bad times
good friends

Australia and
East Asia in
1998

edited by
Christine Fletcher

with Foreword by Cliff Walsh
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North Australia Research Unit • Research School of Pacific and Asian Studies
The Australian National University
Canberra and Darwin
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Acknowledgements

The workshop that gave rise to this volume was an initiative by Cliff Walsh, who is seeking to establish a framework in which to propose an Institute for Regional and International Studies (IRIS). The IRIS joint venture is generously supported by a grant from the Research School of Pacific and Asian Studies (RSPAS) at the Australian National University, with a matching contribution from the Centre for Economic Studies (Universities of Adelaide and Flinders) (CES). The Northern Territory Department of Asian Relations Trade and Industry (DARTI) also provided financial assistance to bring speakers from Indonesia to take part in the workshop.

We particularly acknowledge Cliff Walsh’s contribution to the workshop—his presentation and energy made the workshop a viable event. Professor Merle Ricklefs, the then Director of RSPAS, was opening Chair and put the proceedings into high gear. That momentum was maintained by all of the speakers, including Professor Jim Fox, Acting Director, RSPAS, whose presentation does not appear in the proceedings but who generously contributed his expertise to the workshop.

There were many others, such as Dr Ron May and members of NARU’s Research Advisory Committee, who played a role in making the workshop a success but whose contributions as facilitators do not appear in this collection.

Finally, we’d like to thank Senator Grant Tambling for presenting The Hon. Kathy Sullivan’s paper in her absence. Patrick Markwick-Smith continued his support for yet another NARU/CES joint venture. We also acknowledge assistance from Geoff Forrester and Richard Mathews who helped develop the program.
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<thead>
<tr>
<th>Acronym</th>
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<tr>
<td>ACTEW</td>
<td>Australian Capital Territory Electricity and Water</td>
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<td>Abri</td>
<td>Indonesian Armed Forces</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>AIDA</td>
<td>Australia Indonesia Development Area</td>
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<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>ASEM</td>
<td>Asia–Europe Meetings process</td>
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<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<td>Austrade</td>
<td>Australian Trade Commission</td>
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<tr>
<td>BIMP-EAGA</td>
<td>Brunei Indonesia Malaysia Philippines–East ASEAN Growth Area</td>
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<td>CSIRO</td>
<td>Commonwealth Scientific and Industrial Research Organisation</td>
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<td>Department of Asian Relations, Trade and Industry</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>International Monetary Fund</td>
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<td>IMS–GT</td>
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<td>INI ANSREDEF</td>
<td>Indonesian Animal Science Research and Development Foundation</td>
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<td>IRIS</td>
<td>Institute for Regional and International Studies</td>
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<td>LNG</td>
<td>Liquefied Natural Gas</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>MNLF</td>
<td>Moro National Liberation Front</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>NARU</td>
<td>North Australia Research Unit</td>
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<td>Australian Defence Force Northern Command</td>
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<td>Non Governmental Organisation</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PAWA</td>
<td>Northern Territory Power and Water Authority</td>
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<td>PDI</td>
<td>Indonesian Democracy Party</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>Tertiary and Further Education</td>
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<td>United Malays National Organisation</td>
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<td>WTO</td>
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Foreword

The essays in this collection were originally prepared for a workshop held at Parliament House in Darwin in mid 1998. The workshop was based on two considerations: the first was to respond reassuringly to the economic, political and social problems facing Australia’s friends in Asia. The second was to take the opportunity to present a proposal for our research venture, the Institute for Regional and International Studies (IRIS), jointly initiated between the North Australia Research Unit (Australian National University) and the Centre for Economic Studies (Universities of Adelaide and Flinders).

IRIS aims to be recognised as a centre of excellence and innovation in research, project consultation and international joint ventures. Strategically, IRIS will incorporate a sharp focus on regions both in Australia and internationally. As this volume illustrates, the initial and most urgent need for understanding the diversity of institutions that contribute to the ongoing fortune of regions, and the quality of life of people, lies in Australia’s own neighbourhood. IRIS’s focus will, of course, be broadened, but it must be clear to everybody that the economic, political and social crisis in the Asia region, and more recently in regions of Eastern Europe and elsewhere, now has serious ramifications on a global scale. The potential impact of this on Australia must be taken seriously.

The organisations that contribute to the foundation of IRIS are strong in their own right. The North Australia Research Unit (NARU) is part of the Research School for Pacific and Asian Studies at the Australian National University in Canberra. NARU was established in Darwin over 25 years ago. The Unit’s regional research purpose includes indigenous issues, governance, regional sustainable
development, and intergovernmental relations within Australia and the Asia region. NARU's strengths are in its networks into the international and domestic community and, most importantly, it is part of the rich academic resources base of the Australian National University. The Unit's most recent venture is with the Centre for Economic Studies in the development of a database of sub-regional economic, social, administrative and cultural aspects of the Northern Territory, South Australia, and beyond.

The Centre for Economic Studies (CES), initially established in 1983, is a joint venture of the Adelaide and Flinders Universities. The Centre is self-funding and its principle role is to review, research and provide information on economic, fiscal and public policy issues of relevance to South Australia and to Australia as a whole. The work of the Centre includes providing regular economic briefings to its Corporate Members: policy advice to governments, and applied research. The Centre has been involved in a number of joint projects with NARU and is currently directing and funding the sub-regional data base project being carried out in Darwin.

Both NARU and CES are committed to a multi-disciplinary approach and both share a belief in the principle that successful research ventures, both here and internationally, need to be premised on the integration of major stakeholders, including community interests, within regional research projects. The strategic objective of both organisations is to develop an institute with the capacity to conduct and coordinate research and development within Australia and internationally. This collection of essays attests to the urgent need for Australia to support, not only our own sectors and communities at home, but also those of the countries in our immediate region, and beyond.

Cliff Walsh
Part 1

Good Neighbour Policy
Introduction
Bad Times, Good Friends

CHRISTINE FLETCHER

This collection of essays represents the proceedings of a workshop held in Darwin during the collapse of the Asian economies and a short period after the dramatic resignation of President Soeharto in Indonesia in May 1998. Soeharto's departure was seen as the culmination of a corrupt regime that, amid wider regional and international circumstances, collapsed under pressure from across Indonesia.

The workshop was conceived as an event for taking stock of Australia's relationship with countries in East Asia, including the interregional relationships that have developed between the Australian States and Territories and other governments in the Asia region. Events in Indonesia tended to dominate the proceedings—President Habibie's rise to power as the dramatic sequel to Soeharto's resignation coupled with crashing trade figures between Australia and Indonesia—but there was a significant measure of attention to East Asia more generally. What emerged from the workshop, and this is reflected throughout the collection, was a general perception of the need to pause and evaluate Australia's position towards its neighbours in the region.

Contributing authors to the workshop, and to this volume, include prominent politicians, public officials, academics and
practitioners in Asian affairs. Key issues covered include Australia’s policy towards the Asian region, the fall of Soeharto, Indonesia’s perspective on Australia, and the condition of the international intergovernmental agreements and treaties that support Australia’s relationship with other countries in the region. Most of the relationships are bound together through various agreements, and the effectiveness of Memorandums of Understanding (MoUs) is questioned throughout the proceedings. MoUs are agreements used by the States, and particularly by the Northern Territory, to unite for the purpose of pursuing developments through larger regional international forums.

Several countries attracted close interest at the workshop, although at the end of the day, the responses in this book were guided more by the expertise of the participants than any particular desire to incorporate some countries and not others. Aside from Indonesia, whose social, economic and political interests are represented disproportionately to other countries in the region, there is a variety of perspectives on countries whose problems are coupled directly to the economic crisis: these include the Philippines, Malaysia, Thailand, and China. What also became clear is that people in some countries are reacting against their own corrupt regimes. In other countries there is strong opposition to the unparalleled intervention by international organisations such as the International Monetary Fund (IMF).

Perspectives on East Asian countries have been dominated by economic research focused on national, rather than regional, levels of government. There is little in the way of research into the stable nature of political institutions in Asian countries nor on the relationship between central governments and effective administration; or the affects of centralisation on regional communities. Interregional
administrative and political processes form the vital structure in which economic policies take place. Without stable institutional support at an administrative and political level, economies are vulnerable. Also, economies without the support of stable political institutions lack guaranteed equity and are directly exposed to market whims and, eventually, to a peoples’ backlash. When the people are denied access to government, history illustrates the consequences. Economies are the lifeline of nations but healthy economies need a stable environment.¹ In simple terms, we know that, in the long run, it is cheaper for governments to provide their people with good government than to bankrupt the country and govern by force.

Government Policy in Australia

Australia’s economic interests in the region often dominate our relationship with East Asian countries but, in effect, issues of political self-determination, culture and administrative capacity are also important to our relationship. In the first part of the book, the Northern Territory Chief Minister Shane Stone, presents an historical view based on the Territory’s longstanding relations with the people of East Asia: the Northern Territory has long been a destination for people from across Asia—Timor, Vietnam, Cambodia, Philippines, Laos and China’s southern provinces.

The history of our contact with Asia was an issue raised by Mr Stone in his opening address. He argues strongly on behalf of the Northern Territory’s relationship with the

region of East Asia and comments on the obvious importance of the Northern Territory’s geographic position on the edge of the East Asia region:

Perhaps from other parts of Australia it is more difficult to see that our relationship with our near neighbours is not set by some academic policy that has been devolved or developed over time, but rather by day-to-day realities.

