed by the Institute of Strategic and International Studies, Kuala Lumpur:

'... there is an excellent means for Australia to increase Malaysia's technical manpower by means of an agreement in which a substantial number of Malaysians can be trained in Australia. Here, technical training can cover medicine, dentistry, engineering, agricultural sciences, economics and accountancy.'¹⁰⁸

At least two likely benefits make the inter-governmental education package idea worthy of consideration. The first is that it would facilitate and improve Australian planning to direct foreign students away from pressured institutions or courses (such as scientific and computing courses in Sydney and Melbourne) and into under-utilised faculties. Second, it would

increase the Government's opportunity to encourage study by particular types of students considered to be under-represented in home country-sponsored schemes or in full fee courses. At the same time, the Committee notes an additional option that Australian institutions - individually or collectively - should be free to negotiate foreign student training packages directly with institutions in the region, as foreshadowed in the Goldring Report.

4.96 A further category of students might benefit more from essentially short specialised training or from access to technical or postgraduate scientific facilities. This is an area worthy of increased emphasis, according to a senior ASEAN academic working in Australia¹⁰⁹ who argued that short-term courses (say, one year or shorter) would be less disruptive to ASEAN students, with less risk of their remaining in Australia as a 'brain-drain' on their own countries.¹¹⁰ The Committee notes that if a higher proportion of foreign students took shorter training courses, more foreign students could benefit from Australian education, without increasing pressure on Australian education facilities. It also notes that the Malaysian Prime Minister, Dr Mahathir referred in his National Press Club address in Canberra in August to his Government's consideration of possibly sending students abroad only in their final year, at least if foreign universities could assist in strengthening Malaysian institutions to cater for more junior students. Australian assistance to ASEAN institutions is addressed in the following section (i).

4.97 While the Committee received insufficient evidence to enable it to evaluate fully the proposals for student 'trade packages' and the Malaysian idea that Australia might consider taking a higher proportion of senior year students in total overseas student numbers, it considers that both ideas warrant further attention in the Government's review of overseas student policy.

4.98 A commercial approach might be applied to special commercial or technical courses, outside the education 'mainstream', organised by private or public institutions and directed especially at foreign students. In the latter respect, this Committee notes the Goldring Committee recommendation that the prohibition on institutions charging tuition fees be lifted in relation to foreign students undertaking external courses.¹¹¹ This Committee also notes the Goldring recommendations that:

'Any proposal for a privately funded tertiary institution should receive serious consideration [as should] development studies centres ... providing research and study opportunities of particular interest to overseas students - Northern Australia in particular would appear to be a suitable area ...'¹¹²

External studies, using the latest satellite technology for 'distance education' were also commended by the Goldring Report. The Darwin Community College was mentioned as an institution interested both in that development¹¹³ and in package deals with foreign institutions. This Committee notes with approval the Goldring recommendation that 'export incentives should be available to promoters of educational services in the non-formal (including commercial), English language and external study areas'.¹¹⁴

4.99 One of the greatest of Australia's comparative trade advantages is the English language itself: Australia should plan to become the regional centre for English language teaching, as recommended to the Committee by the Department of Education and Youth Affairs.¹¹⁵

(i) Assistance to Education in ASEAN Countries

4.100 The Australian Universities International Development Program, administered by the Australian Vice-Chancellors' Committee (AVCC), is directed to strengthening universities in neighbouring countries, primarily in the ASEAN region, by assisting their staff improve their capacities in teaching, research and administration. The AVCC stated that

'... Consultancy visits, research collaboration, assistance in course planning and curriculum evaluation, staff recruitment and selection, assistance in university organisation and planning, postgraduate fellowships, training courses, and assistance in the selection and procurement of equipment and library materials have all been used in integrated efforts to improve the quality, efficiency and developmental potential of regional universities.'¹¹⁶

The primary academic emphasis of the Program is on agriculture, food production and population studies.

