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**Dealing with the 'Near North': Australia-Asia Relations in Politics,
Trade and Investment**

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Executive Summary

Australia's relations with Asia have an importance and immediacy not often appreciated in most of the rest of the world. For Australia, as former Prime Minister Paul Keating was fond of saying, echoing a phrase used by Sir Robert Menzies in a radio broadcast in 1939, Asia is not the Far East but the 'Near North.' It is hardly surprising then that Australian governments from all kinds of ideological backgrounds have given high priority to relations with our most important neighbours. Trade provides just one of the key indicators of Asia's importance to Australia. In 2006 some 57% of Australia's merchandise exports went to East Asia, with a further 6% going to South Asia and 4% to the Middle East, giving a total of 67% to Asia as a whole.

This paper examines how this key relationship with Asia has been developed and fostered, looking in particular at the policies and initiatives of the current government headed by Prime Minister John Howard. Many commentators have argued that these policies have represented a significant break with past approaches, and in particular with those pursued by the two previous Australian Labor Party (ALP) governments headed by Bob Hawke and Paul Keating. The aim is to identify some key lessons and policy initiatives that might be useful to a range of other nations, such as Canada, as they also seek to strengthen their relationships with Asia. The emphasis is on the economic and trade relationships with Asia, but it is impossible to see how this more business-oriented aspect has developed without first looking at the dynamics of the political and diplomatic relationships that have emerged since this government came to power in 1996. This aspect of Australia-Asia interactions has changed quite a lot over this period, and in order to understand fully the precise forms of the economic linkages it is essential to first understand this political and strategic aspect.

When the Howard government came to power it soon signalled its intention to rebalance Australia's foreign policy stance, giving more attention to the US alliance and relatively less to relations with Asia, and this was emphasised in a number of policy documents. However, pressures from Australian business and from the constant reality of Australia's overwhelming economic ties with Asia have ensured that there has been a gradual swinging back of emphasis toward the neighbouring region, but without any weakening of the dominant bilateral ties with the US. As Howard is fond of saying, links with the US are based on a set of common values and beliefs: the ties with Asian economic partners such as China are of a different and much narrower nature. Some critics argued that this rebalancing would have a disastrous impact on Australia's relationship with Asia, but these fears now appear to have been exaggerated. In part, this is the result of Australia's robust economic performance in recent years, so that all Asian nations are now keen to maintain strong relationships with such an important regional

player. Many Asian nations, and notably China in recent years, have come to rely heavily on imports of Australian minerals and energy resources to underpin their rapid industrial growth.

Asia has been absolutely central to Australia's strong economic performance. Merchandise trade flows with Asia are extremely strong in both directions. For many years, Australia has recorded a serious balance of payments deficit, and in 2006 the deficit in merchandise trade stood at almost A\$12.5 billion. This position would have been much worse but for the strong positive balance of trade with Northeast and South Asia. Much of this was accounted for by the exports of primary products, notably coal, iron ore, aluminium ore and aluminium, but of increasing importance have been tourism, education services and travel services.

This key economic relationship with Asia has been underpinned by the strategies of the Federal and state governments. The Howard government inherited from its predecessors a set of structures designed to support Australian companies and other organisations in the development of stronger relations with their potential markets, sources of investment and so on, and for the most part these arrangements have been preserved. Indeed, in some areas the government has gone out of its way to support business ties with all regions including Asia – perhaps surprisingly for a government so committed to free market principles. The paper also examines the structure of various government departments, and in particular the Department of Foreign Affairs and Trade, in order to understand how they have sought to support business moves into Asia.

State and local governments have also been important in building the economic relationship with Asia, although that competition between states particularly to attract foreign investment has often been detrimental. The paper also examines the ways in which individual companies, especially the major players, have attempted to maximise their returns from their activities in Asia, and look at co-operation between various private sector interests through such organisations as chambers of commerce with a focus on particular countries in Asia.

The universities and think tanks have also a key role to play. Over the years, Australia has developed a well-earned reputation for the depth and quality of its teaching and research resources on Asia. Much of that capability remains intact but it is unfortunately true to say that there has been some erosion of that strong base.

Finally, the paper examines the special role that members of the rapidly expanding Asian-born communities living in Australia can play.

Introduction: Australia's Asian Imperative

As former Australian Prime Minister Paul Keating often reminded political and business leaders from Europe and North America, Australia's relations with Asia have an importance and immediacy not often appreciated in most of the rest of the world. For Australia, he said, Asia is not the Far East but the 'Near North.' It is hardly surprising

then that Australian governments from all kinds of ideological backgrounds have all given high priority to relations with our most important neighbours. Trade provides just one of the key indicators of Asia's importance to Australia. In 2006 some 57% of Australia's merchandise exports went to East Asia, with a further 6% going to South Asia and 4% to the Middle East, giving a total of 67% to Asia as a whole.

This paper examines how this key relationship with Asia has been developed and fostered, looking in particular at the policies and initiatives of the current government headed by Prime Minister John Howard. Many commentators have argued that these policies have represented a significant break with past approaches, and in particular with those pursued by the two previous Australian Labor Party governments headed by Bob Hawke and Paul Keating. The aim is to identify some key lessons and policy initiatives that might be useful to a range of other nations, such as Canada, as they also seek to strengthen their relationships with Asia. The particular emphasis is on the economic and trade relationships with the Asian region, but it is impossible to see how this more business-oriented aspect has developed without first looking at the dynamics of the political and diplomatic relationships that have emerged during the life of this government since it came to power in 1996. This aspect of Australia-Asia interactions has changed quite a lot over this period, and in order to understand fully the precise forms of the economic linkages it is essential to first understand this political and strategic aspect.