The Hon. Mrs Kathy Sullivan, Parliamentary Secretary to the Minister for Foreign Affairs, Mr Downer, extends the theme of the Australian government’s commitment to strong support for Asia. In her paper, Mrs Sullivan appraises the regional crisis and gives provisional support to the IMF. Her theme is basically optimistic but cautious about the potential ‘pitfalls’ which could, she argues, emerge in some countries—notably China and also Japan—if ‘key market-orientated reforms’ are not undertaken. Again this comes back to the question of the relationship between governments and people, and between strong central regimes and regional/local governments: unless governments are adequately equipped with institutions that are recognised as legitimate by ‘the people’, regimes are subject to disintegration, generally by force. The degree to which democratisation and transparency become viable is a moot point and depends on the realities of how governments choose to reform their institutions. To a large extent, this is a question which underpins the dynamics of the region and it is not likely to be easily resolved. However, that does not mean that the significance of the issue should be ignored.

Indonesia and East Asia

Soeharto’s fall from grace and the instability of Indonesia’s institutions is the subject of Geoff Forrester’s contribution. He witnessed the collapse of the regime from his vantage point in Jakarta and his essay illustrates the stress of a
country that has crashed into a period of upheaval after experiencing three decades of prosperity. Geoff Forrester is ambivalent about the impact of the reforms. How to break the cycle of corruption, and embrace a democratic multi-party system? Indonesia's programs extend throughout the system, a measure of the strength of the former regime(s). According to Geoff:

Amid the confusion of the extraordinary political flowering in Indonesia, the political options for the future stretch between two extremes. One extreme wants an Islamic State. At the other extreme are the New Order politicians who still want to preserve as much of their power and status quo as possible, including the secular State.

He questions how these tensions will impact on the people, the economy, political parties, and the armed forces (Abri), and what the consequences will be for Indonesia's relations with Australia, and for the region more generally. How Indonesia withstands the political eruptions caused by the impoverishment of the majority of the population is a key question.

Ikrar Bhakti, from the Indonesian Institute of Sciences (Lembaga Ilmu Pengetahuan Indonesia—LIPI), was not only a witness to the collapse of Soeharto but also part of a movement calling for the President's resignation. Bhakti is relatively optimistic about the crisis confronting Indonesia. He refers to the crisis as 'a blessing in disguise' because, without the crisis, the movement towards Indonesia's democratisation would not have been undertaken and Soeharto would likely have remained at the helm. Bhakti is generous in his comments regarding Australia and a substantial part of his essay sets the relationship between Indonesia and Australia against the backdrop of the cooperation that the two countries have enjoyed, particularly during the 1980s. That was the decade when diplomatic
efforts for cross-cultural understanding brought positive change. Ikra Bhakti argues that now, more than ever before, governments should work to ensure that the existing treaties and agreements remain strong.

Regional Forums and Agreements

There are several dimensions to the way treaties and agreements are used to organise international forums. In bad times, treaties may be a valuable method for holding relationships together during periods when the economic and political fortunes of nations appear to be in decline. Agreements and treaties add substance to relationships that might otherwise become increasingly fragile. Several key agreements are the subject of discussion in this collection, notably, framework agreements—those that signal that there are shared interests that are worthwhile strengthening, protecting, or simply recognising, within some sort of joint purpose.

The main forums and agreements discussed in this collection cover the Asia Pacific Economic Cooperation (APEC), Association of South East Asian Nations (ASEAN), Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and the Australian Indonesia Development Area (AIDA). AIDA is the most recent agreement. Signed in March 1997, AIDA is integrated into a series of bilateral and multilateral arrangements already in place, including intergovernmental developments within BIMP-EAGA, and other related forums as the Sub-Regional Economic Cooperation (SREC).²

² SREC refers to economic growth zones and, at a strategic level, the concept of regional growth 'zones' grew out of the first ASEAN summit of 1975. AIDA itself is actually a further outgrowth and stems from the decision to establish an
The implications of AIDA for Australia and Indonesia vary according to the national interest of each country. Each country has its own set of priorities and domestic intergovernmental arrangements within the agreement. Prior to the Indonesian economic downturn, from the Australian side of AIDA, there were broadly two aspects to the Agreement: developing and coordinating the system of working groups to cover the various policy sectors contained within the AIDA agreement; and translating the relationship into a realistic business performance venture between firms.

Prosperity is linked directly to business involvement—this has become a philosophy not only in the domestic context but also in relations between Australia and East Asia. The Minister for Foreign Affairs, Alexander Downer, said in a speech in September 1997:

Australia's increasing contribution to our region is perhaps most clearly reflected in the growing people-to-people links being established by business men and women, academics and students, and the media. These are the linkages that perhaps have the most enduring effects.3

Australia in Asia

Debates over Australia's role as part of Asia has long been tinged with the ideological perspectives of people who

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3 Minister for Foreign Affairs, 2 September 1997, ASEAN and Australia—A Future Together, Speech provided by the Department of Foreign Affairs and Trade.
oppose Asian immigration. However, since the economic ‘crash’ it has become unambiguously clear, perhaps for the first time, that through globalisation and regionalism, Australia is networked through sectoral policies, trade, investment, and cultural communities across the region.

Stephen FitzGerald takes up the issue with Australia’s relations to East Asia. He argues that the time has come,

to draw our own lesson from this grim tragedy ... it is now time we had some self-knowledge and realism and intellectual rigour about how we are bound to this East Asian part of Asia.

Dr FitzGerald moves the focus directly onto the question of whether Australia should have an East Asian ‘doctrine’ to make a commitment and recognise ‘guiding principles’ for sustaining realistic relations between Australia and East Asia. His paper explores ‘the international forces..., the international interventions, and the regional consequences’ that affect Australia and countries in the region. He questions how we can derive benefits from globalisation, how societies acculturate themselves, the role of governance in regional affairs, sovereignty, and the adequacy of multilateral agreements—particularly involving the United States and Russia in regional context with the Asia Pacific Economic Cooperation (APEC). Dr FitzGerald concludes that a balanced approach to the crises in East Asia is needed:

There must be no backing back to what we had before, but a new and politically realistic, and culturally mature, regional way forward into new, regional East Asian institutions.

Whether all countries in East Asia suffer the same level of economic distress within the crisis region is a consideration,

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also. John Funston evaluates the degree to which Thailand and Malaysia have weathered the economic crisis and asks the critical question:

Have political institutions remained stable in the face of this crisis?

The answer is, democracy is not a concept well known for its durability in either Thailand or Malaysia. In relation to the economic crisis, at one level, both countries have managed to stabilise the effects of the downturn on their institutions but, as John Funston points out, this is affecting budgets and forcing income levels to a dramatic low. The fortunes of both Thailand and Malaysia are fluctuating, creating a climate where instability could happen unexpectedly. Joseph Lim presents a similar argument in his essay on the Philippines although Lim places greater emphasis on the role of ideology between capital and labour. Moreover, Funston's view of problems facing Thailand and Malaysia is that the institutions of their respective political systems, although not exactly protected from fragmentation, contain certain characteristics that partly insulate the population from 'apocalyptic views' taken elsewhere. Lim, on the other hand, takes a very broad brush economic approach to the problems in the Philippines—he sees most of the problems as grounded almost exclusively in an economic paradigm.

The focus on individual countries in East Asia is drawn together into a regional and international context by Andrew Elek. He argues that Australia's position with individual countries is governed also by its position within larger regional and international forums: for example ASEAN and APEC. Whatever Australia's actual circumstances are in relation to either ASEAN or APEC, he states, such forums are a fundamental part of the larger network of international organisations: for example, the United Nations, the World Trade Organisation and the European Union, to which
Australia belongs. Elek's view of organisations is one that involves a comprehensive role for organisations which is multilateral in effort and methodological in approach. According to Elek, the activities of ASEAN and APEC need to be guided by principles that allow trade and investment to be relatively flexible, eventually allowing non-members to benefit directly from, and contribute to, the organisation.

Treaties and MoUs

The third part of the book takes a look at interregional arrangements—MoUs and intergovernmental agreements—driven by locally inspired perspectives, particularly those of South Australia and the Northern Territory, but also the other States and the Australian Capital Territory. Treaties and MoUs are used to create, or legitimate, a framework which, Richard Mathews argues, signals that governments are genuine in their efforts to support creativity between nations, or regions.

Richard Mathews introduces us to a network of domestic and international agreements that the State and Territory governments in Australia have fostered. Most agreements stem from the development of Australia's trade with the countries of South East Asia and, more recently, have followed a trend towards extending the cultural and social relationships between countries. Each region of Australia has a different historical experience regarding regional trading agreements. In the Northern Territory and also in the north of Western Australia, connections between the indigenous people of Australia and those of Indonesia have a long history that predates European settlement. Evidence of trade in iron and trepang between Aboriginal people and the Macassans led to cultural exchanges which are still recognised by the indigenous people today.
Richard Mathews has a specific interest in the relationship between business and government in Indonesia and Australia although, in his chapter, the focus is much more comprehensive. He details the various stages at which each State entered into an arrangement with other governments, both in Australia and in South East Asia, with the result that a framework for making the connections between governments emerges. According to Richard,

Governments and private firms in South East Asia often feel more comfortable when dealing with companies which have the backing, support or recognition of other governments with which they have a relationship.