4.101 The Committee considers that, in the longer term, Australia's aid and education policies should take into account the extent to which ASEAN countries should be encouraged to develop their own educational institutions towards substantial self-sufficiency. The Jackson Committee's judgment that 'demand for education services ... is likely to be quite large in the next 20 or so years'¹¹⁷ is relevant in this respect. The Committee notes the comment by the AVCC that ASEAN's longer term educational interests are better served by Australian assistance in supporting the development of ASEAN educational institutions.¹¹⁸ In this context, the Committee also notes that Australia's aid budget allocation to the AUIDP increased from \$5.3 million in 1983/84 to \$7.2 million in 1984/85.

ENDNOTES (Chapter IV)

1. Evidence, (Dr Buszynski, submission), pp.562-63.
2. Evidence, (Dr Angel, submission) P.5266.
3. See for example, Anussorn Travisin, 'Australia a part of S.E. Asia?', Bangkok World, 23 June 1984, and Zainah Anwar, 'Aussies at the Crossroads', New Straits Times, 25 June 1984.
4. Evidence, p.8358.
5. Evidence, (Dr Wicks, submission), pp.52-3.
6. Evidence (Asian Studies Association of Australia, submission) p.51130. On the situation of Asian studies see also Evidence, Department of Education and Youth Affairs (submission), pp.5984-985.
7. 'Report of the Asian Studies Committee to the 5th Conference of the Asian Studies Association of Australia, Adelaide May 13-18 1984' p.26.
8. ASAA Report, pp.26-28.
9. ASAA Report, pp.28-29.
10. ASAA Report, pp.29-33.
11. ASAA Report, p.31.
12. ASAA Report, p.31; Evidence, Department of Education and Youth Affairs (11 May 1984) pp.570-571.
13. ASAA Report, p.9.
14. ASAA Report, p.15.
15. Evidence, p.51130.
16. Evidence, (ASEAN-Australia Business Council, submission), p.5755-756; ASEAN-Australia Business Council-ASEAN Section, p.5886.
17. Evidence, (18 May 1984), pp.419-420.
18. Evidence, p.5756.
19. Evidence, p.5756.
20. Evidence, pp.5755, 784-786.
21. Evidence, p.5785.
22. Evidence, (Mr Millin, 7 May 1984) p.489.
23. Evidence (Mr Stark, 7 May 1984), p.488.
24. ASAA Report, p.17.
25. Evidence, (Dr Tucker, 12 April 1984) p.161.
26. 'Guidelines to the Commonwealth Tertiary Education Commission for the 1985-87 Triennium', Minister for Education and Youth Affairs The Hon. Susan Ryan, Canberra, 5 July 1984, p.12.
27. Evidence, p.5756.
28. Evidence, p.51130.
29. Evidence, p.51131.
30. Evidence, p.51133.
31. Evidence, p.51133.
32. Evidence, p.51135.
33. Evidence, p.51133.
34. Evidence, p.51133-1135; Letter from Secretary of the Department of Education and Youth Affairs to Chairman of Sub-committee on ASEAN (14 August 1984), comprising Exhibit.10.
35. Evidence, p.51139.
36. Evidence, p.51141.