The Evolution of Political Relations with Asia

The Legacy of the Keating and Earlier Approaches

For much of the period since the late 1960s at least, there has been general agreement about the overall aims of Australian foreign policy and about the general nature of its preferred stance within the international community. In particular, Australia was one of the pioneers of what has become known as the philosophy of *middle power activism*. This approach was based upon the recognition that Australia is not a large country, and hence is not able to either generate large defence budgets or apply strong economic leverage. On the other hand, it is relatively rich, and is certainly influential within its region (McKay, 1996). With its historical and cultural links with Europe and North America, but with a strong interest in Asia, Australia has been seen as a link between East and West. Thus, the choice is not between history and geography – the two can act together to define a unique role. At various times, successive Australian governments have followed this path of middle power activism (Ravenhill, 1998), not always successfully, but with some notable contributions, as in the case of the Cambodian peace process and in the foundation of the Asia Pacific Economic Cooperation forum (APEC). This approach was certainly used during the period of the Keating government, and was particularly associated with former Foreign Minister Gareth Evans (Evans & Grant, 1995).

A second and closely related theme in this foreign policy consensus is the support for *multilateral approaches*, and using these to generate coalitions for action. This has certainly been a hallmark of Australian action for many years, and the nation has been seen as one of the most ardent supporters of the United Nations system.

But a third and very significant dimensions of the old consensus on foreign policy has been an emphasis on *relations with Asia*, now, as we have seen, the recipient of some two-thirds of Australian exports. But the relationship was not simply a matter of trade, and increasingly Australia developed critical security ties with Asia, culminating in the signing of a defence arrangement with Indonesia during the period of the Keating government. In Paul Keating's famous phrase, Australia sought security *in* Asia, not *from* Asia. This is not to suggest that the relationship with the United States was hostile or devalued, rather it was a sensitive question of balance.

In recent set of lectures broadcast by the Australian Broadcasting Corporation, Owen Harries (2004) has argued that historically we can recognise three major conceptual traditions in Australian foreign policy. First, a realist or power and interest tradition has often been identified with long-serving Prime Minister Sir Robert Menzies and now with current leader John Howard. This tradition has stressed a close relationship with the United States as a security guarantee in an inherently unstable world. Secondly, a more nationalist and internationalist tradition has stressed close involvement with international organisations such as the United Nations and with multilateralism generally as a way of defining a more stable international security architecture. Thirdly, a regional affairs tradition emphasised links with Australia's regional neighbours especially in Asia. Labor Prime Ministers Gough Whitlam and Paul Keating were particularly identified with this approach. Certainly in the 13 years of Labor rule up to 1996, Asia loomed very large in Australian foreign policy. However, it would be wrong to suggest that Asian linkages were entirely dominant: for example, Hawke was an enthusiastic supporter of the US intervention in the first Gulf War in 1991. Rather, as Harries has been at pains to point out, it was all again a matter of balance.

During these 13 years of ALP rule up to 1996, there were a number of key achievements in relation to Asia. The successful hosting of the first APEC meeting in Canberra in 1989 created a strong linkage between Australia and this organisation, not least in the minds of the Asian nations. But it was the signing of a security agreement with Indonesia, building on close personal ties between the Prime Minister and President Suharto, that is particularly associated with Keating's approach to the region, and perhaps represents the highpoint of this period of close Asian involvement. Keating was certainly not universally liked in Asia – witness his very public slanging matches with Malaysia's then Prime Minister, Dr. Mahathir – but Australia had a central place in the region, and was arguably at the heart of regional discussion about the future shape of Asian economic and political co-operation. Some critics of Howard have argued that this close relationship was lost in the early days of the Howard government and has never been regained.

The Policies of the Howard Government: Rebalancing the Relationship with Asia

After the Howard government came to power in 1996, it soon signalled its intention to rebalance foreign policy away from what it saw as an undue emphasis on relations with Asia. In the first White Paper on Foreign and Trade Policy (Australia, 1997) the global dimensions of foreign policy were emphasized, rejecting the idea that we should withdraw for the global economic and political debate in favour of a limited concentration on the immediate region, and this message was taken a stage further in the more recent White Paper (Australia, 2003). From the outset, this second report stressed the nature of Australian values of “tolerance, perseverance and mateship.” These define the spirit of the nation, as does the idea of liberal democracy, and are at the core of foreign policy. The relationship with United States is given great prominence, and central is the conviction that no other country can match the reach of the US in global affairs. Thus the desire to negotiate an Australia-US free trade agreement became a centre point of both economic and strategic policy. John Howard was in the United States at the time of the terrorist attack of September 11, 2001, and this event had a clear emotional impact upon him. The result has been the development of closer ties between the US and Australia than at any time in recent years (Sheridan, 2006).

A number of studies have criticized the performance of the current government within the region. Alison Broinowski (2003) and others have argued that Asian leaders have been deeply disturbed by Australia’s close identification with the United States in recent years. Particularly damaging was the so-called “Deputy Sheriff” interview that John Howard gave to the *Bulletin* magazine. In the immediate aftermath of the Australian intervention in East Timor to prevent further violence by the pro-Indonesia militia, Howard basked in the success of the operation by Australian troops. This, in itself, was bad enough for some Asian commentators, who resented what they saw as undue triumphalism. But to make matters much worse, Howard was reported as saying that this was just the sort of contribution that Australia could make in its region to the global effort, acting as a local “deputy sheriff” for the United States. The outcry in the region was immediate and very shrill, and after five days Howard denied that he had ever used the phrase, and that he had been misquoted, but by then the damage had been done. Australia is even now chided as the “Deputy Sheriff” by critics such as Dr. Mahathir.