The Northern Territory has several relationships with Asian countries; most are frameworked by MoUs or, more recently, by inclusion in the Australia Indonesia Development Area (AIDA). As Ikrah Bhakti illustrates in his chapter, AIDA was high on the agenda of Indonesia because it especially encourages business and government to directly target the poorer Eastern Provinces. There are several different Australian governments involved in the AIDA process—the States and the Northern Territory have clearly orientated themselves towards representing the interests of their own business communities on the working groups established to network Australian-Indonesian relations into the bilateral agreement. Before the crash, and with government geared to facilitate the bilateral agreement, this would have provided an environment for business networks to link across the Australian States and Territories and into the Eastern Provinces of Indonesia.

Whether governments actually recognise that AIDA is an asset for managing joint projects in bad times, or simply a process which is stalled while systems malfunction, is an open question. To some extent, this is an underlying issue in the chapters by The Hon. Mick Palmer, Minister for Primary
Industry and Fisheries, and also those of Lyal Mackintosh and Ian Dixon. All three contributors are involved in key policy sectors with direct bearing on trade and investment in East Asia. Live cattle exports, central to the economy of the Northern Territory, fall within the jurisdiction of Mick Palmer's ministerial portfolio. The Asian economic crisis has all but wiped out the live cattle export industry in some regions and the flow-on effects are still being felt. Holding the relationships together during this period are the treaties and MoUs.

Treaties are cooperative mechanisms: they open the way for negotiations and they symbolise consensus. There are, of course, variations in the methods of exchange between the different governments. In the international scene, there are guidelines and protocols for ratifying treaties between nations. But, outcomes depend on domestic policy and constitutional arrangements between national and State governments. In Australia, there are provisions for the States and Territories to enter into MoUs with each other and with other nations. In making arrangements within the international arena—for example, a MoU with Indonesia—the States and Territories are required to follow the direction of Australian foreign policy and, generally speaking, their authority is a measure of the larger treaty framework which is actually held in place by Commonwealth constitutional law.


The Northern Territory and MoUs

Many treaties are actually implemented under State laws and within the organisation of State administrations. The type of treaty agreements entered into by the States and Territories, and the activity generated by such agreements, is a reflection of regional innovation. In essence, the Northern Territory’s MoUs fall within Australia’s constitutional treaty regime and the fact that other Australian States and Territories recognise this reflects well on perceptions of the status of the Northern Territory within East Asia. The Northern Territory’s MoU with Indonesia, for example, has generated economic and policy relationships with the southern States. Ian Dixon makes it clear that that South Australia’s MoU with the Northern Territory is based on the Territory’s position in relation to Asia. Of course, agreements are a two-way benefit: the Northern Territory is a small ‘State’ with a small population, limited access to financial resources, and in need of joint ventures, business investment and coalition partnerships with the other Australian States.

As Lyal Mackintosh argues, the framework of a MoU generally reflects a longstanding or special history of ‘developing the relationships, the friendships, the trust and the respect’. The MoUs between the Northern Territory and its neighbours are not the beginnings of a relationship between governments but part of much bigger, ongoing sets of interactions.

The concept of people-to-people links, intergovernmental links, business relations and collegial networks has its genesis in the past development of the region, in the promotion of regional understanding and in the mutual

Committee, published by the Senate Legal and Constitutional References Committee Secretariat, Parliament House, Canberra.
benefits gained. According to Keith Gardner, who brings this volume to its conclusion, the relationships that have been built up over decades between Australia and the countries of Asia—whether those relationships be through education or other major areas of interaction between nations—play an immeasurable and important role in enriching the neighbourhood. Crises lead to difficult times and, some argue, difficult times can lead to innovation and to the emergence of new influences on the way institutions develop—obstacles can test the way in which people, and governments, respond.7 In bad times, people and countries turn to existing networks for support. These are the ties that Keith Gardner, and others, maintain give substance to the quality of the relationships between Australia and her neighbours.

Since the workshop, the economic and political crisis in the region has deepened. The effects have now spread worldwide, with serious consequences for some countries, perhaps also for Australia. The need for Australia to maintain a strong relationship with its Asian neighbours is greater now than ever before.

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The Territory’s Good Neighbour Policy

SHANE STONE

Can I begin by saying that the dragons are sleeping but that the tigers are just resting at the moment! I have no doubt that, although perhaps not in the same scale of the growth that we have witnessed in the last ten years, these regional economies of East Asia will recover to varying degrees and bounce back. I will address the issue of Indonesia’s unrest with a quote from a book which has particular relevance today:

Nothing could stop the rising tide. Student unrest permeated university campuses. During the mounting tension ... Cabinet made decisions which upset the situation even more ... the currency was devalued. What had been one hundred rupiah became one rupiah. Naturally the situation became even more unbearable and strained. The government also raised gasoline and fuel prices, which sent bus and other public transport fares rocketing. Students could not tolerate the rise in bus fares [any further]...\(^8\)

That is a quotation from a book written by Soeharto about Soekarno and it provides a lesson—‘if you write books then you should also read them!’

I should, before beginning, like to express some concern about events in Australia. Firstly, there are some commentators today who are calling for a negative shift in policy to Australia’s relationship with our near neighbours. Secondly, and of even greater concern, is that the outcome of the Queensland election in 1998, and is not it ironic that an election in a State, within a sovereign nation, in a perverse sort of way could have an impact on the way that a country frames its foreign policy because of an impending federal election. That is the threat that we actually face at the moment. If the One Nation Party is successful to the extent that the punters suggest, then the Queensland election has huge ramifications at a federal level for both major political parties. That will inevitably force a change of position in Australia and be absolutely tragic for this country. I had hoped that the One Nation Party would fail miserably in its attempts to find a place for itself in the political landscape of Queensland. But I do not underestimate for one moment the consequences of electoral success and how that might impact on everybody within Australia and, in turn, with the region.

From a Northern Territory perspective, we take an entirely different view, as many of you would know. Perhaps from other parts of Australia it is more difficult to see that our relationship with our near neighbours is not set by some academic policy that has been devolved or developed over time, but rather by day-to-day realities. At the time of self-government we were so far removed from southern markets that we were confronted with the very challenge of building an economy and a community of very little infrastructure. When our isolation and our distance from the rest of Australia is considered, then some sort of strategic position for the Territory has to be found. I believe that we achieved
The Territory's Good Neighbour Policy

that by facing up to the reality of our strategic location in relation to the East Asia region.

Of course, it was not always economic or political positioning—during the mid-1970s we became the destination of East Timor refugees brought to our shores direct from Dili on a freighter service with increasing regularity with the escalation of the war that transpired, and then the ultimate invasion of the Indonesian forces. In the late 1970s and through the 1980s we were the landfall for Vietnamese refugees and for Cambodian and also Laotian families who looked to Australia hoping to escape war, persecution and economic collapse in their own countries. By the early 1990s, and indeed continuing to this day, it is the people from China’s southern provinces who have been taking to the sea in search of a better opportunity and a better home for their families in Northern Australia. Many of those early boat people are now well respected and valued members of our community and their experience and their stories are ingrained in the Territory’s character. That possibly explains why we have such a positive perspective on Asian-Australians, compared to other States. We in the Territory value very much the contribution that they make and see them as at one with us, and as people who, in every sense of the word, make an outstanding contribution.

In 1998, the financial prices have struck at the heart of our region, and it is our region in every sense of the word. Since the crash, we have lost more than three-quarters of our live cattle trade: we exported over 450,000 head of live cattle in 1997 and yet, over a relatively short period of time, the number of cattle that have been going into Indonesia have been reduced from 400,000 to 60,000. However, we have been proactive and lateral in our marketing efforts. I am pleased to say that in February 1998 we began live cattle exports into Libya and Egypt and, more recently, we have signed a protocol with the Chinese government by reason of the
Bluetongue requirement that now sees the doors of Southern China open to our cattle. Indeed, we have endeavoured to reposition ourselves in response to the gravity of the collapse in the particular countries that we might have been dealing with.

Whilst not abandoning our friends, we have realistically had to look for other options. Some parts of our economy are feeling the effects of the Asian crisis directly, but more than that we feel it personally. We feel it personally because we know many of the personalities, and many of the business people who have been wiped out. We also know many of the families who are directly affected. I look at the audience and I see people who are supporting families in Indonesia and have been doing so for some time. We understand the gravity of the situation, and we learn that fairly prosperous middle-class families can no longer even afford the milk formula for their infants. They have a situation of gravity on their hands.

We have been involved through the Menzies School of Health in the cerebral malaria programs in three of the provinces in reconstructive surgery programs in both West and East Timor. And more recently, in the Soya Bean Program we have endeavoured to assist the Indonesian population to develop a degree of self-sufficiency in the supply of that commodity. Also, you would be aware that, through the efforts of the Australian government, there have been specific relief efforts coordinated through the Australian Defence Force Northern Command (NORCOM), in Darwin, into Irian Jaya to assist in major relief operations there. It is worth noting that, on each and every occasion that our nearest neighbour Indonesia has turned to Australia, we were among the first of the nations of the world to support them when they sought independence from the Dutch. It was, in fact, the very same wharfies in Melbourne who placed the first bans on the Dutch ships as they were making
their way back to Indonesia. But, in any event, for us it is a real relationship by reason of our proximity. The nearest landfall from Darwin—and people always marvel at this when I say it—Indonesia is only 45 minutes by air. Recently, when I was in the United Kingdom addressing large seminars in the cause of Territory tourism, I received more questions about Indonesia than I did about Territory tourism. Most people are unaware that Bali is part of Indonesia. I do not know why there is that misconception in both North America and in Europe. But people are rarely aware that the city of Darwin is 45 minutes from the nearest landfall of Indonesia. The proximity is real, the relationships are real and, in terms of good neighbours, that is very important to us.

