

**Australia's Engagement with Asia
– A New Paradigm?**
Asialink-ANU National Forum



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Congratulations first to Asialink and to the University of Melbourne and to the faculty of Asian studies here at the Australian National University, my old stomping ground where I drank much and learnt not quite so much – consult the tab at the University Staff Club.

In the workaday life of a politician and of a political and foreign policy tragic such as myself, last night I found myself tucked up in bed reading this. It does get that bad. You go to bed reading this month's edition of the *Journal of Foreign Affairs*. Of course, this was in advance. Normally in politics there's no time to read, there's no time to think and there's no time to write. All these habits are actively discouraged by our profession. In fact, I often think that the prevailing view is that our principal value added to our national life is that of a performing seal: plenty of balancing acts; some well rehearsed tricks; lots of applause - well, some applause - and a mildly amused audience; and then if you're really lucky at the end, to be rewarded with a bucket of fish, in other words, be re-elected.

So in politics I fear it's the battle of a sound bite, the battle of spin control and, at its most elevated philosophical level, the battle of the paradigm shift – all based on a solid dose of interpersonal spleen, bile and invective. The result is sometimes a little less entertaining, a little less meaningful than reality TV. But a serious point that I make in all of this, and that is that national political life in some respects on some of the great questions we face as a nation is becoming a little bit like - I've got to say something about the current administration - a little bit like a well rehearsed Kabuki play, each with a reality of its own.

But if you actually look at it and see whether it's fundamentally connected with the underlying debates about the deep changes under way in the region in the world, there is often a profound disconnect, and these deep questions are those which the region and the nation, this country, Australia, must grapple. One of these deep realities is the profound set of changes now under way in our neighbourhood, the profound change drivers reshaping the geopolitics, the economic dynamics as well as the basic demography of this region and, through this region, the entire world. What we face, I believe, and I don't think I ever stated - what we face is a revolution under way and unfolding around us and I

fear it is one for which we are barely prepared in terms of its long term consequences.

Which brings me back to my reading last night of Foreign Affairs Magazine and its lead article this month entitled “A Global Power Shift in the Making”, and I'll just read you the first part:

A transfer of power from west to east is gathering pace and soon will dramatically change the context for dealing with international challenges as well as the challenges themselves. Many in the west are aware of Asia's growing strength. This awareness, however, has not yet been translated into preparedness. Major shifts of power between states, not to mention regions, occur infrequently and rarely peacefully.

That, in many respects, is our text for today. So what are the principal change drivers affecting our country's future? The list is familiar but I fear the consequences for the country are less so: the first, inevitably, is the rise of China; the second, almost as inevitably, the rise of India; third, the rise of militant Islamism in South East Asia; fourth, the emergence of competing visions of a regional architecture for wider East Asia, from which there is a risk that we may be excluded; and finally, overarching all the above, the future global posture of the United States.

Together these change drivers have a capability to rewrite the shape of our region over the next quarter century and the challenge we confront is are we nationally prepared for it? My argument today is that we are not and we must, at every level, radically lift our national game.

China is emerging as one of the greatest change drivers affecting the future economic and strategic shape of East Asia. Since Deng Shao Ping became paramount leader in 1978, China has introduced extensive market based reforms in agriculture, industry and the broader economy. Through the open door policy China has become a major participant in the global economy, symbolised by China's formal accession to the WTO.

China's economic growth performance has been impressive, averaging around 8 per cent per year over the past quarter century. Robust growth in the Chinese economy has also been important in sustaining the region's overall growth in the aftermath of the 1997 financial crisis. For the wider region, China's economic emergence represents a complex set of opportunities and competitive challenges.

The upside is relatively clear: China is emerging as a significant export market with opportunities clearly emerging in the resources sector but also in services, trades and consumer sectors. As these trends develop over coming years, we will need to be mindful of the region's medium to long term vulnerability to any

dramatic changes in China's overall economic performance and/or policy direction.