However, pressures from Australian business and from the constant reality of Australia’s overwhelming economic ties with Asia have ensured that there has been a gradual swinging back of emphasis toward the neighbouring region but without any weakening of the dominant bilateral ties with the US. As Howard is fond of saying, links with the US are based on a set of common values and beliefs: the ties with Asian economic partners such as China are of a different and much narrower nature. To some extent this stance represents recognition that there are some concerns within the Australian community about China’s human rights record in general, and notably about its policies on Tibet. There are also frequently voiced criticisms about China’s environmental policies, and both the business community and the trade union movement have expressed concerns about the competition that Australian manufacturers in

particular face from an increasingly dominant China. These issues have come to a head with the decision by the Australian and Chinese governments to negotiate a free trade agreement, although at present there seem to be some serious problems in bringing this dialogue to some kind of positive conclusion. However it is also true that many concerns have also been expressed in the wider electorate about the closeness of the relationship with the United States. The Iraq War in which Australia is part of the “coalition of the willing” is clearly unpopular, and many concerns have been expressed about US attitudes to human rights and climate change. The signing of a free trade agreement with the US also drew some serious criticisms. It was seen in many parts of Australia as unfair, largely because of the US refusal to include a number of key agricultural products such as sugar in the agreement, and to delay the application of free trade provisions to beef for some 18 years. Thus, the question of attitudes to China versus those involving the US is rather complex, and a number of commentators argue that the government’s stated view that Australia can have good relations with both the US and China -- can “walk on both sides of the street” as Howard is fond of putting it -- could run into serious problems if relations between Beijing and Washington deteriorated in the future.

It is also true that Australia’s renewed links to the region are at least in part at the urging of the US itself, which sees Australia as a key ally in an area of great importance. Thus Southeast Asia in particular is seen as Australia’s ‘beat,’ ensuring regional stability on behalf of the alliance. This particular basis for Australia’s interests in Asia also explains the clear preference by the Howard government for bilateral rather than multilateral approaches to Asian nations. The key relations here are with the traditional US allies Japan, South Korea, Singapore and Thailand. However it should also be noted that Australia now has a key relationship with China. This is based in large measure on China’s enormous appetite for the wide range of resources that Australia can provide for China’s rapidly expanding industries. At the same time there is no denying the political and cultural basis for the emerging relationship. This was demonstrated in the symbolism of inviting Chinese President Hu Jintao to address a joint sitting of the Australian Parliament only a day after President Bush was accorded a similar honour, reportedly much to the consternation of the US government.

In spite of these successes in reassuring Asian leaders of Australia’s desire to be part of region’s political as well as economic life, there is one key area in which the strong links developed by Paul Keating have not been rebuilt: relations with Australia’s most populous neighbour Indonesia remain decidedly strained. Australia’s leading role in the vote for independence in East Timor, certainly in the minds of most Indonesians, then in the later military intervention, continue to sour relations. Australia is now seen as undermining the territorial integrity of Indonesia, and concerns in Jakarta about Australian support for the independence movement in West Papua are frequently voiced.

But it must also be pointed out that in spite of these weakened ties with Indonesia and the recent history of broader relations, almost all Asian leaders are happy for Australia to still be involved in a range of regional organisations. Perhaps the most important manifestation of this was the government’s success in being invited to attend the inaugural East Asia Summit in Kuala Lumpur in late 2005. In large part this

continued Asian interest in Australia is also driven by economics. Under the Howard government the Australian economy has emerged as one of the star performers of the developed world, and its economic clout as well as its proximity makes it an important player in the region. Thus almost in spite of some of its policies and preferences, Australia is seen by much of Asia as an invaluable partner, even though it is also clear that some regional leaders have no great affection for the current government. It should also be noted that many Asia nations do not see either APEC or the East Asia Summit as the key multilateral organisation in the region. Most effort by China and others is being devoted to the ASEAN Plus Three grouping, an 'Asians only' club that seems to be the key forum for the future.

In an important new book, Michael Wesley (2007) has explored what he calls the Howard paradox:

How has a government that has been so rhetorically uncompromising in its relations with its neighbours, that has done so many things that critics have claimed would damage Australia's relations with its region, managed to build such strong links with Asian countries? How has a government that has presided over such precipitous deteriorations in relations with China and Indonesia been able to repair them so quickly, and take them to what is arguable a deeper level of intimacy than ever before? How has a government that has largely eschewed multilateral approaches and been so openly dismissive of 'Asian regionalism' been able to secure invitations to the foundation meetings of a burgeoning East Asian regionalism?

(Wesley, 2007: 24)

As will be clear from the earlier part of this paper, I do not agree with some of Wesley's starting points. I do not believe, for example, that the relationship with Indonesia has been properly rebuilt, nor am I convinced that Australia has really been welcomed into the key fora in the renewed moves toward East Asian regionalism. But Wesley does have a point. Certainly relations with the region have not been as disastrous as some critics predicted, and we need to understand why this is so. I agree with his basic point that the mood in Asia after the financial crisis of 1997 was more receptive to Howard's brand of pragmatism, and the remarkable performance of the Australian economy during this period has meant that pragmatic Asian leaders have been keen to maintain ties with a rapidly expanding regional player. More contentious I think is Wesley's assertion that in such situations the concept of soft power is often over-emphasised. There is little evidence, he suggests, that the Howard government's "gaucheness, self congratulation or cultural insensitivity have damaged Australia's substantive foreign policy interests in Asia" (p. 224). This is an overly simplistic view, I fear.

With this somewhat mixed set of relations between Australia and Asia as a backdrop, let me now consider the development of economic relations during the period of the Howard government, looking in part at the ways in which government policies and programs have been central to the undoubted successes that have been achieved during this period.