I reflect on being stuck in an airport terminal with Benny Moerdani about three years ago. He had retired as the Christian head of Abri (the Indonesian Armed Forces) and we were discussing the subsequent build-up of defence, particularly in the north. He remarked to me, ‘Good fences make for good neighbours’. I thought about that later and how right he is. I once had a neighbour who would never repair his fence. He drove me to distraction. I worry that the Territory may well be left out there in maintaining a good neighbour policy with those people who matter to us and I speak not only of Indonesia but also of Malaysia, the Philippines, and further north into Japan, China and of course into Indo-China. But we live in a time of changing fortunes. We have seen the demise of Pak Harto, we have seen the completion of the term of President Ramos in the Philippines and now the election of President Estrada and, of course, there is some speculation as to what may happen in Malaysia.

That, in itself, will provide certain challenges to the Territory in the times ahead as we maintain our relationships with those respective governments for very sound economic,
political, social, educational and cultural reasons—remembering that these regional characteristics were the genesis of the relationship in the first place. It was not trade, but sporting and cultural links, that gave us the basis to go and trade at a later time. We maintain the view that we deal with the government of the day, the sovereign government of the day. That is entirely consistent with the way that one would operate within an Australian framework. Once a government is moved on, through whatever processes, whether it be democratic or force, then you are left with the reality of dealing with whoever is then ensconced.

There are many lessons to be learned from what has transpired. We are endeavouring to maintain a balanced view. In that regard, I have a particular view on the International Monetary Fund (IMF) and the way that they went about their ‘package’, as they might call it, in Indonesia. Others would be most defensive of their demands. Mixed with all of that has been the economic and political packages that have been urged from everyone, from the President of the United States and also the Prime Minister of Great Britain. We hope to maintain our good neighbour policy through all of this and will be there to support, to encourage and to assist our neighbours where we can. We are not blind to the weaknesses and the faults that might occur in regional governments. Nor are they to us. Australians should not believe for one moment that we have the right formula, that we have all the answers. I used to say ‘Yes, there is a lot wrong with Suharto. But there is a lot right with him too’. The same could be said of Ramos and other regional leaders who delivered those vibrant economies which, although not turned out to be sustainable in every sense of the word, have left behind a very good basis on which to build.

I congratulate the North Australia Research Unit (NARU) on the running of this seminar today. It is very timely. The Centre for Economic Studies and NARU are now working
towards a joint venture, the Institute for Regional and International Studies (IRIS). I applaud that. I think those sort of organisations are excellent places for heads of government to hide out once they have decamped the scene. I see that Paul Keating is doing very well at the University of New South Wales.

However, this workshop is a first stage in further developing ways in which Territory-South Australian relationship might fulfil certain hopes and outcomes. We have been looking to strengthening the relationship since the former Premier of South Australia, Dean Brown, and myself signed an agreement in Alice Springs almost three years ago. I know that you have a number of very eminent presenters. I am sure they will be of great interest, particularly to Territorians who take a very close interest in the affairs of the region, and who feel very intensely about some of the developments of recent date and what has occurred. I am delighted to have been asked to open the seminar on Good Neighbourly Relations in East Asia. I wish you well in your deliberations. Thank you.
Good Neighbourhood Scenarios

Facing the Future

KATHY SULLIVAN

Introduction

I would like to congratulate the Australian National University’s North Australia Research Unit (NARU) and the universities of Adelaide and Flinders, who are the organisers of this workshop. The workshop is looking at relations between our neighbours in the region and Australia, particularly the northern territory and south Australia.

This is a very appropriate subject because both the Northern Territory and the South Australian governments have demonstrated considerable vision in recent years in encouraging substantial interaction between their communities and those of nearby East Asia. Against that background, I have been asked to talk to you today about scenarios for the future of our international ‘neighbourhood’, East Asia. I do so with enthusiasm because engagement with the region is the government’s top foreign policy priority.

Australia has not wavered in its commitment to the region. We have been, and remain, a good neighbour to our East Asian trading partners. We remain committed because we appreciate the importance of sustaining East Asia’s
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dynamism, both for ourselves and for the peoples of the region. In recent years developing countries in South East Asia have been substantial players in a vibrant regional economy and as a result, living standards rose significantly. As neighbours, Australia wants to see that trend return. We believe that the region can move beyond the ‘crisis’.

While the economic difficulties over the last year have certainly put a dent in short-term expectations of regional economic performance, we are confident that with a renewed commitment to economic reform and liberalisation the region can put the crisis behind it.

Today, therefore, I will first address the outlook for the region and ways in which it can best move beyond the crisis. Then I will address Australia’s performance through its good neighbourly aid program, particularly in these difficult times.

The Regional Outlook—Maintaining Economic Reform and Liberalisation

There is no doubt that East Asia’s economic difficulties have focused the international and regional spotlight on serious underlying problems in the financial sectors of some of the regional economies. It is clear that the development of these sectors failed to keep pace with the spectacular inflow of capital and resources which fuelled the East Asian ‘miracle’.

The key to the region’s recovery—short and long term—therefore lies in domestic economic reform and continued trade liberalisation, leading to freer and more open markets, and renewed investment in the region.

This is the clear lesson from the experiences of Latin America in the late 1980s and early 1990s and more recently the Mexican experience in 1994–95. The. Latin American
economies, with the help of the International Monetary Fund (IMF) and others, were able to put their financial systems on a sounder footing, and hasten their return to economic growth.

That is why implementation of the IMF packages in Korea, Thailand and Indonesia is so important. It will help boost international market confidence in the region’s prospects. We are already seeing positive international market reaction to the implementation of the IMF programs in Korea and Thailand. The currencies of these economies have appreciated by around 25 percent this year.

The new Habibie administration in Indonesia is working with the IMF at the moment to reassess the economic assumptions which underpin its IMF package.

The government will cooperate closely with the Indonesian government as it works its way through implementing economic and political reforms and stands ready, as we have done until now, to assist where we can.

We must all keep in mind that the economic strengths which made East Asia highly attractive to global investors over the last two decades have not vanished—high savings rates, an increasingly skilled and educated workforce and a dynamic business environment are still integral parts of the economic framework. The government has confidence that these strengths will contribute to further strong growth once the current storms are behind us.

In addition to the challenges of implementing the IMF packages, there remain a number of hazards for the regional economy. The crisis could be prolonged—and a return to prosperity delayed—if the following events were to come into play:

- If the Japanese economy entered a very deep recession;
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- If the Chinese yuan were to be devalued significantly; and
- If there were to be a resurgence of protectionism in the region and the United States.

The Australian government believes there is cause for optimism that the region can avoid these pitfalls.

To turn first to Japan, Prime Minister Hashimoto’s 190 billion dollar stimulatory package should help stabilise the Japanese economy and lift it out of recession. Even modest growth in Japan—the world’s second largest economy—would be a boost for the region.

A sustained recovery in Japan will depend, however, on full implementation of the package’s additional measures—strong promotion of economic structural reform and more rapid writing-off for bad loans. A critical issue for the region will be the extent to which the Japanese economy continues to de-regulate and open up to the region’s exports. The implementation of commitments already made by Japan in this area will be very important.

Second, the Chinese government remains strongly committed to ensuring that the yuan is not devalued. And China is determined to achieve key market-oriented reforms in its state-owned enterprises and financial sector, including the banks.

Finally, there has not to date been a resurgence of protectionist sentiment. We have seen even the most affected economies continue their commitment to reform and economic liberalisation in a range of relevant forums.

The Asia Pacific Economic Cooperation (APEC) meeting in Vancouver last year showed the way forward—it was a vote of confidence in liberalisation at a most difficult time.
Also, last month the Organisation for Economic Cooperation and Development (OECD) Ministerial Council meeting—where Australia was represented by the Assistant Treasurer, Senator Kemp—reaffirmed the commitment of all OECD countries to maintaining and further opening access to their markets.

On the other hand, it is true that a risk remains—if the US current account deficit blows out—that protectionist forces may gain new adherents in the United States.

But we have been heartened by President Clinton’s statements at the World Trade Organisation (WTO) ministerial meeting where he strongly endorsed the benefits of liberalisation and called for swift action in lowering trade barriers.

So provided regional economies can stay the course on reform and avoid the pitfalls I have just mentioned the government remains confident that regional growth rates in the order of those formerly associated with East Asia will return.

Australia’s Practical Commitment to the Region

I will now turn to the various ways that Australia has been helping its neighbours during these very difficult times.

Australia is one of only two countries—the other being Japan—to have contributed to all three IMF packages—for Thailand, Korea and Indonesia. This is a contribution that is in Australia’s national interest, but also something we want to do as an ‘all-weather friend’ to the region. And it is a contribution that is attracting the genuine support of the overwhelming majority of Australians.
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Australia is also providing practical assistance to individual countries to help alleviate the negative social impacts of the crisis. In particular, Australia is lending a helping hand to our closest neighbour, Indonesia, in its time of trouble.