Parallel to China's emergence as a significant economic power, China is also emerging as a much more active participant in regional and global foreign policy. This is new. In the United Nations, the WTO, the Six Party Talks on North Korea, APEC, the ASEAN Regional Forum, ASEAN Plus Three, in addition to negotiating a range of bilateral FTAs within the region, China is no longer a passive factor in the overall international policy terrain. It is an active player, an active participant, pursuing its interests with vigour. We can expect these trends and developments to continue into the period ahead.

likewise, we can already see that a pivotal challenge for regional policymakers in the decades ahead will be the task of maintaining a constructive relationship between China and the United States. Over the past 25 years we have seen that relationship go through several permutations as both countries have attempted to gain each other's measure. Nonetheless, while significant disagreements remain, Sino-US cooperation, the war against terrorism, China's hosting the Six Party talks on Korea, in addition to a burgeoning bilateral economic relationship, all point to the current relationship between Washington and Beijing being and staying in good shape for some time to come.

The one potential cloud on the horizon is of course Taiwan. It is well known that Chinese policy remains the reunification of China while refusing, ultimately, to rule out the military option. For its part, Taiwan has recently reelected a president whose political party maintains a level of formal commitment to Taiwan achieving its independence. An important future policy dynamic, a central future policy dynamic for the future strategic stability and economic growth of East Asia is how this central question is handled.

In addition to China, India is emerging as a second major economic engine of growth here in the wider region. A decade following India's departure from previous unsuccessful economic models, a series of market-based reforms have now realised significant growth in the Indian economy. We are today seeing the emergence of a country very much focused on its future. Its strive forward will, if harnessed constructively, be a major and welcome influence in the development of our wider region.

In particular I focus here on India's "Look East" policy aimed at expanding its economic engagement with North East and South East Asia. While India's "Look East" policy was arguably formulated originally as a political instrument to project India into the Asia Pacific region, particularly ASEAN, political and economic development since its inception have reversed the order. It is now primarily an economic instrument which in time will deliver political and foreign policy dividends for New Delhi.

As well, we are seeing the ties with China continue to grow at a pace few imagined possible: annual two way trade growing at approximately 50 per cent since 1999. With ASEAN we see progress as well. A framework agreement on comprehensive economic cooperation has been negotiated that provides the establishment of an Indian ASEAN regional trade and investment area, including a free trade agreement in goods, services and investment.

Today we see that India's ties with ASEAN are becoming more comprehensively enmeshed. At the ASEAN Bali Summit in October 03 we saw the effective transformation of the formal grouping of ASEAN Plus Three into something beginning to look like ASEAN Plus Three, namely China, Japan and Korea, to ASEAN Plus Three plus one, the one being India, and finally we're beginning to see India moving to become a global strategic partner and player. Apart from the normalisation of India's relationship with China, India has moved to improve its relationship with the United States. India-US relations have flourished under the Bush administration. France, the UK and the US now speak of India as being a strategic partner.

A third major driver of global and regional change in the period ahead is terrorism, its driving forces, its political manifestation and the reactions to it by governments, by corporations and by populations around the world and around our neighbourhood. Terrorism is not a new phenomenon in history; it is a form of asymmetric warfare waged by non-state actors against other governments, against governments here in our own region. It usually takes the form of threats of violence or the application of violence to civilian or nonarmed targets in order to extract political concessions from the state actors in question. The inherent asymmetric nature of terrorism is illustrated by Dr Zachary Abuza, probably the world's leading authority in Jemaah Islamiah who noted recently, and I quote:

The Bali bombing in which 202 people were killed and led to the estimated loss of more than \$1 billion in tourism revenue for the country, that is, Indonesia, cost under \$35,000. Terrorism is truly asymmetric warfare. In our current circumstances the war against terrorism is a war against militant Islamism.