Trade and Investment Relations with Asia

Key Dimensions of Australia's Economic Relationship with Asia

Asia has been absolutely central to Australia's strong economic performance, and in the Appendix a number of tables are presented to provide some insight in to the major dimensions of these economic linkages. As Tables A1 and A2 demonstrate, merchandise trade flows with Asia are extremely strong in both directions. For many years, Australia has recorded a serious balance of payments deficit, and in 2006 the deficit in merchandise trade stood at almost A\$12.5 billion. This position would have been much worse but for the strong positive balance of trade with Northeast and South Asia. The total merchandise trade surplus with Asia was some A\$13.3 billion in 2006, and particularly important here were the surpluses with Japan (A\$15.2 billion), India (A\$ 7.5 billion) and South Korea (A\$5.4 billion). Much of this was accounted for by the exports of primary products, notably coal, iron ore, aluminum ore and aluminum, but of increasing importance have been tourism, education services and travel services. China has also emerged as a rapidly growing export market, but imports from China have expanded even faster, so that by 2006 the merchandise trade deficit was some A\$5.2 billion. Australia has also recorded significant trade deficits with Southeast Asia, the balance being a negative A\$16.4 billion with the ASEAN countries as a whole. Much of this is accounted for by the significant imports of petroleum products from the major refining centre in Singapore. It should be noted that the overall level of trade interaction with Asia is growing steadily, with the share of both total exports and imports involving Asia expanding steadily since the mid-1990s. Trade in services is much more balanced, but once again the most significant surpluses are with Northeast Asia. Northeast Asia also accounts for some 27% of Australia's total inbound tourists (Table A.4). Particularly important here has been the rapid growth of tourists from China, which has offset some decline in the numbers coming from the more established market in Japan.

The Role of Government

Federal Government

The Howard government inherited from its predecessors a set of structures designed to support Australian companies and other organisations of various kinds in the development of stronger relations with their potential markets, sources of investment and so on. For the most part these arrangements have been preserved. Indeed, in some areas the government has gone out of its way to support business ties with all regions – perhaps surprisingly for a government so committed to free market principles.

The first area of support, and certainly the most radical for a government of this ideological hue, has been the direct intervention of the Federal government in support of bids being made by Australian companies for significant commercial contracts in the region. The best-documented case is the successful bid for a liquefied natural gas (LNG) contract with China, which at A\$25 billion over 25 years is the biggest trade deal in

Australian history. This contract, important enough in its own right, has also opened up the possibility of further gas sales agreements with South Korea and the United States, in addition to extended supplies to Japan. The press has as usual identified a hero of this piece, and has dubbed Mr. Alf D' Souza, the leader of the Australia Trade Commission team in Beijing, as the "\$25 billion man." However, in an interview published by the Australian Trade Commission he suggests that this was very much a team effort. The main company involved, Woodside Petroleum, had to show commitment to the project through constant visits to China to present detailed proposals. Of course the deal had to make strong commercial sense for both sides, but the same could be said for all the strong rival bids from a range of other countries with which Woodside had to compete. One key advantage of the Australian bid was that the Chinese partners were offered some equity in the project, giving much stronger guarantees of reliability of supply and security of the resource. It appears that the keenest competition for the contract came from Indonesia, but the Australians were able to highlight that their bid suffered from fewer security and instability risks.

What was also crucial, D' Souza insists, was the involvement of both the Australian and state governments. This high-level support was apparently viewed by the Chinese side as contributing significantly to the security of supply. The Western Australian government was able to emphasise its ability to provide the necessary infrastructure and other support. The Federal government involvement included some important practical support. For example, there was an agreement organised through the University of Western Australia Business School to provide an executive education program for senior Chinese managers involved in the gas industry in Guangdong province, the destination of most of the Australian product. This will involve annual visits to Australia to attend intensive instruction modules, culminating in the award of a special new Executive Management Certificate. Training includes English language instruction, units on competition policy and regulatory regimes, and a range of practical courses on production techniques, pipeline management etc. Participants will also spend time visiting gas production, distribution and utilisation facilities in various parts of Australia. To provide research support for the whole enterprise, a new Australian Centre for Natural Gas Management has been established at the University of Western Australia. This centre will aim to contribute an understanding of the global gas industry from a variety of perspectives. All of these university-based activities are funded through the Australia-China Natural Gas Technology Partnership Fund, a by-product of the LNG sale.

At a political level, a wide range of Ministers made frequent visits to their counterparts in China, including the Foreign Minister, the Minister for Trade and the Industry Minister. But perhaps most telling, the Prime Minister was directly involved at various stages of the negotiations, and travelled to China to make the final presentation of the Australian bid to the Chinese government. John Howard himself has argued that such successful deals are not based on single contacts or visits, but on the development of long-term relationships of trust, and this is why he has made more visits to China than any previous Australian leader. The invitation for President Hu Jintao to address a joint sitting of the Australian Parliament mentioned earlier was also part of this process.

The successful conclusion of this massive deal with China, and in particular the crucial involvement of the Prime Minister in the negotiations, raises some interesting questions in relation to the current government's relations with Asia. The government has used the signing of this deal as proof that any criticisms of its commitment to Asia or of its ability to manage relations with Asia are completely misplaced. My own view is that the reality is rather more complex. Certainly, political involvement in the process was essential, adding an extra dimension to the already strong commercial bid, but it would be wrong to suggest, as some politicians have, that Australia now has a unprecedentedly strong relationship with China and one that is added to significantly by the close ties between Australia and the United States. This is an argument also put by Greg Sheridan in his new book (2006). He contends that above all else, Asian governments respect power, and Australia's alliance with the most powerful nation in the world lends it automatic standing in the region. This is dangerously simplistic. Certainly the alliance with the US has fostered even closer ties with some key American allies in Asia, notably Japan, but China is another matter. Some senior Chinese officials have said to me that while relations between Australia and China are relatively good, and while China understands Australia's role in the US alliance system in the region, China "would prefer that Australia behaved more like France or Germany and less like Great Britain." The Australian government for its part argues that it can manage the obvious tensions between China and the US, and even contribute to improvement in relations, but a number of commentators have argued that at some stage the Australian government will be forced to make some difficult choices, perhaps in any confrontation between China and the US over Taiwan. It is interesting to note that China has demonstrated some ambivalence over Australian involvement in regional bodies such as the East Asia Summit. Political support for commercial deals that are in China's interest are helpful, but it would be misleading to suggest that this success was part of a strong diplomatic push into Asia aided by the US alliance.

