

# THE THIRD ASEAN-AUSTRALIA-NEW ZEALAND DIALOGUE REPORT\*

*The Third ASEAN-Australia-New Zealand Dialogue held at Kuala Lumpur, Malaysia on 28-30 November 2010 continued the pattern of discussion of major strategic issues in the Asia-Pacific region, and also provided time for the discussion of the relationship between ASEAN and Australia and New Zealand (commonly referred to as the ASEAN 10 and the Tasman 2).*

## EXECUTIVE SUMMARY

- ❖ There is a strong sense that the region is evolving quickly in terms of both economic and political relations. The evolution is centred on the relations between the great powers;
- ❖ Great power issues and pairs of issues cannot be dealt with on their own but need to be integrated to get a fuller picture of regional dynamics;
- ❖ There is no consensus about the future development of the power transition. There are still many uncertainties;
- ❖ It is important to understand the differing domestic environments across the ASEAN 10 and the Tasman 2, in which issues (such as people smuggling) play out.
- ❖ There is a distinct 10+2 common interest in dealing with the changing power balance in the region, and ASEAN, Australia and New Zealand need to exchange views on the best ways of doing so in Track II meetings like this one, as well as in traditional Track I channels.
- ❖ Both Australia and NZ value the role of ASEAN in various regional institutions and issues. ASEAN members on their part are supportive of the involvement of Australia and NZ in the region, where both sides' interests coincide.
- ❖ There is a re-emergence of traditional security issues – alongside non-traditional ones – in the developing East Asia region, with a special emphasis on maritime security issues, traditional and otherwise.
- ❖ The integration of the CER economies into the ASEAN economy would be a positive factor for all. In this process, Australia and New Zealand should pay particular attention to the less developed countries along the Mekong.

## **Trade Agreements, People Smuggling, Defence Cooperation and Major Power Relations**

*'I go to many such Dialogues – Malaysians meeting with one country or another, including the big Northeast Asian countries – but there seems to be something different about this one with Australia and New Zealand. I'm not sure just how to describe it, but there is a real openness in the way we talked about things, a high degree of frankness.'*

(Senior Malaysian participant at the AANZ Dialogue, 2010)

There was representation from the think-tanks of all the ASEAN countries associated with the ASEAN-ISIS framework. Australia and New Zealand brought strong teams from a range of institutions in their countries. The Australian and New Zealand ambassadors to ASEAN were also invited to attend in their personal capacities.

The importance of Track II diplomacy was affirmed recently at the ASEAN-New Zealand ministerial meeting in Hanoi on 22 July 2010. In the joint declaration on the ASEAN-New Zealand comprehensive partnership, the parties were urged to 'foster continued Track II dialogue on economic, political, security, and socio-cultural issues.' The recently concluded ASEAN-Australia-New Zealand Dialogue fulfilled that objective and, according to a number of participants, it came at a turning point in the history of the Asia region.

The relentless rise of China, set against the relative decline in US capacities, has created the potential for dramatically new regional dynamics. To discuss these evolving dynamics, the Dialogue brought together leading specialists on strategic and economic issues, who ensured that the deliberations were informed and incisive.

Just as the complexity of regional institutional architecture evokes deeper geo-strategic transitions, so the wide-ranging Dialogue deliberations about the 'role of the major powers' in the region conveyed a sense of our being in a period of change and uncertainty. Some argued that the state of geo-strategic flux gave this particular Dialogue an enhanced importance. It seemed more urgent now than ever before for Australians and New Zealanders to meet with their ASEAN colleagues to discuss and debate the likely directions in which the Asia region might move over the next decade or so.

Making an assessment of China's aspirations and future policy decision-making was one central issue but attention was also focused on the problem of analysing the responses of the United States, Japan and India, amid current regional uncertainty. There was no consensus on what shape the power transition in the region would take, but the common interests of the ASEAN-10 and the Tasman-2 in dealing with regional change was acknowledged.

In assessing the need for closer regional cooperation and collaboration, the Dialogue also considered economic and defence cooperation, regional responses to people-smuggling and the importance of deepening ASEAN-Australia-New Zealand people-to-people contacts. Dialogue discussions highlighted several points across seven sessions.