The ideological objective in this case is to engage in violent jihad against various governments in order to create a series of Islamic states committed to the compulsory application of Sharia criminal law. In this sense, the war against terrorism or the war against militant Islamism is very much a political and military struggle for the hearts, souls and minds of the world's 800 million Muslims. It is therefore first and foremost a theological, political and then paramilitary struggle within Islam itself.

Its principal targets are governments within the Islamic world which are regarded as militant Islamists as secularised, compromised and/or corrupt. Militant Islamists have also begun to target Western states because of their perceived complicity in propping up governments within the Islamic world which, within the

eyes of the Islamists, are beyond the theological and political pale.

More broadly, Western interests have been targeted in their own right as perceived representatives of a declining and decadent order which must be swept away. This militant extremist tradition is a minority tradition, an extreme minority tradition that fundamentally contradicts the dominant tolerant tradition of mainstream Islam. It is a minority tradition, however, which is becoming increasingly well organised, politically, militantly, regionally and globally. A critical question arises as to how Al Qaeda, Jemaah Islamiah and their associated organisations continue to recruit effectively in South East Asia, given the intensity of the Bali bombings and other attacks and the reactions to them across the region. Beyond the appeal of their original jihadist mission, to understand this phenomenon we must also look to the underlying social, economic, political factors in Indonesia and elsewhere which continue to enable these organisations to recruit. We must also look at how these organisations continue to be financed. There's a combination of all these factors that gives rise to the continuing terrorist threat against Australians and Australian interests across South East Asia.

A fourth change driver in the region is the emerging debate on the future shape of our regional architecture both economic and strategic. Unlike in Europe, East†Asia has not yet developed strong regionwide institutions fostering economic cooperation and collective security. The region's increasing economic interdependence has been driven by the economic reconstruction of Japan, the growing intra-regional trade and investment flows, and the rapid development of the newly industrialised economies of South East Asia and China's economic growth.

Similarly, on regional security, there is no NATO in East Asia nor is there an East Asian equivalent of the CSCE, the conference on security cooperation in Europe; rather, the region's security has been underpinned by a strong continuing US strategic presence reinforced by a range of alliance relationships in key regional powers.

US strategic engagement has helped prevent the re-emergence of historical tensions between the region's major powers, and this has to be welcomed. Since the Vietnam War, US strategic engagement has prevented the region's unresolved territorial disputes from erupting into full scale armed conflict in East Asia. A vigorous debate, however, is now taking place about the future shape of a pan-regional architecture. Unlike in Europe, this is very much a work still in progress, but the debate itself should be regarded as a significant change driver in the decade ahead.

ASEAN is one of the oldest continuing organisations in the region, founded as a strategic counterweight to communist victories in Indochina. ASEAN oversaw the rapid economic development of its original members. An indicator of ASEAN's success has been the successful accessions of its original strategic adversaries:

Vietnam in 95, Laos in 97, Cambodia in 99.

But beyond AFTA itself, ASEAN Plus Three, that is, ASEAN plus China plus the Republic of Korea and Japan, has emerged as a significant regional forum. APT, as it is called, meetings began to be held during the 1990s alongside APEC meetings. Since 97 there has been a broadening of support for developing the APT, ASEAN Plus Three, processes into an East Asian economic grouping. Factors promoting this development have included the traumatic impact on many regional economies of the Asian financial crisis from mid-97, which prompted many regional countries to consider the desirability of greater coordination to forestall any further crises and to add greater weight for East Asia and the region's dealings with international institutions like the IMF.

A second factor reinforcing this view was an emerging regional view that the ongoing development of other regional groupings in Europe and the Americas, namely the EU and NAFTA, should be matched by greater East Asian coordination and cooperation; and, third, the inauguration of ASEM, the Asia Europe Meeting, in 1996 which promoted greater internal dialogue within East Asia to bring to the ASEM table a consolidated Asian view.