What is not in dispute is that the success of the LNG deal with China has provided a springboard for a range of other initiatives involving close collaboration between the private sector and all levels of government. Some of these commercial contracts have also involved resource projects – for example a very similar LNG deal with South Korea – but others have extended into services. One example also involved China, which designated Australia as a preferred destination for Chinese tourists, one of only a very small number of approved destinations at the time. Once again, this deal was only achieved through a sustained process of consultation and collaboration involving Federal and State governments.

At a more general level, the Federal government has been very active in the negotiation of free trade agreements (FTAs) with a range of countries. Australia has a longstanding FTA with New Zealand, but the current government has concluded agreements with Singapore, Thailand and the US, and is currently in negotiations with China and Malaysia. It is also actively supporting a number of broader regional deals such as the proposed FTA between ASEAN and Australia and New Zealand. All of this activity has been undertaken while at the same time urging all players to resume

negotiations in the stalled WTO Doha Round. The government has argued that the FTAs already signed offer significant advantages to Australian business, and has organised a large number of meetings to explain the new opportunities provided for various sectors of the economy. Once again, it has also maintained that these bilateral deals provide further clear evidence that this administration can very capably manage Australia's relationships with Asia. Most commentators also suggest that that FTA with the United States was a direct result of close personal ties between Prime Minister Howard and President George W. Bush and a reward for the commitment of Australian troops in Iraq and Afghanistan. The unanimous vote for the agreement in the US Congress was seen as added proof, coupled with the refusal by the US administration to sign such a deal with New Zealand, still regarded as a less reliable ally after its continued ban on the entry of nuclear-capable US naval ships into New Zealand ports.

At a day-to-day level, it is important to recognise that the provision by the Federal government of a number of trade and investment related services has been important in the development of Australia's commercial links with Asia. Austrade is the government agency that provides assistance of various kinds for companies seeking to export their products or services. Reporting to the Minister for Trade, Austrade has more than 100 offices in 58 countries around the world. A significant emphasis is on providing assistance to companies at all levels in the development of a successful export strategy. This includes:

- Assessment of the export capabilities of individual enterprises.
- Assistance with detailed export planning.
- Market research and analysis to select the right market and the best market entry strategy.
- Help in identifying good overseas business partners.
- On-the-ground support from Austrade staff, many of whom are local staff with language skills and detailed knowledge of particular environments.
- Participation in regular trade fares in Australia and overseas.
- Assistance with strategic planning and network development, advice on fine-tuning export strategies and on ways to achieve continued growth in exports.

Such general approaches have also been tailored to the needs of particular sectors. For example, companies in the strategically important information technology sector can apply for assistance under a range of programs organised with the Department of Industry. These include funds for the commercialisation of emerging technologies, to provide venture capital for small high-tech companies involved in innovation, to support venture capital partnerships and pooled development funds and to support not-for-profit incubator organisations providing shared support services and shared premises for small businesses.

Some basic structures of government have been refined to support these export activities. A key step, which took place during the time to the Hawke government, has

been the amalgamation of the old Foreign Affairs and Trade portfolios into a single Department of Foreign Affairs and Trade (DFAT). All Australian Ambassadors or High Commissioners are now expected to make significant contributions to trade relationships with their host countries. They are also encouraged to work with the Trade Commissioners, the representatives of the Department of Trade and Austrade attached to many overseas posts. Indeed, many report that this activity now takes up the majority of their time. This emphasis is also reflected in the regular inter-ministerial meetings that are held with key bilateral partners. The emphasis in these dialogues is usually on trade, investment, technology transfers, skills development and the like, and involves much dialogue with and between private sector representatives from both countries. To support a number of these relationships on a more continuous basis, the Federal government also supports a number of bilateral foundations that also provide funds for various kinds of linkages initiatives in the arts and education as well as in business-related areas. Similarly, government works with the private sector to encourage the work of a number of business councils, such as the Australia-China Business Council.

In a number of other departments special divisions or units have been established or strengthened to improve economic relationships with Asia in particular. In the areas of tourism, industry, agriculture, mining and minerals exploration and production, and energy for example there are a wide range of specialists who are spearheading relationships, although it is difficult to provide precise numbers of such key personnel. In every department there is now an important interaction with the region. However, the locus of power in the development of policy has clearly been shifting. Particularly important and worrying has been the decline in the role of the Department of Foreign Affairs and Trade (DFAT) and the rise to almost total dominance of the Office of Prime Minister and Cabinet. There has been a significant decline in the total staff of DFAT, although the proportion of field staff assigned to Asia has remained at around 39%. However, as was outlined by Graeme Dobell (2003), the professional and specialist staff both within the DFAT headquarters in Canberra and in the embassies now have a much reduced role in policy development. The Howard government, Dobell notes, does not react well to criticism or debate over its policy positions, and ambassadors in particular are discouraged from pressing their viewpoints based on local knowledge. The result has been that much more policy work is now done in Canberra, but not in DFAT, and ambassadors have been reduced to a position of what he calls “diplomatic compliance.”

Improving Co-operation between the Federal Government and the States

There is still much work that needs to be done to improve co-operation between Federal and State levels of government. This is particularly so in the current political circumstances in which power at the Federal level is held by the conservative Liberal Party-National Party coalition, while for the first time in Australian history power in all of the States and Territories is in the hands of Australian Labor Party governments. Sometimes, as in the case of the LNG deal with China, these political rivalries can be put aside, but in most situations there is competition rather than co-operation, and this can cause severe problems. In the area of trade promotion there has been continual debate about the role of the states as against the national approach of Austrade, and from time to

time various states have expanded their overseas representation and activities while others have decided to put their support behind national efforts. In the period up to the early 1990s all states had some form of trade representation abroad, but there was then a move by most states to save money by relying more on Austrade. But since then, the more populous states, and Victoria in particular, have been expanding their networks of trade offices overseas. Many commentators with detailed knowledge in this area argue that this lack of a common national approach is hurting Australian export efforts and that more needs to be done to co-ordinate existing programs and avoid wasteful duplication or even competition. The networks established overseas by the state governments have little capacity, and in particular do not have the resources to follow up initial contacts or ideas. Nor do they have the resources to follow up companies in Australia to provide advice, marketing plans and the like. The result is that in many of the state programs significant funds that have been made available for export promotion remain unspent through lack of suitable applicants. Some have argued that a new division of labour is needed in export promotion between the Federal and State governments, with Austrade concentrating on improving its networks overseas, and especially its follow-up capacities, with the State governments working closely with firms in their areas to prepare them more fully for a big push into export activities. In this new joint approach, both levels of government would need to work creatively with a range of employer organisations, business councils and chambers of commerce. However, political rivalries make such new approaches difficult to organise.