37. Evidence, p.S1141; Dr Leigh (BISA) and Professor Ingleson (18 April 1984) pp.355-357.
38. Evidence, p.S310.
39. Evidence, p.S310.
40. Evidence, p.S311.
41. Evidence, p.S387.
42. Evidence, p.S387.
43. Far Eastern Economic Review, 22 December 1983.
44. Evidence, pp.S203-245.
45. Evidence, pp.S206-215.
46. Evidence, pp.S231, 231-239.
47. Evidence, (ACTU submission, 10 August 1984) pp.747-750.
48. Evidence, pp.S173-174.
49. Evidence, p.S197.
50. Evidence, (Amnesty International submission) pp.S199-200; ACTU submission, (10 August 1984) p.749.
51. Evidence, pp.S200-201.
52. Evidence, p.S174.
53. Evidence, p.S267.
54. Evidence, (Amnesty International submission) p.S197.
55. Evidence, (Australian Broadcasting Corporation submission) pp.S335-337; Mr Barnett, Radio Australia, 12 April 1984, p.113.
56. Evidence, p.S322.
57. Evidence, pp.S329-330.
58. Evidence, p.S341.
59. Evidence, p.S341; Mr Barnett, (12 April) pp.126-127.
60. Evidence, Mr Barnett, (12 April 1984) pp.124-126; S338-339.
61. Evidence, (Australian Broadcasting Corporation, submission) pp.S333-334; Mr Barnett, Radio Australia, (12 April 1984) pp.108, 113-115.
62. Evidence, (Australian Broadcasting Corporation, submission) pp.S333-334; Dr Angel (submission) p.S266, and (18 April 1984), pp.407-408.
63. Evidence, (Australian Broadcasting Corporation, submission), p.S328.
64. Prime Minister Mahathir Mohamed address to National Press Club, 10 August 1984.
65. Evidence, p.S26.
66. Evidence, (Dr Hill, Australian National University, submission), p.S743; Dr Healey (13 April) pp.264-267.
67. Evidence, p.S743.
68. Evidence, p.S26.
69. Evidence, (Department of Foreign Affairs, (6 April 1984), pp.43-44; (Centre for Asian Studies, University of Adelaide, submission) p.S343; (ASEAN-Australia Business Council submission) p.S759. The AABC did not explicitly advocate an Australia-ASEAN Council, but emphasised the need for greater private sector - government cooperation and coordination.
70. Evidence, p.S1132.
71. Evidence, p.S1132.
72. Evidence, p.S380.
73. Evidence, p.S801 (AABC).
74. 1984-85 Budget Paper No. 9, p.10.

75. See further P. Williams, 'Look West? Asian Attitudes to Study Abroad and Britain's Response' in Vol.14 Asian Affairs, February 1983, p.15; and Commonwealth Secretariat Towards a Commonwealth Higher Education Programme: Strategies for Action, June 1983.
76. Goldring Report, p.41.
77. Evidence, in camera.
78. Evidence, 21 May 1984, p.671.
79. Evidence, p.S1092.
80. Evidence, p.S477.
81. Jackson Report, p.93.
82. Evidence, 21 May 1984, p.669 (Immigration Department).
83. Quoted in Evidence, p.S962 (AVCC).
84. Goldring Report, p.243.
85. P. Williams in Asian Studies, Vol.14, pp.17-18; see also Towards a Commonwealth Higher Education Programme, loc.cit. p.6.
86. Times Higher Education Supplements, 9 December and 25 November 1983; the British Government announced in 1983 that Stg.46 million would be allocated over three years to increase support for overseas students.
87. Evidence, p.S1091 (Immigration Department).
88. Goldring Report, p.243.
89. Evidence, 21 May 1984, p.668 (Immigration).
90. Prime Minister Mahathir commented during his August 1984 visit to Australia that Malaysia was considering extending the Australian universities whose degrees it recognised.
91. Jackson Report, p.95.
92. Goldring Report, Summary volume, p.6.
93. Op.cit. p.10.
94. Goldring Report, p.103.
95. Ibid.
96. Goldring Report, Summary volume, p.5.
97. See references cited in Endnotes 85 and 86.
98. For example, Dr Edwards (see paragraph 4.87) and Professor Ariff, Evidence, in camera, 14 June 1984; see also Goldring Report, p.87.
99. Evidence, 11 May 1984, p.526.
100. For example, (Evidence, in camera, 14 June 1984); Dr Tucker (Evidence, 12 April 1984, pp.153-4).
101. For example, Dr Edwards (Evidence, 11 May 1984, pp.526-7; Professor Arndt (Evidence, 1 May 1984, pp.460-1).
102. For example, Dr Chandler (Evidence, 12 April 1984, pp.186-7).
103. Evidence, in camera, 14 June 1984 (Professor Ariff).
104. Ibid.
105. Evidence, p.S1091; also 21 May 1984, p.672.
106. Goldring Report, p.89.
107. Goldring Report, p.276.
108. On distinctions between operating and recurrent costs, capital costs, and marginal costs, see Goldring Report pp.78-80 and Towards a Commonwealth Higher Education Programme, loc.cit., p.22.
109. Evidence, 21 May 1984, p.711.