Since 97 ASEAN Plus Three has developed considerable momentum. It has commissioned studies and reports to explore bases for further East Asian cooperation. For example, in 2001 it received a report which envisaged East-Asia as moving from a region of nations to a bona-fide regional community where collective efforts are made for peace, prosperity and progress. Two areas of cooperation being pursued by APT are trade liberalisation and financial cooperation. Other ambitious proposals have been floated. At the annual ASEAN summit and security dialogue in Jakarta in July 2004 some of the participants agreed to pursue at the Ventiane Summit later in 2004 a draft plan of action intended to lead to the creation of a single East Asian market by 2020. The same Jakarta summit agreed to consider a broad proposal for a security community across the region including the pooling of anti- terrorism intelligence and joint patrols of sensitive maritime zones such as the Malacca Strait.

Of additional relevance to Australia is whether or not any East Asian community would also acquire a security policy and political personality over time, in other words, for an East Asian community to develop along the lines of an EC EU template. The precise shaping of this emerging architecture, its operating rules, its institutional culture and long term impact on the economic and strategic shape of the region presents profound foreign policy implications for Australia and in the meantime APEC, an institution which we and the Japanese helped create, continues to drift.

Regrettably, Australia finds itself at the margins of much of this real debate about the future shape of the region's political and economic architecture. For this to change will require more effective Australian diplomacy in the future than in the

past. For Australia, the stakes involved in this debate are very high indeed. Dr Stephen Grenville, former deputy governor of the Reserve Bank of Australia noted recently, and I quote:

The point that is relevant to us in Australia is that, even if some of the economic issues currently under discussion in East Asia do not seem to be primary issues in our narrow national interest, the institutional framework which builds up around those issues will be the forum and structures on which deeper regional integration will be built.

We may not think these issues are of pressing importance to us, but if we let them go through to the keeper, then we will miss out on the other more nebulous benefits of regional integration, learning how to get along with one another. We need to recognise that there is already a very active network of cooperation built largely around ASEAN Plus Three, and the importance of this goes beyond the often technical nature of the specific links. Of course, even if we are keep to take part, our Asian counterparts may take some persuading.

So how does Labor respond to the above? We do so within the framework of our approach to foreign policy overall, a framework which we have based on three pillars: our alliance with the United States; our membership to the United Nations and participation in the global multilateral system; and thirdly our policy of comprehensive engagement with Asia. Each of these three strategic pillars of Labor's approach to foreign policy has its own strategic logic, its own strategic history and its own strategic function, and combined they form part of what we argue is a balanced and comprehensive foreign policy for Australia, one that best secures our country's future.

On the United States alliance, our credentials, we argue, historically and prospectively are solid. On the United Nations, we argue that our credentials historically and prospectively are solid. On the question of comprehensive engagement with Asia, our historical credentials once again are solid but challenge for the future is great. This is the third core component of our approach to foreign policy: comprehensive engagement in Asia. It is based on the high strategic logic of this axiom: that if you've got relations with your neighbours it's good for your security, and if you've got bad relations with your neighbours it's bad for your security. If you've got good relations with your neighbours it's usually good for the economy and for exports and for jobs, and if you've got bad relations with your neighbours it's usually bad for the economy and bad for exports and bad for jobs. This is the high logic upon which our approach to strategic engagement with Asia is based.

We have many achievements in this area and they are well known to participants in this gathering, but we fear that on this question of comprehensive regional engagement, given the array of policy challenges, which I alluded to before, we fear that this country's national approach to this challenges, that the

bipartisanship which has traditionally underpinned it, has begun in recent years to fray.

If there is one challenge I would have for this gathering and for the debate which is about to occur across our nation as we approach the next election, it is to restore bipartisanship in our approach to engagement with Asia, bipartisanship in word, bipartisanship in deed, bipartisanship in tonality, bipartisanship in the substance of our policy. For us as a small country on the periphery of this region, there is no alternative.