So far, this section on the role of government in the development of economic relations between Australia and Asia has concentrated on trade, especially exports. But there is also the very important area of investment. One of ironies of the relationship has been that while trade has grown dramatically, there has not been a corresponding expansion of investment, especially Australian investment in Asia. Most Australian investment still goes to projects in the more traditional markets of Europe and North America, in spite of repeated analyses showing that on average rates of return on investments in Asia are significantly higher. There is clearly room for much improvement. The growth of inward investment from Asia has been much greater, especially in the resource extraction and processing areas. But here again progress has been hampered by rivalries between the states themselves and between the states and the Federal government. The Australian government's inward investment agency, Invest Australia, has to deal with aggressive programs by the states, all of which are competing with each other rather than combining efforts in the national interest. The result, as a number of commentators have noted, is that foreign companies can take advantage of this competition to gain unreasonable concessions of various kinds, including free infrastructure and access to local resources at unrealistic prices. One frequently quoted example is the bidding war that took place between several states to host a new aluminum smelter proposed by ALCOA, one of the industry's multinational giants. Victoria, the eventual winner of the contract, promised very low electricity prices, much to the dismay of environmental groups, and agreed to fully fund a new electricity transmission line across much of the state to the smelter's location in western Victoria. Similar stories could be told about a number of investments made by Asian based companies in Australia. Not surprisingly, many analysts are urging a new national approach to the

promotion of inward investment, with a particular role for the states in the facilitation of investments through a reduction in time-consuming local regulations and restrictions. However, political realities have made this difficult to achieve. Recently there have been moves to create a formal agreement to avoid such bidding wars in future, although so far Queensland has refused to join in this effort.

It is possible, however, to point to a few small success stories that may be a sign of a renewed acceptance that there is much to be gained from greater collaboration between the various levels of government. There has been co-operation, for example, in the mounting of displays at a number of World Expos such as the one in Aichi, Japan and the event being planned in Shanghai, with financial contributions from the Federal Government and from a number of the states. There is also some limited collaboration attempting to build on the recent hosting of major sporting events in Australia. Both the Olympic Games in Sydney in 2000 and the Commonwealth Games in Melbourne in 2006 were widely seen as very successful, and provided significant benefits for the local economies. In Melbourne the Business Club initiative attached to the Commonwealth Games allowed the development of business contacts that have been built on since then. The governments of New South Wales and Victoria are also working together to market their joint expertise in cities soon to organise their own games, notably Beijing and Delhi. This has allowed local companies to gain major contracts in the design and building a number of facilities for the Beijing Olympics.

Sister city relationships have also been used to create significant levels of economic co-operation in Asia. A particularly successful example has been the collaboration between the Melbourne City Council and the Victorian Government to develop the long-standing agreement with the city of Tianjin in China. Signed some 25 years ago, the relationship has been refined for the particular benefit of Victorian businesses, and serves as a focus for the operations of a number of key Victorian companies trading and investing in China.

Private Sector Methods and Organisations

Within the private sector in Australia, as in all developed economies, there is a wide disparity in the size, power and available resources of various kinds of companies. Much of the recent success in trade development with Asia has been in the resource sector, and this is dominated by a very small number of giant corporations. Some of these are home grown. Notable here is BHP Billiton, one of the largest diversified mining companies in the world, formed through the merger of the Australian company BHP with its South African counterpart Billiton. This in itself is interesting, as it represents an alliance between two middle-sized, resource rich nations. Other mining giants are branches of foreign-owned corporations; such the very large Australian operations of the London-based Rio Tinto. Entities such as these have large resources and often need little assistance in their marketing activities, although as seen in the case of some very large competitive project negotiations, some government support can be essential. Large companies such as these have developed elaborate marketing systems as

well as corporate affairs offices to manage relations with governments in Australia and overseas, and to lobby effectively on any relevant policy issues.

In the case of BHP Billiton, permanent marketing offices are maintained in all major Asian cities. One recent innovation is the establishment of two major hubs for the co-ordination of all marketing and other activities globally. One of these hubs is in The Hague in the Netherlands, servicing the large and very diverse European market, while the other is in Singapore, managing all Asian activities.

One of the frequent problems cited by Australian companies, especially the smaller ones, is their unfamiliarity with local cultures, laws, languages and the like. There have also been problems in predicting changes in economic conditions and demand in various countries, and in keeping up with the latest developments in government policies. One interesting development in this regard has been the large investment made by Rio Tinto in fostering studies of China in Australia. Through an agreement with the Australian National University, Rio Tinto has endowed a Chair in Chinese Economic Studies plus a number of other research positions, and funds an annual conference on recent trends and developments in China. This represents a significant contribution to Australia's resources in this key area.

Most companies outside this elite group are forced to rely much more on the facilities of Austrade and their state government counterparts. They are often also the main contributors to the various chambers of commerce and business councils that have been set up for most major countries in the Asian region, although it should also be pointed out that the very big companies also contribute a lot to these organisations. In particular they can offer advice and the results of their experience, because these are often mutual-support organisations.

The real problem, as has been recognised by most countries, is in how to reach and involve the very smallest companies, often with good ideas and marketable products but lacking the resources to mount a successful export strategy. The needs here are well known, but it would be wrong to claim that Australia has yet developed a successful approach to this important problem.