110. Evidence, p.S306.
111. Evidence, in camera, 14 June 1984.
112. Immigration Department statistics show that the number of overseas students permitted to remain in Australia as permanent residents decreased from 780 in 1978/79 to 477 in 1982/83; see Exhibit 11.
113. Goldring Report, p.162.
114. Goldring Report, pp.165-6.
115. Goldring Report, p.162.
116. Goldring Report, p.171.
117. Evidence, pp.S982-4, see also Goldring Report, Summary volume p.7.
118. Evidence, p.S955
119. Jackson Report, p.93.
120. Evidence, pp.S925-7.

CHAPTER V

AUSTRALIA'S PRESENT AND FUTURE ROLE IN THE ASEAN REGION

(a) ASEAN: Trends and Prospects

5.1 Consideration of both recent and possible future trends in Australian policies towards the ASEAN region needs to begin with a recognition of the contribution which ASEAN has already made to regional stability and economic growth. Southeast Asia is a region of great diversity in the character of its peoples, states and political and economic systems. The region is open to extensive influence by the major powers and it is continuing to experience rapid socio-economic change. Internal political change continues, as does the potential for tension in inter-state relations. In this context ASEAN has made a substantial contribution not only to stability and economic growth but to the self-confidence of its member states. The direct contributions which ASEAN's own economic co-operation programs have made to the regions' very impressive economic growth have so far been modest. But ASEAN, by moderating tensions among its members and fostering networks of official and private sector communication has created a spirit of trust and confidence which has enhanced the growth prospects of its members' economies. For many in the region, ASEAN symbolises the international respect which the region's economic dynamism has engendered.

5.2 The continued viability of ASEAN is in the interests both of its members and Australia. A number of factors may affect the prospects for ASEAN's consolidation and further development. Internal developments in the member states will be one key influence. Since its formation, ASEAN has been characterised by a high degree of continuity among its members' leaderships. Three

of the original five members have not experienced a change of head of government since the Association's formation (i.e. Indonesia, the Philippines and Singapore). ASEAN has had no difficulty in accommodating the changes of leadership in Thailand and Malaysia, because in each country there has been a consensus among leadership groups about the value of ASEAN. However, should an ASEAN member experience internal political change bringing to power a leadership group with substantially different values to those shared by ASEAN's members, ASEAN consensus and solidarity might be more difficult to sustain. A second key factor will be ASEAN's continuing ability to moderate pressures for inter-state tension among its own members, which the Committee has suggested has so far been achieved with notable success. A third key factor will be ASEAN's ability to accommodate differing orientations among its members towards regional security issues and the roles of the major powers as it continues to press for a revision of the situation in Cambodia. A fourth important factor is likely to be ASEAN's degree of success in pursuing substantive economic co-operation which can give the Association's *raison d'être* a stronger economic dimension.

5.3 The precise ways in which ASEAN may evolve are not easily predictable, but the capacity for co-ordination and cohesion which ASEAN has demonstrated since 1975 suggest that membership and support will continue to serve its members' regional and international interests for the foreseeable future.

b) ASEAN and Australia: the present relationship

5.4 Australia has developed a wide-ranging series of relations with the ASEAN states and with the Association itself. A number of important Australian interests are embodied in these relations:

- . The ASEAN region is of major strategic importance for Australia, which has an enduring interest in the region's stability and freedom from major power interference or domination. The contribution which ASEAN has made to regional security has been of direct benefit in improving Australia's own security.

- . A substantial and growing portion of Australia's merchandise trade is directed to the ASEAN region. Valuable opportunities exist for the further expansion of trade in both the merchandise and services sector.

- . Australian interactions with ASEAN members have increased in recent years through immigration, through extensive cooperation in relation to Indochina refugees, and through the acceptance by Australia of large numbers of ASEAN students.