We've watched with some regret in recent years the PM's response to Hansonism. With some regret we've watched the announcement of what was described as the first Howard doctrine, Australia as a US deputy sheriff in South East Asia; the second Howard doctrine, the Prime Minister's embrace of regional military pre-emption as a means of dealing with security policy challenges in our own immediate region; the near breakdown in the bilateral political relationship between Canberra and Jakarta following Tampa; and more recently the foreign minister's novel approach to diplomacy with the Philippines; on top of that, the government's under funding and reduction of the reach of Radio Australia and the convulsions through which Australian international television has gone; and finally the government's decision to defund Commonwealth contributions to a national program to teach Asian languages in our schools.

But what would we do differently? It's easy to cite what's gone wrong; how would we approach it differently? On China, which is likely to profoundly shape Australia's long term economic and security future, we have a challenge before us to construct a long term partnership based on a long term coherent strategy. Long term economic forecasting is hazardous but the projections for China are staggering. Many have been done, believed by some, disbelieved by others.

Goldman Sachs' October 2003 projections has China with an economy overtaking Germany by 2010, Japan by 2015 and the United States by 2039. In July this year I went to the Central Party School in Beijing and gave an address on the subject of how we in this country should go about constructing a 25 long strategy in the energy and resources sector between our two countries. The government has made a good contribution to this in terms of the LNG strategy, which was achieved after sustained negotiation. But this is but the first step and there are many, many more steps to be taken. Our message to the Chinese should be simple, that is, we can do for China's future economic development what we did in the last century for Japan's economic development on this front.

Australia and most regional states remain committed to the principle of the One China policy. That has not changed and it will not change, but as I have noted elsewhere and I emphasise again today, if there is one factor capable of derailing all that we plan for in its region, it is for the China Taiwan relationship to fundamentally come apart. Australia's diplomatic efforts must have as their

number one priority in the decade ahead active engagement in the prevention of that unresolved territorial dispute between Taipei and Beijing degenerating into armed conflict. That would undermine everything.

On India, the relationship to date has been based in part on curry, the Commonwealth and a common language. These are good things, all to be encouraged. I like most of them. But when it comes to repeated governments in Australia's attempts to add flesh and substance to the bilateral relationship with India, we must do better.

Recently in a speech in Sydney I foreshadowed that I would be establishing within the Department of Foreign Affairs and trade, should I become minister, an India division. We must have an institutional capacity to drive into this country from our bureaucracy the emerging paramount importance of India to our nation's long term economic and strategic future. Also, we must inject greater political ballast into this relationship. We need to establish a regular pattern, semi-annual if possible, of Prime Ministerial visits in both directions. We must do better on India and we must do so now.

Thirdly, on the regional architecture, I noted before that there is an emerging problem in terms of ASEAN Plus Three emerging in the absence of any effective Australian diplomatic participation. That too must change. There is a danger that within the region we will see the emergence of pan-regional architecture completely in Australia's absence in shaping the rules for that region, its institutional shape and the way in which it actually behaves in the time ahead. This is a profound and deep challenge for Australian diplomacy.

I do not confess that it is easy. Recent changes in the political leadership in parts of the region will assist that process, but it must be in the top three diplomatic priorities of any incoming government in Australia. But on the strategic side and on the security side, we must begin to look at what we can do further with the ARF, the ASEAN Regional Forum. It's a body which has a capacity to effect positive change on the security front. It is moving in the direction of greater influence but has a long way to go yet. We must use it, the ARF, to acquire a greater strategic role in the future. The challenges, particularly in terms of pan regional terrorism are great and the ARF has a capacity within it to develop its mandate, given its membership, to do better on this score. To date no regionwide strategy to defeat international terrorism and its sources of financial support and recruitment has been developed. The ASEAN regional forum is well placed to do that.

On terrorism our approach is this: bilateral arrangements with countries within the region on security, intelligence and police cooperation front are slowly developing. They need to be taken further at the regional level. But our view of an effective conduct on the war against terrorism here in our own region is that it must be the sound of two hands clapping, not the sound of one hand clapping.