The Indonesian people have been afflicted over the last twelve months by food shortages and rising unemployment, as a result not only of the currency’s devaluation but also of the severe drought in Irian Jaya.

In addition to the US$1 billion, which we have provided as a contribution to the IMF's rescue package, and to our ongoing development assistance, we have been making every effort to try to ensure that the people of Indonesia receive vital food aid and relief from drought.

Our help amounts to almost $50 million in humanitarian assistance. We have provided $30 million for food aid and other assistance to support the world food program's emergency feeding operation, drought relief and emergency medical supplies. We also now have a joint Australian Agency for International Development (AusAID) and Australian Defence Force relief operation in Irian Jaya, which is over and above earlier food and drought relief. And on top of this, Non-Government Organisations (NGOs) are being funded to undertake drought relief and employment creation in the Eastern Provinces.

All this is additional to over $100 million worth of development assistance directed each year to the country's poorest provinces.

In addition to the major contributions we have made to Indonesia, the aid program has assisted other countries whose people have been suffering the effects of the regional economic downturn.

In April, in Thailand, Prime Minister Howard announced a 25 percent increase in our aid to Thailand for the next two
years, over and above the increase Mr Downer announced last December. The Prime Minister also indicated Australia would continue to provide development assistance to Thailand beyond 2001, when it was due to be phased out. Australia is also providing ‘preventative’ assistance to other countries in the region with a view to helping avert similar crises in the future.

Mr Downer has also announced an increased pledge for bilateral aid to Vietnam and Laos. Australia will provide an additional $236 million to Vietnam and $56 million to Laos over the next four years. This will help these two countries manage the economic and social effects of the crisis.

I would like to mention several new region-wide programs which also make a substantial contribution to assisting in dealing with the crisis.

First, under the existing APEC support program, designed to assist developing member countries meet their trade and investment liberalisation goals, AusAID is funding a ‘trade in financial services program’ to be conducted by the department of foreign affairs and trade. This program will provide training to economic and trade officials from central banks and departments of trade and finance in Thailand, Malaysia, the Philippines, Indonesia and Vietnam in policies for regulation and management of financial services.

Second, the $6 million Asia crisis fund will enable us to provide technical assistance to affected countries to promote, inter alia, financial sector reform and employment generation.

Looking to the future, a key new initiative is the establishment of the youth ambassadors for development program. Ten million will be invested over two years in sending around 500 young Australians to live and work in the Asia pacific. These young people will transfer valuable skills to host communities and organisations. They will also
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establish people-to-people contacts with communities and countries in our region and ensure that Australians have a better understanding of the cultures and societies, as well the needs, of our Asian neighbours.

Australia is doing everything possible to assist countries of the region to recover from the setbacks of the last year and to resume their strong development paths.

As a good neighbour, Australia is in there helping the region in its time of need. Australia's Aid program is an important part of being a good neighbour—all of this comes on top of our standing Aid program to the Asia Pacific. This represents a substantial portion of our total Aid budget, set to increase by $50 million in 1998-99 to reach $1.48 billion.

The Australian Aid Program—Good Neighbourly Relations in the Region

The Aid program is already giving effect to the new objective and direction set for it in 'better aid for a better future', the Australian Government's response to the Simon's aid review. The new objectives will increase support for economic governance, financial sector reform and employment generation, all of which are priorities identified by 'better aid for a better future' and highlighted by the financial crisis.

Indeed, governance is a key sectoral focus for the aid program as a whole. This reflects the growing consensus that transparency and equity in the management of economic and social resources are vital for development. Australia's priorities in governance, namely economic policy, public institutions and human rights, fit well with the needs emerging from the financial crisis. Apart from the crisis fund there will be additional expertise and funds directed to this important sector.
The Aid program also has tripled its across-the-board tripling of its emergency allocation to a total of $34 million. This will enhance the Aid program’s capacity to respond quickly to alleviate the suffering of disaster victims and contribute to ameliorating the effects of the regional crisis. Disasters such as the droughts and floods brought about by the El Nino phenomenon have certainly exacerbated the social effects of the financial crisis.

There is no doubt that Australia’s Aid program has made and continues to make a difference in the region. As the regional economic crisis has unfolded, the importance of directing significant aid funds towards improved governance has become more and more evident. By assisting our regional trading partners to enhance their economic, financial and other governing institutions, Australia is helping to build a better future for the region.

We are helping build a stronger and more prosperous neighbourhood.

Conclusion

I will close by emphasising that Australia’s own success, and in particular, the generation of jobs and investment, is significantly affected by the prosperity of the region. In looking at redeveloping the ties between the Northern Territory, South Australia and the region in the light of the East Asian crisis, this workshop has recognised that.

Australia can achieve a great deal in its own right, but our prosperity will be all the greater in the longer term if the region we live in is dynamic and growing. In addition to wanting to help our friends in their time of need, that is a very important reason, why Australia must continue to be an active and thoughtful member of the Asia pacific, a ‘good
neighbour in all weathers'. As a good neighbour, we have helped wherever we could, and we will continue to do so.

Australia’s long-standing presence in the Asia Pacific region has attained a new stature as a result of the government’s timely and well-focused assistance over the last few months.

Australia has demonstrated that it is a genuinely close partner and regional friend in good times and in bad.

And the government remains confident that the good times will come again—the phrases ‘East Asia’ and ‘rapid growth’ can once again be synonymous—provided that countries in the region can sustain their commitment to economic reform and liberalisation.

If we can achieve that together we face the future with confidence.
Part 2
The Region in the Post-Soeharto Era—Business as Usual?
Good Neighbourliness in the Post-Soeharto Era

GEOFF FORRESTER

In 1965, Australia's regional neighbourhood began a process of profound economic and political transformation, which was to give Australia more than thirty years of peace and prosperity.

One starting point for this transformation was Indonesia in 1965. General Soeharto took power in the midst of a coup on 1 October 1965. He eliminated the Indonesian Communist Party. He set Indonesia on a path of sustained economic growth. Indonesia became a driving force for building regional harmony and solidarity in South East Asia.

The changes in Indonesia were part of a wider regional trend. From the 1970s through to the late 1990s, most of East Asia underwent an enormous transformation. Sustained economic growth delivered a steady rise in incomes, steady alleviation of poverty, and a substantial improvement in physical and social infrastructure. These improvements bolstered political stability. They gave rise to new regional institutions, such as the Association of South East Asian Nations (ASEAN).

These changes in turn transformed Australia's security outlook. Australia spent much less on defence than it otherwise would have. Asia's growth created important new
Markets for Australia. Symbolic of the increased intertwining of Australian and Asian interests was the signing by Indonesia and Australia in December 1995 of the Agreement on Maintaining Security. Whereas thirty years before, Australia and Indonesia were fighting each other in Kalimantan, the two countries now pledged to cooperate in maintaining a secure regional environment for both countries.

Another profound shift is under way in the political, economic and strategic environment of the neighbourhood—this time in the opposite direction. The increasingly comfortable regional environment of the past thirty years is eroding.

The region now faces more problems and challenges than opportunities. The problems include:

- a profound economic crisis, which is still working its way through most economies in the region
- instability in South Asia, seriously complicated by nuclear weapons proliferation
- the political and economic collapse of Indonesia.

There are two other important, deeper trends:

- the rising economic and strategic strength of China
- the weakness of the Japanese economy and Japan’s consequent inability to play an effective role since the region’s economic crisis began in May 1997.

In this paper I will focus only on Indonesia, the country which was most significant in the positive transformation of Australia’s security environment from 1965. Although it is only two weeks since President Soeharto was forced from office, I will attempt to draw out the implications for the region and for Australia of the political and economic collapse of Indonesia.
Soeharto’s Indonesia

Soeharto’s rise to power from 1 October 1965 transformed Indonesia and the region. Using Western-educated economists, Soeharto stabilised a chaotic economy and began a long period of economic growth, the benefits of which did trickle down in a relatively even way through Indonesian society. Indonesia became an exemplar of development economics, and the darling of the International Monetary Fund (IMF) and World Bank.

During Soeharto’s thirty-two years in office, he created regional stability around Indonesia via the creation of Association of South East Asian Nations (ASEAN) as the vehicle for regional coordination and harmonisation. ASEAN’s agenda grew to be both political and economic and it assumed primary responsibility for regional security. It eventually expanded to comprise the whole of South East Asia, including Burma and the Indo-China states.

Soeharto changed Indonesia’s global image. In the Soekarno period before 1965, Indonesia was a global delinquent. It left the United Nations in protest over the UN’s acceptance of the new state of Malaysia. Soeharto rebuilt Indonesia’s reputation and standing through the leading role he played in the Non-Aligned Movement, the Organisation of the Islamic Conference, and in Asia Pacific Economic Cooperation (APEC). By the mid-1990s, Indonesia was an important player in international affairs.

Soeharto took one step which was ultimately a problem for Indonesia and the region. In 1975, Indonesia invaded Portuguese Timor and annexed it. In the environment of 1975, as North Vietnam took the South, as Pol Pot took Phnom Penh and as Portugal seemed to be moving towards a Communist revolution, most of the world quietly accepted it. In time and with Portugal inside the European Union,
Indonesian sovereignty has come under effective challenge. Indonesian excesses in East Timor made the Portuguese challenge more credible.