5.5 The relationship between Australia and the ASEAN region has been comparatively brief. It has only been possible to develop any extensive political relationship with the ASEAN members since the end of World War II and Australia's association with ASEAN as a group is just a decade old. These relationships have been developed in a time of very rapid and extensive socio-economic change in the region, considerable problems of inter-state tension (especially up to the late 1960s) and a growing sense of regional identity and self-confidence among the ASEAN states. Australia, too, has been changing; its society has diversified considerably (stimulated by immigration from a wide variety of source countries) and its economy has both developed and been subjected to structural pressures through recent problems of economic recession.

5.6 In view of the short time-span which has been involved, the development of Australia's relations with ASEAN can be fairly termed a success. Concord has predominated over discord and many important areas of co-operation have been pursued to mutual benefit. It is most important that the positive, steady pursuit of shared interests should continue, as previous Chapters have sought to make clear.

c) ASEAN and Australia: Future Prospects

5.7 However, while achievements so far may be viewed favourably, the Committee sees a pressing need for a more concerted attempt to consider carefully Australia's present and future role in relation to ASEAN and the Southeast Asian region. While Australia and the ASEAN members share a series of mutual interests, Australia is not necessarily perceived as pursuing a consistent set of policies which support its frequently expressed interest in, and commitment to, the region. Indonesia's Centre for Strategic and International Studies, for example, argued in its submission that,

'Rhetorics have it that Australia forms part of Southeast Asia. Consequently, her future lies above all in the region and in fostering good, neighbourly relations and co-operation with the countries of the region. But such rhetorics have not always been translated in terms of Australian policy towards the region, particularly as regards ASEAN, which does not seem to rank high in Australia's order of priorities ... apart from lip service.'¹

An Australian observer (Professor Mackie) commented in the same vein that '... the ASEAN nations are understandably puzzled by the zigzags and inconsistencies in our regional policies and the discrepancies between our rhetoric and our actions there'.²

5.8 The Committee suggests that if such perceived gaps between Australia's rhetoric and its policy commitments are to be minimised, there is both a need to establish and define the priority which Australia seeks to accord to ASEAN in the context of its wider pattern of foreign policy interests and a need to try to match accorded priority with consistent policy commitments. The Committee sees a number of considerations as being relevant to these tasks.

- . Australia needs to define and elaborate its interests in ASEAN and in the Southeast Asian region, in the context of its other international associations. The Committee recognises the difficulties involved in attempting to establish precisely priorities for particular nations or regional groups in Australia's foreign relations and the undesirability of attempting to fix such priorities rigidly. The Committee does suggest that the ASEAN countries should be assigned a priority in Australian policy-making at a level which is equivalent to that accorded to Australia's other major international political and economic relationships (for example with Japan, China and the EC) and which is exceeded only by the ANZUS alliance and our concerns in relation to the global balance of power and the maintenance of international peace. Such an assignment or priority would clearly not involve the notion of an Australian commitment to agree with any policy propounded by individual ASEAN states or ASEAN as a group; neither Australia nor ASEAN would expect or accept this. It should mean that Australia's interests in relations with ASEAN will be carefully considered in the formulation of policies on political and security issues, economic relations and educational, social and cultural interactions.

- Australia needs to widen appreciation in the ASEAN region of Australian interests and policies. Extensive discussion and consultation is necessary if Australia wishes to avoid further uncertainty about its role or its degree of commitment to the ASEAN region; this is especially necessary in the context of policies towards Indochina.
- Pursuit of cooperation with ASEAN should be based on the recognition that Australia's political culture and processes are substantially different from those of the ASEAN states and these differences are unlikely to diminish. Even with a concerted effort to promote mutual understanding, differences of perspective on some socio-political issues (for example, human rights questions and the role of the media) are likely to persist. The quality of the Australia-ASEAN relationship should not be indicated by the attainment of a complete identity of outlook and viewpoints, but the achievement of a pattern of growing political, economic, educational and social interactions. The Committee's proposal concerning the establishment of an Australia-ASEAN Council is very relevant in this context.
- Australia should try to ensure that the various strands of its policies towards the ASEAN region are mutually consistent. Rhetorical commitments to the ASEAN region need to be backed up by consistent pursuit of shared political and economic interests. It should be noted that rhetorical assertions about the importance of the ASEAN states to Australia can easily lead to false hopes and expectations about the degree to which Australia will, on specific political and economic issues, be prepared to accommodate ASEAN interests. Too much fulsome rhetoric from Australia will be an impediment to the relationship.