One other area of concern already mentioned is the lack of investment by Australian companies in Asia. This is being tackled through a range of initiatives, including special seminars on investment opportunities, advice on how to identify suitable joint venture partners, invitation to trade fairs at which new technologies and products can be showcased and the like. But once again, it has to be admitted that this remains a difficult problem. Perhaps the real causes are very basic, and reflect a fear of the unknown and a reliance on older patterns of behaviour in the more familiar environments of Europe and North America. The real need is for more supportive education, often of a very basic kind, on Asia – its history, cultures, economic conditions and the like – and more use of the research capabilities found in the universities. The situation will also change as more entrepreneurs from Asian backgrounds enter the business community. I turn to these two areas in the concluding sections of this paper.

The Roles of Universities and Think Tanks

Over the years, Australia has developed a well-earned reputation for the depth and quality of its teaching and research resources on Asia. Much of that capability remains intact but unfortunately there has been some erosion of that strong base. Too little use is made of that capacity by both government and the private sector.

During the period of the Labor governments headed by Bob Hawke and Paul Keating there was a remarkable expansion in both teaching and research programs dealing with various aspects of Asia. Just about every university in Australia it seems established some kind of centre of Asian research, and the study of Asia became one of the priority areas of the Australian Research Council, the government body providing research funding to Australian universities. Special grants were made to allow for the establishment of key national centres of excellence for the study of countries of particular importance to Australia: under this scheme special centres relating to South Korea, Thailand and South Asia were set up. Funds were also made available to increase the number of courses in Asian languages and related areas such as Asian cultures, history and law. Scholarships allowed more Australian students to undertake part of their studies in Asian universities and for Asian students to come to Australia. In the primary schools, there was a policy established that all pupils should have the chance to acquire at least an elementary knowledge of an Asian language. At the University of Melbourne outside funding was made available to establish Asialink, with the charter of reaching out to Australian schools and to the community to foster a better understanding of Asia.

This was an exciting time, but it was clear that such a level of activity was not sustainable in the longer term, simply because governments could not continue funding at that level and other sources of support were not forthcoming. The government argued that it was making seeding grants, and more permanent support should be sought from the private sector. Business, with little of the tradition of philanthropy found for example in the US, responded that its large tax payments should give it access to such intellectual resources without need for further contributions. The result is that many of these initiatives have now disappeared or have been severely downsized. In truth, many of the new programs founded in the late 1980s and early 1990s were of dubious quality, and some rationalisation was probably desirable, allowing resources to be concentrated on the better programs. However, the process has probably gone too far and many high-quality initiatives have been lost. This is particularly unfortunate at a time when Australia's economic integration with Asia has continued unabated.

The necessary level of research and new thinking on Asia is not provided by a well-established group of think tanks either. Again unlike the situation in the US, there is little tradition of such organisations in Australia. Those that do exist are generally linked to one or other of the political parties, hence have no mandate to produce independent research. Again, the private sector has no tradition of making donations to such groups. One new exception to this is the Lowy Institute based in Sydney, the brainchild of immigrant businessman Mr. Frank Lowy. This is now undertaking a quite large research

program, including some useful work on Asia, but once the initial grant has been exhausted the longer term funding for the institute is far from secure.

One area from which Australia will be able to draw support in Asia for many years is the network of alumni from Australia's educational institutions. This is now a very large group, and strong efforts have been made to utilise this resource in a wide variety of ways to supplement the already large "people to people" linkages that are represented here.

The Special Role of Immigrant Groups from Asia

Finally, turning briefly to the role of immigrant groups from Asia in building links of all kinds with their homelands. We know from anecdotal evidence that this contribution is extremely important and is growing. Probably this role is not very different from that played by similar groups in other immigrant nations such as Canada, the United States or New Zealand. Yet there is a surprising lack of detailed research to give a much clearer picture of this resource and how it can be utilised most effectively. Certainly a number of Australian companies have been able to use the language and cultural resources of immigrants from Asia, and many migrant themselves have established their own companies interacting with Asia in various ways. I have suggested that many Australian companies feel that they cannot deal effectively with Asia because they lack familiarity with its languages, customs, legal systems and the like. Thus the future for many of these companies lies with the more effective use of the resources provided by these communities.

Conclusions and Lessons

The picture I have tried to present of Australia's management of its relations with Asia, particularly in the areas of economics, trade and investment, is very mixed. At one level, using measures such as the growth in Australia's trade with the region, things are progressing well. Certainly, Australia is seen in the wider world as having a close and effective set of links with Asia, and in this paper I have tried to bring out some of these success stories. When the Howard government came to power, many commentators feared that relations with Asia would deteriorate rapidly, but many of these predictions have not been realised. Certainly there have been some problems, but Australia was invited to the inaugural East Asia Summit, and the government has been effective in a number of areas in support of local companies, as in the case of the large LNG contract with China.

However, the relationship lacks depth and effectiveness in a number of areas. Many Australian companies, especially the smaller ones, have been reluctant to become involved in what they see as a new and perhaps threatening environment. Too much of the trade relationship depends upon the export of large quantities of unprocessed agricultural and mineral products. This is true especially at this time of high prices and great demand for such items resulting from China's industrial transformation. The

longer-term relationship with Asia will demand more sustained effort and more willingness to invest in basic infrastructure such as language skills and research capability on Asia. The current government has shown an unwillingness to make such investments, and has in fact cut funding to the universities for such activities. This bodes ill for Australia's Asian future, especially if the current resources boom comes to an end. A renewed national debate is needed on the priorities for investment to secure a more secure and productive future, and other nations should learn from this debate and from some of the current shortcomings as well as trying to emulate some of the obvious successes.