The Nature of Post-Soeharto Indonesia

Two weeks after the fall of Soeharto, Indonesia has lost its newsworthiness. The two hundred journalists from around the world, who came to report the riots, the student movement and the fall of Soeharto, have gone. Indonesia has all but disappeared from the world’s eye, CNN.

The end of Soeharto, however, was merely the end of Act I in a long political, social and economic drama, which will be played out over the next few years. Indonesia could be politically and economically weakened as this drama unfolds. There could be further upheavals and shocks for the region as the evolution of post-Soeharto Indonesia proceeds, and as Indonesians begin to express their political will freely for the first time in forty years.

To understand the possible shocks to the region which may emerge from political change in Indonesia, it is important to explain in some detail the dimensions of the political, social and economic forces which are going to be reshaping Indonesia for some time to come.

Remaking Indonesian Politics

After 32 years of political repression, the end of Soeharto has unleashed an extraordinary wave of free expression, which is being felt across the whole of society.

At one level, this is a very positive development. Political prisoners are being freed, the press is untrammelled, new parties are springing up and labour is free to organise. In business, Family and Soeharto cronny businesses are
collapsing and corruption is being rooted out. In the regions, the masses are demanding the removal of corrupt officials and the righting of old wrongs. These processes are probably unstoppable.

At another level, free expression could prove to have negative consequences. The tight political control of the New Order period stopped any development of political life among the mass of Indonesians, for whom primordial issues of race, religion and ethnicity are still dominant. Political freedom will allow the expression of separatist and sectarian opinion which the New Order suppressed.

At this early stage of the remaking of Indonesian politics, fear of regional separatism and Muslim sectarianism dominates elite discussion of the future political landscape of Indonesia.

Both secular and religious elites know or sense that, in rural society and among the urban poor, there are powerful local religious leaders who do not share their liberal, secular ‘Pancasilaist’ views. My sense is that an inchoate ‘Muslim pride’ movement does exist in Indonesia. It is based on the belief that Islam has been denied its rightful place in society by Presidents Soekarno and Soeharto. It has been strengthened by the New Order’s support for mosque and Muslim religious and teaching facilities.

The fall of Soeharto is seen as the best opportunity to redress the balance by making the State and society reflect the fact of a Muslim majority. The movement, however, is uncoordinated and has many manifestations.

Amidst the confusion of the extraordinary political flowering which is underway in Indonesia, the political options for the future stretch between two extremes. One extreme wants an Islamic State. At the other extreme are New Order politicians
who still want to preserve as much of their power and the status quo as possible, including the secular State.

Between these two extremes lie many variations. At the Muslim end of the spectrum, but short of the extremist supporters of an Islamic state, are Muslims who want sweeping change, in particular the stronger reflection of Islamic values in the State and society. This strand in society is probably quite powerful, but it has no single voice. In all likelihood, two or three and possibly more Muslim parties could contest fresh elections, splitting the Muslim vote.

The secular nationalist side of the political spectrum includes the Government party, Golkar, which is trying to resurrect itself in the post-Soeharto era with the Armed Forces (Abri) and business support.

At the more radical end of the secular nationalist spectrum are the Indonesian Democracy Party (PDI) of Megawati Soekarnoputri and leaders of organised labour like Mukhtar Pakpahan. They have been locked out of New Order politics, but still have significant pull in society.

The Main Players

Adding to political uncertainty is the absence of a clear successor to Soeharto, acceptable both domestically and externally. There is no Nelson Mandela ready to take over.

The new President, B J Habibie, is trying to stay in power for as long as possible, even though he is almost universally disliked and mistrusted in the elite.

Those scrambling to maintain the status quo, and those most concerned about the emergence of a Muslim majority out of the present political flowering, are promoting military/technocrat options such as Try Sutrisno/Emil Salim
or Wiranto/Emil Salim or Edy Sudradjat/Emil Salim for the presidency and vice-presidency respectively.

Outside the New Order political elite, two figures stand out. The head of the PDI, Megawati Soekarnoputri, is well prepared for elections with a functioning party structure. The head of the Muhammadiyah, Amien Rais, is campaigning already for the presidency, tapping the Muslim constituency.

None of these options commands majority support in society.

Fresh Elections

The reform movement is demanding fresh elections to begin the renovation of political life. Elections could happen by the end of this year.

It is impossible at this very early stage of the post-Soeharto era to predict the outcome of fresh elections. The collapse of New Order parties and the creation of new ones have just begun. There is no worthwhile public opinion polling capable of detecting the political allegiances of the masses. The past is no guide to the future. The last genuine elections were in 1955.

To counter the possible emergence of regional separatism and Muslim sectarianism in general elections, there is a renewed focus on election procedures. District level voting was the option chosen last year in a study of options by the Indonesian Institute of Sciences, but it is losing favour. The fear is that district level voting could return narrow separatist and sectarian figures to parliament because local, not elite, figures would predominate at the district level.

This fear is likely to lead to a decision to stick to proportional representation based on province-wide constituencies, together with a requirement that parties with less than a
certain percentage of the vote get no representation. Centrally decided lists of candidates, as in previous elections, would lock out local figures and advantage the elite.

Fresh general elections will test the strength of the main players and the competing viewpoints in society. There may, however, be no clear outcome. The options at this stage are:

- a Muslim majority in parliament, determined to change society and the State; or
- a divided parliament, in which no strand of society dominates and power shifts as coalitions shift. In other words, volatility and continuing confusion.

The Economy

The economy will be a further source of confusion and uncertainty in the coming weeks and months.

Indonesia is facing an economic calamity of huge proportions. There is a sense of helplessness in the face of extraordinarily bad facts and figures:

- inflation in 1998 will be in the range of 70-100 per cent
- Gross Domestic Product (GDP) will decline by at least 10 per cent
- There is already massive unemployment
- Chinese capital has gone and is unlikely to return
- foreign investors in the industrial and services sectors remain extremely cautious.

On top of the long-standing crises in the banking sector and with private sector debt, the business world must now cope with the collapse of companies and ventures associated with the Family and Soeharto cronies. BCA, Indonesia’s largest
private bank, has collapsed because of its connections with the Family.

The reform movement is reaching deep into the business world and public administration. Inexorable pressure is building to dismantle all the special deals which benefited the Family and cronies like Bob Hasan.

Beyond the capital, pressure is building to clean out corrupt provincial and regional administrations. Governors and bupatis are being openly challenged for the first time. For the time being, there is the promise of a cleaner business environment, particularly while the media is entirely free of censorship. In the longer-term, this will be positive for Indonesia’s competitiveness, but at the moment it only adds to the confusion.

The economic crisis and this unleashing across society of long pent-up political and religious energy and frustrations will lead to more unrest in the coming months, aggravating the economic crisis and putting even more pressure on President Habibie.

The Armed Forces

The Armed Forces (Abri) were the mainstay of the New Order, and they remain crucial to public order in the very difficult months ahead. They are not, however, a united force. Nor can they dominate society as they used to.

Three forces are weakening Abri. The first is the prospect of continuing division inside Abri between the supporters of Lieutenant-General Prabowo, Soeharto’s son-in-law, and the Commander of the Armed Forces, General Wiranto. Another element working against Wiranto is the Coordinating Minister for Political and Security Affairs, General (retd) Feisal Tanjung. This split follows a Muslim sectarian/secular divide inside Abri.
The second trend weakening Abri is the shrinking of its funding base, in particular because of the collapse of Abri businesses. Finally, Abri’s relative strength in society is weakening as political expression is freed up in the rest of society. Abri cannot escape criticism for its role in the New Order, and there will be pressure on Abri to reduce its role in politics. For example, sweeping reform of the electoral laws could result in an end to the appointment of seventy-five Abri members of Parliament.

The Consequences for the Region

For the next decade, Indonesian politics will be volatile and uncertain. Elections could produce either a Muslim majority or chronically unstable coalitions in Parliament. The economy will be weak and unstable, with little chance of a recovery. Abri will be relatively weaker and potentially unstable.

As a consequence, Indonesia’s role in the region will, for some time to come, be the reverse of what the region has come to expect. Instead of being the cornerstone of regional stability, Indonesia will become a source of uncertainty and instability in the region because of its internal problems.

Indonesia’s capacity for destabilising the region could be manifested in several ways. The economic and political problems already confronting Indonesia could weaken central controls to the point where one or more parts of Indonesia took the opportunity to agitate for autonomy or even independence. If Muslim sectarianism marginalises non-Muslims, it could revive and reinforce separatist trends in the Christian provinces of Eastern Indonesia.

The most obvious candidate for secession is the province of East Timor. Many Indonesians regard it as a special case, and some are now beginning to say so openly. It was not
part of the Netherlands East Indies and its population is clearly still not reconciled to being part of Indonesia. These considerations are leading an increasing number in the elite to contemplate a high degree of autonomy for the province. President Habibie has said that he will consider autonomy for the province.

Events may lead further than autonomy. As its finances shrink and its preoccupation with security problems in the heartland of Indonesia grows, Abri is likely, over time, to have to reduce its presence in the province. These reductions could reach the point where the supporters of independence felt confident enough to seize power. Already, the military wing of Fretlin is avoiding all contact with Abri, in an effort to encourage a reduction in troop numbers.