- . It should also be recognised that the interaction between political and economic policies can be important in the ASEAN relationship. For example, if Australia is to be able to develop its service industries' involvement in the ASEAN region, the degree to which such involvement is likely to be welcomed will be influenced by the degree to which Australia is seen as politically interested in, and sympathetic towards, ASEAN interests.

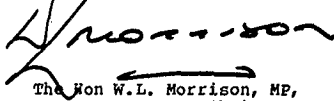
5.9 As Chapters II, III and IV have emphasised, Australia has extensive opportunities to consolidate its association with the ASEAN region, especially in economic, social and educational fields. If Australia is to be well-placed to pursue these associations, the Committee feels that several major policy areas require careful and detailed consideration:

- . Australia needs to pursue immigration and refugee policies mutually acceptable to it and to the ASEAN countries.
- . Policy towards overseas students from the ASEAN region needs to be able to accommodate both ASEAN demands and Australia's own educational needs and interests.
- . Australia needs to pay much greater attention to the need to promote Asian studies in Australia, not just in the area of specialist studies, but to assist interested sectors of the community (especially in business) to become more aware of the opportunities to be gained from association with the ASEAN region and more knowledgeable about ways of pursuing such associations. The proposed Asian Studies Council, which is supported by the Committee, could make a valuable contribution in this area. The evidence

received by the Committee indicates that there has been a striking disparity between the degree of Australian rhetorical statements on the importance of Asia in general and ASEAN in particular, and the degree of support and planning being directed towards Asian Studies. In the long run it is most important that the Australian government is able to pursue its policies towards the ASEAN region in the context of a more informed base of public awareness of the region and access to information about it.

5.10 The pursuit of closer Australia-ASEAN relations need not involve an attempt by Australia to become 'part of Asia'. Indeed, the very notion of being 'Asian' is in itself unclear; there is no uniform concept of 'Asian identity' with which Australia could properly identify. The pursuit of a generalised sense of Asian identity would be likely to satisfy neither Australia, nor Australia's Asian neighbours and partners.

5.11 The Committee observes that Australia is, however, located in contiguity to Asia (especially ASEAN) and shares important common interests with its Asian neighbours. While Australia's ethnic and cultural identity is likely to remain distinctly different from those of its ASEAN neighbours, increased cooperation between Australia and ASEAN can bring Australia a greater understanding and appreciation of the ASEAN states and substantial mutual benefits. Australia will be affected by, and will continue to be involved in, regional developments. What Australia can most usefully pursue in the context of relations with ASEAN is an improved level of mutual awareness and understanding, increased economic interactions and cooperation on political and security issues to enhance regional security and minimise the destabilising potential of major power interference.



The Hon W.L. Morrison, MP,
Chairman.
October 1984.