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APPENDIX

Indicators of Australian Integration with Asia

(All tables calculated from Australian Bureau of Statistics sources)

A. Exports

Table A.1
Australia's Merchandise Exports to Asia
(A\$ million)

Major Markets	1996	2000	2003	2005	2006
Japan	15,377	18,822	19,684	28,462	32,430
China	3,584	6,846	9,089	16,127	20,380
S. Korea	7,134	7,615	8,084	10,925	12,333
Taiwan	3,620	4,686	3,724	5,513	6,258
Hong Kong	3,105	3,211	2,879	2,677	3,149
Singapore	3,410	4,855	3,507	3,988	4,560
Indonesia	3,305	2,408	2,784	3,604	4,408
Thailand	1,693	1,703	2,252	4,129	4,280
Malaysia	2,332	2,141	2,079	2,513	2,834
<i>Total East Asia</i>	<i>45,093</i>	<i>54,047</i>	<i>55,686</i>	<i>79,675</i>	<i>93,433</i>
<i>Of which total ASEAN</i>	<i>12,273</i>	<i>12,867</i>	<i>12,092</i>	<i>15,862</i>	<i>18,785</i>
India	1,493	1,575	3,576	6,978	8,815
<i>Total S. Asia</i>	<i>2,448</i>	<i>2,576</i>	<i>4,040</i>	<i>7,893</i>	<i>9,526</i>
Saudi Arabia	448	1,334	1,992	1,925	2,198
<i>Total Middle East</i>	<i>1,102</i>	<i>3,284</i>	<i>5,385</i>	<i>5,398</i>	<i>6,616</i>
<i>Total Asia</i>	<i>48,643</i>	<i>59,907</i>	<i>65,084</i>	<i>92,966</i>	<i>109,575</i>
<i>Total World</i>	<i>77,792</i>	<i>97,286</i>	<i>107,956</i>	<i>139,076</i>	<i>163,614</i>
<i>Asia as % of total</i>	<i>62.5</i>	<i>61.6</i>	<i>60.3</i>	<i>66.8</i>	<i>67.0</i>

B. Imports

Table A.2
Australia's Merchandise Imports from Asia
(A\$ million)

Major Sources	1996	2000	2003	2005	2006
Japan	10,816	15,371	16,223	17,117	17,270
China	4,010	9,881	14,256	21,364	25,486
S. Korea	2,293	4,710	4,736	5,169	6,905
Taiwan	2,585	3,327	3,327	3,616	4,117
Hong Kong	970	1,367	1,149	1,328	1,651
Singapore	2,613	3,898	4,435	8,626	10,766
Indonesia	1,522	3,277	4,078	3,655	4,546
Thailand	1,005	2,780	3,605	4,812	6,258
Malaysia	1,636	4,177	4,327	6,078	6,727
<i>Total East Asia</i>	<i>28,039</i>	<i>48,788</i>	<i>59,844</i>	<i>76,630</i>	<i>90,677</i>
<i>Of which total ASEAN</i>	<i>7,365</i>	<i>17,433</i>	<i>20,135</i>	<i>28,007</i>	<i>35,222</i>
India	549	754	979	1,214	1,280
<i>Total S. Asia</i>	<i>669</i>	<i>1,056</i>	<i>1,370</i>	<i>1,488</i>	<i>1,566</i>
Saudi Arabia	874	1,613	1,284	1,330	1,190
<i>Total Middle East</i>	<i>1,153</i>	<i>3,709</i>	<i>2,889</i>	<i>3,082</i>	<i>3,956</i>
<i>Total Asia</i>	<i>29,861</i>	<i>53,533</i>	<i>64,103</i>	<i>81,200</i>	<i>96,199</i>
<i>Total World</i>	<i>77,792</i>	<i>118,264</i>	<i>129,983</i>	<i>155,726</i>	<i>176,056</i>
<i>Asia as % of total</i>	<i>38.4</i>	<i>45.2</i>	<i>49.3</i>	<i>52.1</i>	<i>54.6</i>

Exports of Services

Table A.3
Australia's Export of Services to Asia
(A\$ million)

Major Markets	1996/7	1999/2000	2002/3	2004/5
Japan	3,688	3,353	3,377	3,268
China	396	657	976	2,303
Hong Kong	1,045	995	1,308	1,385
Indonesia	1,029	839	972	715
S. Korea	927	608	837	1,141
Singapore	1,256	1,660	2,089	2,310
Taiwan	570	428	352	398
Thailand	474	433	479	528
Rest of Asia	994	1,184	1,594	1,659
Total ASEAN	3,834	4,050	4,763	5,011
World total	24,226	28,317	32,471	36,487

C. Imports of Services

Table A.4
Australia's Imports of Services from Asia
(A\$ million)

Major Sources	1996/7	1999/2000	2002/3	2004/5
Japan	1,545	2,049	2,100	1,935
China	447	621	923	1,212
Hong Kong	1,266	1,285	1,664	1,582
Indonesia	706	526	523	989
S. Korea	283	207	409	294
Singapore	1,200	1,935	2,550	2,666
Taiwan	155	136	173	221
Thailand	403	625	812	861
Rest of Asia	607	1,123	1,524	2,150
Total ASEAN	3,293	4,240	5,047	6,091
World total	24,152	29,713	32,909	38,011

D. Tourism

Table A.5
Inbound Tourists to Australia from Asia
('000)

Major Sources	2002	2004	2006
Northeast Asia			
China	190.0	251.3	308.5
Hong Kong	150.9	137.2	154.6
Japan	715.5	710.4	650.9
S. Korea	189.7	211.9	260.9
Taiwan	97.4	98.8	93.6
Other	1.9	2.3	3.3
Total	1,345.5	1,411.8	1,471.8
Southeast Asia			
Brunei	7.2	6.9	6.3
Indonesia	89.4	84.4	83.5
Malaysia	159.0	166.8	150.3
Philippines	28.5	31.2	37.5
Singapore	286.9	251.2	253.3
Thailand	82.7	79.8	73.9
Other	20.2	18.4	27.2
Total	673.8	638.7	632.0
S. Asia	58.9	73.1	105.9
Middle East & North Africa	51.5	64.0	75.8
World Total	4,841.2	5,215.0	5,532.4