## **ANALYZING SOUTHEAST ASIA'S ECONOMIC COMPETITIVENESS**

ASEAN economic integration faces serious challenges – there is ‘clearly a tremendous gap between ambition and integration’. While tariff liberalisation for the original ASEAN-6 has been completed, the liberalisation of services and freer flows of skilled labour have a long way to go. The main purpose of the ASEAN Economic Community (AEC), it was pointed out, is not to build competitiveness within ASEAN but to make ASEAN competitive in the world.

The value of the burgeoning number of Free Trade Agreements in the region was debated. One participant suggested: ‘these FTAs don’t do much that really matters either in commercial terms or broader economic terms.’ This view was challenged by an ASEAN economist who argued that FTAs can provide the impetus – and the justification – to push through institutional and legislative reforms. Their strategic importance should also not be overlooked, another participant added, citing the ASEAN-Australia-New Zealand FTA (AANZFTA) as strengthening ties at the diplomatic level.

In the process of regional economic integration through the AEC and AANZFTA, Australia and New Zealand should pay particular attention to the Mekong countries, that is, ASEAN’s newest members Cambodia, Laos and Vietnam.

Investment into ASEAN economies has ‘gone into the doldrums’ while investment into China is ‘skyrocketing’. ‘China and India are snapping at our heels’ one economist said, ‘and we have to remain vigilant and competitive by improving government and building infrastructure.’ Australian investment in the region is lagging – only three per cent of Australia’s investment goes to Southeast Asia and two-thirds of this to Singapore.

## **DEEPENING PEOPLE-TO-PEOPLE TIES**

People-to-people interaction is at first glance busy, with student exchanges, tourism, and strong trade, but opinion polling by the Lowy Institute and others suggests serious perception anxieties are difficult to shift.

Is the low level of Australia’s investment in ASEAN a result, in part, of insufficient familiarity with the region? One proposal was an ‘ASEAN-Australia-New Zealand leadership programme’ – an initiative that might help deepen understanding, and networks of relationships at the elite level. Not surprisingly, the role of Track II diplomacy was also stressed. Another proposal entailed bringing Australian and New Zealand students together in ‘community engagement programmes’.

An existing initiative, the Australian Centre for Education (ACE) in Cambodia was described as being a possible model for strengthening future ties. ACE ‘adds value’ through a business centre that has been incorporated into the education centre.

‘People to people relationships are the foundation of everything,’ one New Zealander noted, and it was pointed out that the joint declaration for the AANZFTA makes this point.

## **TAKING STOCK OF MAJOR POWERS: HOW THE REGION VIEWS CHINA AND JAPAN**

The dilemma for ASEAN states is that China's economic rise presents both opportunities and risks for the region – 'security insecurities' need to be carefully managed. Contested sovereignty in the South China Sea has seen tensions between the US and China over interpretations of their role in the Asia region. 'As far as ASEAN is concerned,' one participant observed, 'Australia is likely to be seen as an ally of the US. It needs to be asked: how does this impact the ASEAN region?'

The far-reaching implications of a power shift from the United States to China were discussed, but it was also questioned whether the whole structure of regional interstate relations would eventually change. How unified was ASEAN really? Would Chinese economic integration with the sub-Mekong region have a centrifugal impact on ASEAN? Can we assume that there can be a reduced US role without far-reaching institutional transformation?

An ASEAN specialist on China stressed that China would be willing to share power in the region as long as Chinese interests in Taiwan, Tibet and Sinkiang are respected.

It was suggested that ASEAN countries 'should look at what the US and Japan can provide in terms of adjustments'. 'There is no need for strengthening alliances where alliances are already very strong.'

The continued significance of Japan in the region was acknowledged. 'Japan is still a great power and we need to be careful how Japan is factored into the shifting dynamics in the region.' There has been a potentially dangerous tendency to neglect the analysis of Japanese apprehensions and likely policy responses. Japan's security dependence on the US, for instance, may give Japan an interest in maintaining US-China rivalry. Circumstances in the region may compel Japan to re-examine its position on nuclear weapons.