The sound of one hand clapping is that this is purely and exclusively a security policy, political policy, intelligence policy and/or a police law enforcement challenge. It is broader than that. Unless you address simultaneously those factors which make it possible for jihadist organizations to recruit with increasing effectiveness across East Asia, you're missing the other half of the equation. For us, therefore, as a practical step in that direction, we have announced that we will work with the Indonesian government to lead an international donor consortium with the international donor countries from the European Union, Japan and elsewhere to rebuild the Indonesian mainstream education system, an education system which, in many respects, was fundamentally undermined by the loss of budget revenues arising from the Asian financial crisis and the IMF intervention package of 97/98.

Why is that important? - because an increasing trend across Indonesia has been that, with schools running out of money, teachers not being paid and there being no curriculum effectively offered in the schools, that kids increasingly are offered cheaper forms of education in schools which are run by Islamist organisations funded through various Saudi Arabian foundations, and as a consequence a slow but seductive introduction into Wahhabism, the minority tradition within Islam that I referred to before. You can sit back and allow all that to happen or you can act, you can do something about it. If there's one country in the world which has a fundamental interest in getting Indonesia right it's the Commonwealth of Australia. For that to occur in partnership with our friends in Jakarta, we must do better on this front – the sound of two hands clapping, not one.

To conclude, all of these things are doable but purely on the back of effective and good bilateral political relationships with our friends and partners in the region. We can talk about that a lot, but the tonality of those relationships, their content and their feeling are fundamental factors in your ability to do business. You cannot have an effective security cooperation relationship with Jakarta unless the political relationship is in good order. If you are seeking to develop a long term 25 long economic relationship with China based on the energy and resources sector, a first class political relationship is a fundamental prerequisite.

This is not just a thing that diplomats say, it's not just a thing that foreign professionals say, it is the thing that those of us who have worked on the ground in these areas in the past know only to be true, that the political temperature of a relationship is of fundamental importance, and it is on that question that we have seen much fraying at the edges in recent years.

The political relationship must be in first class working order but underneath it our people must also become an Asia-literate Australia. Unless we have in this country a capacity over the period ahead to create an Asia-literate Australia, one which is knowledgeable and familiar in the principal languages of our region and familiar at working with the principal cultures and civilizations of the region, then frankly the task we face will be very difficult indeed.

It's the basic question of respect; that we are a small country of 20+ million people aside a continent of some 2 to 3 billion containing within it many high cultures and civilisations which were considerably longer in existence before Arthur Philip happened upon Botany Bay. For those reasons, deepening cultural respect, deepening our understanding of these civilisations, and deepening our ability linguistically to engage is a huge challenge.

For the life of me, the one thing I cannot understand in terms of what has happened in the last several years is the current government's decision to abolish federal funding for a national program to teach Asian languages in our schools. We crafted that in 1994 between governments, Labour and Liberal, state and Commonwealth. It was implemented over the following 10 year period - eight years of the 10, at least. As a result, by the end of 2002 we had 750,000 kids in the Australian school system studying either Chinese or Japanese or Indonesian, some Korean. Unilaterally, the Howard government cancelled its funding for that program at the end of 2002. I cannot understand why.

The task of preparing for our long-term strategic engagement with Asia is an inter generational task. It requires much planning, much forethought, much foresight. That was had a decade ago and unfortunately the programs based on that have been dismantled. It is important in shaping in this country – an attitude of respect in our dealings with our regional partners which underpins all the key interests that I ran to before across the security policy front and the economic policy front.

Above all these things, let us return this country to a healthy and intelligent bipartisanship on the question of comprehensive regional engagement. Let us both, on both sides of politics, own that term. It is not the property of an individual political party. Let us put this debate behind us. For the nation's good, let us simply accept that as our national direction and go forward. As a country of 20 million people, given the risks and challenges and opportunities we face, I believe for this country there is no alternative. Thank you for your time.