1. Evidence, pp.S160-161.
2. Evidence, p.S967.

APPENDIX 1

Conduct of the Inquiry

1. In December 1983, the Joint Committee on Foreign Affairs and Defence resolved to inquire into 'Australia and ASEAN' and referred this inquiry to one of its three sub-committees. The Sub-Committee on Australia and ASEAN resolved to focus its inquiry on the implications for Australia of political and economic developments in the ASEAN region.
2. The Sub-Committee sought written submissions from both Australian and ASEAN sources. A total of 57 submissions, including 8 from the ASEAN region, were received (and are listed in Appendix 3). The Committee wishes to express its appreciation of the quality and comprehensiveness of most submissions, including those from Commonwealth Departments, the key business councils, the Australian Council of Trade Unions and academic specialists.
3. The Sub-Committee held a total of 20 meetings, including 9 public hearings in Adelaide, Canberra, Melbourne and Sydney, between April and August 1984. Witnesses who appeared at public hearings are listed in Appendix 2. As with the submissions, the quality, volume and scope of oral evidence was generally impressive.
4. The Sub-Committee was particularly concerned to hear the views of ASEAN-based experts. It benefitted considerably from informative discussions in Canberra with the Heads of Mission of ASEAN countries, and with a group of four prominent ASEAN-based academics. A spirited exchange of views took place with a party of ASEAN journalists visiting Australia at the invitation of the Australian Government. The Sub-Committee also met with a number of parliamentarians from the ASEAN region, including the Malaysian Deputy Minister of Trade and Industry.
5. Dr Frank Frost served as specialist adviser to the Sub-Committee, on secondment from the Legislative Research Service of the Commonwealth Parliamentary Library. To all persons who participated in its inquiry, the Committee expresses its appreciation.

APPENDIX 2

Organisations or Persons who Gave Evidence at Public Hearings

Amnesty International, Sydney
Anderson, Dr Kym, University of Adelaide
Angel, Dr. J., University of Sydney
Arndt, Professor H., ASEAN-Australia Project, Australian National
University, Canberra
Asian Studies Association of Australia, Sydney
Australia-Indonesia Business Co-operation Committee, Canberra
Australia-Philippines Business Co-operation Committee, Canberra
Australian Council for Overseas Aid, Canberra
Australian Council of Trade Unions, Melbourne
Australian National Line, Melbourne
Australian Shippers' Council, Sydney
Australian Vice-Chancellors' Committee, Canberra
Aviation, Department of, Canberra

Catley, Dr Robert, University of Adelaide
Chandler, Dr David, Monash University, Melbourne

Education and Youth Affairs, Department of, Canberra
Edwards, Dr Clive, Canberra
Export Finance and Insurance Corporation, Sydney

Foreign Affairs, Department of, Canberra

Girling, Dr J., Australian National University, Canberra

Healey, Mr Derek, University of Adelaide
Hill, Dr Hal, ASEAN-Australia Project, Australian National
University, Canberra

Immigration and Ethnic Affairs, Department of, Canberra
Ingleson, Dr John, University of New South Wales, Sydney

Kiernan, Dr B., Monash University, Melbourne

Leigh, Dr M., University of Sydney, Bibliographic Information on
South East Asia
Lim, Dr R., University of New South Wales

Mackie, Professor J.M., Australian National University, Canberra
Mediansky, Dr F., University of New South Wales
Miller, Professor J.D.B., Australian National University,
Canberra

Price Waterhouse and Partners, Sydney

Radio Australia, Melbourne

Skinner, Commander C.J., RAN, Sydney

Thai-Australia Chamber of Commerce and Industry, Sydney
Trade, Department of, Canberra
Transport, Department of, Canberra
Treasury, Department of the, Canberra
Tucker, Dr Ken, David Syme Business School, Melbourne

Vickery, Dr M., University of Adelaide

Yahuda, Dr M., University of Adelaide

APPENDIX 3

Submissions Provided to the Inquiry

Amnesty International, Sydney
 Angel, Dr J.R., University of Sydney.
 ASEAN-Australia Business Council (ASEAN Section), Kuala Lumpur,
 Malaysia
 ASEAN-Australia Business Council (Australian Section), Canberra
 Asian Studies Association of Australia, Sydney
 Australia-Indonesia Business Co-operation Committee, Canberra
 Australia-Philippines Business Co-operation Committee, Canberra
 Australian Broadcasting Commission, Sydney
 Australian Council for Overseas Aid, Canberra
 Australian Council of Churches, Sydney
 Australian Council of Trade Unions, Melbourne
 Australian Film and Television School, Sydney
 Australian National Line, Melbourne
 Australian Shippers Council, Sydney
 Australian Vice-Chancellors' Committee, Canberra
 Aviation, Department of, Canberra

Benard, Mr Yves, Taipei, Taiwan
 Bibliographic Information on Southeast Asia, University of Sydney
 Brown, Mr S.M., JP, Morisset, New South Wales
 Buszynski, Dr Leszek, National University of Singapore.