Speculations around a more strategically independent, even nuclear-armed, Japan suggest that quite different security constellations could emerge in the region.

## **TAKING STOCK OF MAJOR POWERS: HOW THE REGION VIEWS INDIA AND THE US**

The United States, one participant emphasised, must accept the need to exchange primacy for cooperation as the Chinese and Indian economies grow. US economic power may not have declined in absolute terms, but it has in relative terms. This tilt in the regional equilibrium must be recognised. This participant also observed that, at the moment, no other country in the world identifies with the US as strongly as Australia.

In discussing the 'major powers' of the region, one participant asked: 'Should India be included in this group?' India has a serious strategic potential and an enormous potential economy, but there are real structural issues in its economy.

Vietnam and Cambodia are supportive of India playing a role in the region. This is not simply because of strategic and economic concerns but because India is seen as a positive political influence. US President Obama's recent visit to New Delhi was cited. He chose India, the region's largest democracy, to herald the virtues of

democracy in Asia. India's economic success was also seen as a positive for the region, partly because it lessens dependence on China – something that 'is good for ASEAN'.

Australia and New Zealand agreed on the centrality of ASEAN in any regional architectural formation and the newly-expanded East Asia Summit – with the United States and Russia on board – was a good example of this. The newly-formed ADMM-Plus (ASEAN Defence Ministers Meeting, plus Australia, China, India, Japan, South Korea, New Zealand, Russia and the United States) also shows promise as a forum for strengthening regional dialogue on issues of security and defence.

## **DEFENCE COOPERATION**

There is too little appreciation of the depth of the security relationship between ASEAN countries, Australia, and New Zealand. In everyday practical areas, Australia and New Zealand have been active in the region over a long period. 'The Five Power Defence Arrangements' (involving Malaysia, Singapore, Australia, New Zealand and Britain) is seen as highly valuable, but largely for reasons that were not anticipated when it was established in 1971. Can the FPDA be the basis of broader security cooperation in the region?

The US remains the single largest supplier of military hardware in Southeast Asia. 'But is this relevant to our needs?' a participant asked. 'We almost slavishly follow that path. The alternative is to make a painful decision to abandon that technological universe and opt for another.' Some ASEAN leaders have started to think about that, and what this might mean for regional military organisation. With the political will, new military arrangements in the region could be formed.

State-to-state 'eruptions' occupy the lower end of the security scale yet and attract concentrated military efforts. Non-traditional security (NTS) threats, on the other hand, are ever more present. Piracy and terrorism, for example, will be with us for the long term and yet attract military efforts that are disproportionate to the severity of the problem. This puts us in what one participant called a 'schizophrenic frame of mind' where defence cooperation is concerned.

With respect to maritime issues, both traditional and non-traditional security threats are likely to be of growing importance in the developing East Asia region.

## **REGIONAL COOPERATION AND PEOPLE SMUGGLING**

It is often not understood that Australia is, in international terms, a leader in the acceptance of refugees. In terms of people smuggling, however, Australia is keen to work with its neighbours, particularly Indonesia and Malaysia, to combat the problem. Australia and Indonesia jointly chair the Bali Process which was established in 2002 to combat irregular migration. The emphasis has shifted from country-to-country approaches to regional solutions that consider not only the destination country but also the source and transit countries.

Concerning differing perceptions of people-smuggling from one country to another – there is particularly a conflict of perceptions between Australia and Indonesia. For example, one participant pointed out, ‘the domestic perception in Indonesia is that this is not so much a “push and pull” issue – Indonesians see it as push’. The US and Australian actions in Iraq and Afghanistan are seen as promoting the people-smuggling problem. Also, it is not seen as helpful for Australians to speak of the “Indonesian solution”. The problem should be ‘framed differently.’