The weight of European and United States pressure points to a reopening of the status of East Timor. The goal of Europe and America will be peaceful evolution. The enormity of the economic crisis Indonesia faces renders it highly dependent on these countries and the multilateral funding bodies they control. In an effort to placate key donors, Indonesia might eventually have to agree to a free and genuine plebiscite. Such a plebiscite would test support for the options of continued integration, free association and independence. The integration option is unlikely to win.

Events, however, could take a more violent course. Taking advantage of the inevitable weakening of Jakarta’s control, pro-independence forces could seize power. The European Union, the United States and the Vatican in particular would then confront some difficult choices. They are unlikely to support the status quo. They could attempt to put together a temporary United Nations administration as a preliminary to a plebiscite, an approach which failed in 1975. Ultimately, it could prove difficult to do anything other than recognise the independence of East Timor.
There are pressures elsewhere in Christian Eastern Indonesia which could lead in similar directions. Elements in the province of Irian Jaya are calling for autonomy and greater control of the wealth of the province. There are 50,000 refugees in The Netherlands from the province of Maluku, who left Indonesia when their rebellion in support of an independent Republic of South Moluccas failed in the 1950s. Elements mounted an unsuccessful terrorist campaign against Indonesia in the 1970s. Some may make another attempt.

For the first time in twenty years, there is a real prospect of change in East Timor to the point where the province could achieve independence, or at least a high degree of autonomy. Other provinces could follow. An independent East Timor would be a weak state inside a weakened archipelago, particularly if other parts of Eastern Indonesia loosened the central controls on them and ultimately achieved autonomy or independence.

The wider region would in turn be weaker if the Indonesian State weakens and unravels in this way.

Consequences for ASEAN

The region-wide economic crisis has weakened key constituents of ASEAN—Indonesia above all, but Thailand, Singapore and Malaysia as well.

Indonesia has been the driving, dominant force in ASEAN since its inception. Its economic and political weakening will weaken ASEAN itself. It will also reduce the influence Indonesia can wield with the other members.

Before the Asian economic crisis, ASEAN was pushing slowly towards closer economic cooperation and the beginnings of an ASEAN Free Trade Area (AFTA). The
Good Neighbourliness in the Post-Soeharto Era

economic crisis across the region makes trade liberalisation generally less likely and protectionism more attractive.

The worst affected country, Indonesia, has more fundamental concerns than external trade liberalisation. The immediate task for the foreseeable future of the Minister for Trade and Industry is ensuring adequate supplies of basic commodities like cooking oil. He also has the massive task of disentangling the economy from the tentacles of the Soeharto Family and their cronies. Indonesia is unlikely for some time to come to have the focus, resources and will to make any progress on external trade liberalisation.

The result of the sustained weakness of Indonesia and the individual components of ASEAN will be a less influential ASEAN, with much less clout internationally in the eyes of other players, such as the European Union, the United States, Japan and China. It is hard to envisage ASEAN being able to continue to play the leading role in formulating regional solutions to regional security problems and rallying others behind ASEAN formulations. ASEAN will be less able to impose its view of what is best for the region, as it did in reaching a settlement on Cambodia.

Asia Pacific Economic Cooperation (APEC)

APEC is a key component of APEC, so that the weakening of Indonesia and ASEAN will in turn weaken APEC. A resurgence of protectionism in South East Asia would block APEC attempts at consensus on trade liberalisation.

Neither APEC nor ASEAN played any role in stemming the regional economic crisis from May 1997. Both organisations were ill equipped to play any role. APEC did not have the structure or the resources essential to assisting member states in distress. The failure of APEC to contribute in the crisis
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makes it even less relevant in the region as the region confronts the long, bitter task of recovery.

A long, slow recovery in Indonesia will mute for some time to come the Indonesian and ASEAN voices inside APEC on more than just trade liberalisation issues. While ASEAN economies were booming, they were feted as 'tigers' and 'dragons'. They were given an honoured place because they were 'tigers'. They were listened to. They papered over their structural and political weaknesses with the argument that their very success required political repression and poor governance.

The near total collapse of Indonesia, and the decline of Singapore consequent on the collapse of Indonesia, demonstrate the fallacy of the 'Asian values' argument. In the inevitable over-correction in academia, business and government, the ASEAN countries will pay dearly for the hubris of their 'Asian values' defence.

The United States does not emerge well from the fall of Soeharto. It acted with indecent haste from early 1998 to undermine him, oblivious to the advantage the United States and the region gained from the Soeharto regime over thirty years. United States actions suggested an element of punishing Indonesia for not being like the United States. The IMF is widely seen in Indonesia as an instrument of the United States in bringing down Soeharto. In the public mind in Indonesia, the reputations of the United States—and the IMF—have both suffered as a result of the crisis. There could be a nationalist backlash against United States interests at some stage. The existence of such tensions among member states will weaken APEC cohesion even further.
The Implications for Australia

For the United States, events in Indonesia are ultimately of limited significance. The consequences for Australia of the collapse of Indonesia are immediate and direct.

Australia’s exports to Indonesia have already declined sharply. The more serious consequence will be the erosion of Australia’s sense of comfort and security in the region. This will not be the result of any prospect of a real Indonesian threat to Australia. Rather, it will result from the weakening of a key partner with whom Australia has cooperated in building regional security and on whom Australia’s sense of security has increasingly depended.

The image of a confident, united, rapidly growing Indonesia is being replaced with the image of a poor, fractious neighbour. In human terms, the situation of Australia is that of a person with a poor neighbour, who has noisy, problem children and who is no longer able to keep a ramshackle house and yard in good order. For those who have such neighbours, one solution is to move, but Australia cannot pack up and leave.

For Australia, the challenge will be to create the most positive regional environment possible in potentially difficult circumstances. This will require patience and, on occasion, cool heads. It will require generosity. It will require compassion, if events generate refugee flows. Australia will need to understand Indonesia even better than we do now, particularly as religious, regional and political forces locked out of power under the New Order find a voice in the more open politics of the post-Soeharto era. Australia will need to work with its neighbours to develop new regional institutions to restabilise the region and restore regional economies.
There will be some in Australia who will argue that the crisis in the region and the uncertainty flowing from the collapse of Indonesia demonstrate the foolishness of attempting to develop links with Asia. They will argue that Australia should instead refocus on ‘natural’ allies in Europe and the United States.

The reality is quite different. The fall in exports to the region and the decline in the Australian dollar since the beginning of 1998 reflect the interdependence of Australia and Asia. Australia is directly affected by events in the region. Australia’s future prosperity will depend in part on the degree of recovery achieved in the region. While Australia must retain the greatest possible degree of diversity in markets and defence partners, Asia cannot be ignored. It is too close and too important, even in the depths of the current crisis.

Governments, academics, business and the media must therefore be ready to explain to fellow Australians the importance to past, present and future national wellbeing of continuing close engagement with Asia. They must be ready to present the short-term crises which will arise in the context of the longer-term national interest. They must also be ready to argue for generosity even when times are tough for Australians. At a time when the future is confused and highly uncertain, Australians should be encouraged, and be ready, to show good neighbourliness in their approach to its region.
An Indonesian Perspective on Australia, Regional Institutions and AIDA

IKRAR NUSA BHAKTI

Since July 1997 Indonesia has been worst hit by the region’s monetary crisis, which started in Thailand in May last year. The Indonesian rupiah sank to its lowest level of Rp 17 000 per US dollar in January 1998, compared with a pre-crisis level of Rp 2450 last July. By June, 1998, the rupiah was 11 500 against the greenback.

This monetary crisis has had both a positive and negative impact on Indonesian political and economic development. On the one hand, monetary crisis has not only affected Indonesia’s economy as a whole but has dramatically increased unemployment and social disparity in the country. On the other hand, the monetary and economic crisis was a blessing in disguise for the process of democratisation in Indonesia. It influenced university students to undertake demonstrations in some areas in Indonesia. The students demanded that President Soeharto and his family step down. They also pressed the Indonesian Government to implement total political and economic reforms. One of their political slogans demanded *Turunkan Harga*, which has two meanings: namely, first, that the government must reduce the price of basic commodities; second, *harga* is an acronym
for Harto (Soeharto) dan Keluarga, so that Turunkan harga means that Soeharto and his family should step down.

With their slogan of Anti-Corruption, Nepotism and Collusion, the university students attracted middle class groups to support their movement against the Soeharto’s regime. Had Indonesia not been affected by the monetary and economic crisis, it would have been improbable that the process of leadership succession from Soeharto to Habibie would have occurred on May 21, 1998. Unfortunately, during this process of reform, four Trisakti University students in Jakarta, and a political activist in Yogyakarta, died as martyrs. They have become known as ‘Flowers of Reform’ or ‘Heroes of Reform’. Before their deaths, massive riots occurred in Medan, Jakarta, Surabaya, Solo and other areas in Indonesia. Between 13 and 15 May 1998 the riots caused the death of 1188 people. Buildings were burned and many traders, mostly of Chinese descent, lost their properties and capital, and, as a consequence, many employees lost their jobs because shops and shopping centres where they worked were either burned or damaged. Distribution channels for the provision of daily necessities also have collapsed.