Campbell, Professor R.S.F., James Cook University, Queensland
 Catley, Dr R., University of Adelaide.
 Centre for Strategic & International Studies, Jakarta,
 Indonesia.
 Chandler, Dr David P., Monash University, Melbourne.

Defence, Department of, Canberra

Education and Youth Affairs, Department of, Canberra
 Edwards, Dr C.T., Canberra
 Export Finance & Insurance Corporation, Sydney

Foreign Affairs, Department of, Canberra

Ghose, Mr Supad Kumar, Dhaka Varsity, Bangladesh
 Girling, Dr John, Australian National University, Canberra

Healey, Mr Derek T., University of Adelaide
 Hill, Dr Hal, Australian National University, Canberra
 Home Affairs & Environment, Department of, Canberra
 Hutauruk, Mr W., Jakarta, Indonesia.

Immigration & Ethnic Affairs, Department of, Canberra
 Industrial Development, Department of, Perth
 Institute of Strategic & International Studies, Kuala Lumpur,
 Malaysia.

Leng, Dr H.S., University of Adelaide
 Lim, Professor David, Griffith University, Brisbane.

Mackie, Professor J.A.C., Australian National University,
 Canberra

Macnee, Joan, Reservoir, New South Wales

Miller, Professor J.D.B., Australian National University,
 Canberra

Murray, Mr B.L., Canberra

National Library of Australia, Canberra

Price Waterhouse & Partners, Canberra

Skinner, Commander C.J., RAN, Sydney

Summerton, Mr R.B., North Plympton, South Australia

Thai-Australian Chamber of Commerce & Industry, Sydney

Theeravit, Dr Khien, Chulalongkorn University, Bangkok, Thailand

Trade, Department of, Canberra

Transport, Department of, Canberra

Treasury, Department of the, Canberra

University of Adelaide, Centre for Asian Studies.

University of Sydney, Centre for Asian Studies.

Wicks, Peter C., Toowoomba, Queensland

Wilkinson, Mr J., Sydney

APPENDIX 4

Exhibits

1. Report of the Asian Studies Committee to the Fifth Conference of the Asian Studies Association of Australia.
2. Letter from the Treasury to the Sub-Committee Secretary dated 17 May 1984 concerning Australian bank operations in ASEAN countries.
3. Letter from Department of Trade to the Sub-Committee Chairman dated 28 May 1984 concerning ASEAN investment in Australia, and Australia's overseas aid program.
4. Department of Trade Internal Research Memorandum No. 6, 'Export-Employment Model'.
5. Department of Trade, 'ASEAN-Australia Trade and Trade Relations: Main Elements'.
6. Department of Foreign Affairs, 'Indo-Chinese Refugees: Australia's Resettlement Role'.
7. Letter from the Industries Assistance Commission to the Sub-Committee Chairman dated 3 July 1984 concerning ASEAN import performance and Australian industry assistance.
8. Department of Transport letter to the Sub-Committee Secretary dated 2 July 1984 concerning Australia-ASEAN shipping services.
9. Department of Transport letter to the Sub-Committee Secretary dated 16 July 1984 concerning freight rate comparisons on Australia-ASEAN routes and United States-ASEAN routes.
10. Letter from the Secretary, Department of Education and Youth Affairs, to the Sub-Committee Chairman dated 14 August 1984 concerning Asian studies in Australia.
11. Letter from the Department of Immigration and Ethnic Affairs to the Sub-Committee Secretary dated 13 August 1984 concerning ASEAN students in Australia.
12. Letter from the Department of Immigration and Ethnic Affairs to the Sub-Committee Secretary dated 24 September 1984 concerning settler arrival statistics for ASEAN countries.
13. Letter from the Department of Industry and Commerce to the Sub-Committee Secretary dated 2 October 1984 concerning import penetration and employment trends in TCF industries.