More emphasis needs to be placed on ‘transit’ countries – although, as one participant noted, there is little understanding that refugees often remain in the transit country. ‘In Indonesia we have a village of Iraqis who were in transit but stayed on.’ Australians should recognise that although figures are difficult to determine, there are between 500,000 and one million illegal immigrants in Malaysia alone. Indonesian police confirm that people smuggling operators are increasingly sophisticated, tapping into intelligence, and using expensive boats. But they are also operating across essentially artificial borders within the ASEAN region – throughout Myanmar and Thailand, Malaysia, Indonesia and the Philippines. And, ‘in Southeast Asia, we look like each other and people cannot tell who is there legally or illegally.’

## **AUSTRALIA AND NEW ZEALAND UPDATES**

Despite debates in the region regarding trade agreements, New Zealand reported that its FTA with China resulted in a ‘surge in our exports to China in a timely way after the global recession, and our trade with ASEAN continues to move positively in focused directions’ under the AANZFTA. New Zealand has not been as resilient to the global financial crisis as Australia and this has resulted in restraints on ‘our diplomatic presence in the region, on our development assistance capability close to home in the Pacific, and a restraint on our participation in defence.’

Australia also reported that AANZFTA would further strengthen economic ties with ASEAN and New Zealand. ‘We think FTAs are important strategically and economically,’ an Australian participant said. ‘It’s the largest FTA we’ve entered into – involving some 600 million people.’ More broadly, Australia was described as ‘prosperous but unsettled’ politically, after a year of political turmoil. Policy issues around the environment, water, and the preservation of rural life against these concerns, are contested.

In economic terms, continued strong growth in Australia, alongside continued growth in ASEAN, offers ASEAN and Australia the prospect of acquiring great critical mass, one participant pointed out. ‘This closer economic cooperation will contribute to a more prosperous future, which is important when seen against the rise of China and India. ASEAN, Australia and New Zealand, as they rise, working in an economically integrated way, and utilising the AANZFTA, will give us a better future.’

\* *ISIS Malaysia acknowledges the assistance and contribution of Asialink and the Asia New Zealand Foundation in the preparation of this report.*

### ***The Dialogue***

The third Dialogue was held in Kuala Lumpur on 28-30 November 2010 and attracted strong participation from government as well as Track II institutions. The Australian group included Andrew MacIntyre and Hugh White (Australian National University), Melissa Conley Tyler (Australian Institute of International Affairs), Simon Longstaff (St James Centre for Ethics), Martine Letts (Lowy Institute), Ian Buchanan (AusPECC) and Tony Milner (Asialink and CSCAP) – as well as Jenny McGregor (CEO, Asialink).

The Australian government representatives were Gillian Bird, Australian Ambassador to ASEAN and Deputy Secretary, DFAT – who led discussions in two of the Dialogue sessions – and Miles Kupa, Australian High Commissioner to Malaysia.

The New Zealand group was led by Richard Grant, Executive Director of the Asia New Zealand Foundation. David Taylor, New Zealand Ambassador to ASEAN was also a participant, as well as David Kersey, the New Zealand High Commissioner in Malaysia.

The Dialogue was again hosted by the Institute of Strategic and International Studies (ISIS) Malaysia. Both the Chief Executive of ISIS, Dato' Dr Mahani Zainal Abidin and ISIS Chairman, Tan Sri Mohamed Jawhar Hassan were prominent in the discussions. All ASEAN countries were represented, and those who led discussions included His Royal Highness Prince Norodom Sirivudh (Cambodia); Rizal Sukma and Haryo Aswicahyono (Indonesia); Sheikh Fadilah (Brunei); John Pang (CIMB ASEAN Research Institute); Chia Siow Yue and Bernard Loo (Singapore); Hoang Anh Tuan (Vietnam); Aileen Baviera (Philippines); Yin Yin Myint (Myanmar); Zakaria Haji Ahmad, Steven Wong, Stephen Leong, Lee Poh Ping and Saran Kaur Gill (Malaysia).

Malaysian Minister for International Trade and Industry, The Hon. Dato' Sri Mustapa Mohamed, who has had a long relationship with Australia and has been a strong supporter of the Dialogue, spoke at the official Dialogue dinner. New Zealand High Commissioner David Kersey hosted a reception for the participants on the eve of the Dialogue.