In a way, the student demonstrations in Indonesia during May 1998 can be regarded as a middle class revolution. Compared to previous student movements, the 1998 student movements were supported by almost all sections of society, particularly the middle class. Support came in the form of money, food, printing materials, T-shirts, encouraging public opinion, organising short courses to enhance students' critical ability, musical entertainment and others.

Support from the middle class for the students can be divided into five categories: first, those who had genuine motives for political and economic reforms or the true believers. The people spent a lot of money to assist student
demonstrations, without any political or economic interests except total reforms. Second, former student activists who had attempted to topple Soeharto's regime for more than 24 years were eager to end the dictatorship in Indonesia. Third, there were those who were unhappy with the Soeharto's family business activities since the beginning of economic crisis in July 1997—many had lost their jobs or could not compete with crony capitalists who were close to the Soeharto family. Fourth, there were the new comers or 'free-riders' who had jumped on to the band wagon just prior to President Soeharto's downfall. Fifth, some former Soeharto cronies and aides wanted to 'wash their hands' to show to the people that they were 'clean' and eager to dissociate themselves from corruption, nepotism and collusion. The students call this group 'last-minutes heroes' or 'eleventh hour heroes'.

Indonesia remains in the grip of a political and economic crisis. There have been disagreements among political elites as to whether the transfer of power from President Soeharto to President Habibie was constitutional or unconstitutional. The first group includes those who are committed to toppling Habibie—they see Habibie as part of the problem and they urge the People's Consultative Assembly (MPR) to undertake an extraordinary session to elect a new President and Vice President. The second group includes those who accept Habibie as a caretaker president and his government as a transitional government. These people were of the opinion that general elections should be organized as soon as possible. Some political activists, including labour activists and law experts, have urged foreign countries and international financial institutions, including the International Monetary Fund (IMF), not to provide loans to Indonesia until total political reforms have been undertaken by the new government. They also asked foreign business communities to delay their plan to invest money into
Indonesia and make no agreement with the new government.

The political and economic crisis in Indonesia will certainly have negative impact on Indonesia’s activity or role in regional economic cooperation, particularly in Asia Pacific Economic Cooperation (APEC), Association of South East Asian Nations (ASEAN) and other sub-regional economic cooperations, including arrangements within the Indonesia Malaysia Thailand–Growth Triangle (IMT–GT), Indonesia Malaysia Singapore–Growth Triangle (IMS–GT), Brunei Indonesia Malaysia Philippines–East ASEAN Growth Area (BIMP–EAGA) and the Australia Indonesia Development Area (AIDA). During this critical period, Indonesia needs economic and financial assistance from foreign countries, including from our southern nearest neighbour, Australia. Without help from foreign countries, international financial institutions and international business community, the President of Indonesia, Habibie, or whoever he may be, will not be able to rescue the country from the economic crisis. Indonesia’s national stability and unity, and also the regional stability in South East Asia will be endangered.

Indonesia’s View of Australia

In the past decade, Indonesia’s perceptions of Australia have changed. The Hawke Government’s implementation of a multidimensional approach towards Asian countries, particularly towards Indonesia, influenced these perceptions. Since then, Indonesia has moved closer to Australia, although many Indonesians still believe that the White Australia Policy is still in place. Some Indonesians see Australia as a modern and advanced society, and more and more people send their children to study in Australia. Unfortunately, because of cultural differences and geographic proximity, some in Australia believed Indonesia to be a permanent threat to Australia. During the period
1988–98, the Governments of Indonesia and Australia hoped that future relationships between the two countries would be stable, neighbourly, harmonious and fruitful, compared to the previous decade which was less stable and when relationships were strained. In 1988, new foreign ministers in both Jakarta and Canberra were appointed. The appointments of Ali Alatas and Gareth Evans became positive factors in the encouragement of bilateral relations between the two countries. These men sought opportunities to strengthen Indonesia-Australia relations through various activities, including those in the fields of defence, culture and commerce. Since 1989, the two countries have shown the political will to establish a more fruitful relationship to take them into the next century.

Concerned efforts have been made to change the relationship from one that was event-driven to the more formally institutionalised relationship that exists today. These efforts were strengthened during the period from 1991 to 1998. Between 1992 and 1996, both President Soeharto and Prime Minister Paul Keating tried to construct a framework for a relationship which would endure after the two leaders had passed from the two countries' political scene—that has, of course, now happened. In 1996, John Howard replaced Paul Keating as Australia's Prime Minister and, in May 1998, President Soeharto was forced to resign.

In 1989, the Australian Government established the Australia-Indonesia Institute to strengthen people-to-people relationship as part of its cultural diplomacy. The Australian Government also has provided financial support for the establishment of *Pusat Kajian Australia* (the Australian Studies Centre) at the University of Indonesia in Jakarta. In addition to that, Australia also worked to build up the number of people, outside of Government, who have a stake in the relationship, particularly in supporting Indonesian language teaching and setting up the Australia-Indonesia
Merdeka Fellowship scheme. This fellowship brings outstanding Indonesians to Australia and sends outstanding Australians to Indonesia as part of mid-career development.

In 1992 Australia and Indonesia established a new ministerial forum to convene every two years and bring together ministers from a whole range of economic and social portfolios. President Soeharto and Prime Minister Keating wanted the different areas of Government to discover new opportunities for cooperation. The two countries also improved the foundations for trade and economic ties, including the promotion of the Australia-Indonesian Development Area (AIDA) formally implemented in March 1997.

On the defence side, the two countries have developed the Agreement on Maintaining Security, signed in Jakarta on 18 December 1995, as an historic declaration of trust between Australia and Indonesia. The Agreement signals a recognition that Australia and Indonesia share common, rather than conflicting, security interests in the region, and in appropriate circumstances, could respond through common measures. In order to make the agreement applicable, the Defence Ministers of both countries agreed that future defence cooperation should be in line with the ‘Future Directions Paper’ which was discussed in Surabaya (East Java), in November 1996. However, more recently defence cooperation programs have been delayed as a consequence of the economic crisis facing Indonesia.

It seems that Australia has succeeded in implementing a multi-dimensional approach towards Indonesia. More and more Indonesian people, both in the government and in society, now have a better understanding of Australia than ever before.

There is now a realisation that Australia is a true friend of Indonesia, not only during the good times, but also through
the bad times—for example between 1945 and 1950, during Indonesia’s struggle for independence and, more recently, during the economic crisis that hit Indonesia in July 1997. In March 1998 also, when tension between the Indonesian Government and the IMF became so high that a break was imminent, Australia’s Foreign Minister, Alexander Downer went to Washington, to lobby the United States’ Government and the IMF to reformulate its terms on the fund’s rescue package. As a result, the IMF appeared to take a more ‘flexible and realistic’ view of the situation in Indonesia. Australia’s financial institutions also have offered to guarantee a Letter of Credit (L/C) published by Indonesian banking institutions to import raw materials and food from abroad.

Indonesia now needs Australia’s support to recover and strengthen its fundamental economy and it seems that Australia, as the closest neighbour of Indonesia, has a better chance to help Indonesia out of the current economic crisis.

Indonesia and Regional Institutions

Former President Soeharto and his family are now under public criticism because of their greed for money. But, there also have been some good policies introduced by former President Soeharto during the New Order period. For example, in an effort to abandon the dangerous international adventurism of his predecessor, President Soeharto provided a solid base for successful regional cooperation through the Association of South East Asian Nations (ASEAN) and, later, the Asia Pacific Economic Cooperation (APEC) forum. ASEAN has been the cornerstone of Indonesia’s foreign policy since 1967. Indonesia has played a positive role in maintaining regional stability in South East Asia, particularly in finding political solutions on Cambodia and also as a mediator between the Philippines government and Moro
National Liberation Front (MNLF) regarding solutions for the autonomy of the South Philippines.

Since 1994, Indonesia has been active in maintaining regional stability through the ASEAN Regional Forum (ARF) and in its defence cooperation with Australia in accordance with the Agreement on Maintaining Security between the two countries.

To accelerate development of Indonesia's outer islands, the country has also joined some sub-regional arrangements for economic cooperation: Indonesia Malaysia Thailand-Growth Triangle (IMT-GT), Indonesia Malaysia Singapore-Growth Triangle (IMS-GT), Brunei Indonesia Malaysia Philippines-East ASEAN Growth Area (BIMP-EAGA) and the Australia Indonesia Development Area (AIDA). The purpose of these sub-regional economic cooperation arrangements is to encourage economic activities across border areas by using economic complementarity through investment flows, infrastructure development, human and natural resources development, industrial development and increased exports. It is hoped that these sub-regional economic cooperation agreements will create prosperity, security, stability and friendship in those regions. From Indonesia's point of view, development of sub-regional economic growth areas will also balance development and speed up economic equality between Java and the other islands.

Indonesia's View of AIDA

AIDA also is very important for Indonesia. As mentioned by the former Coordinating Minister for Production and Distribution, Mr Hartarto:

AIDA is not the only regional-level cooperation between Indonesia and Australia. We also have a Memorandum of Understanding (MoU) between
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Indonesia and the Northern Territory of Australia, for economic cooperation in an area consisting of the Provinces known as the Eastern Area of Indonesia.

AIDA has the potential to impact positively on the development in Kalimantan, West and East Nusa Tenggara, Sulawesi, Maluku and Irian Jaya. These areas, except East Kalimantan and some parts of Sulawesi, are the less developed areas of Indonesia. In general, these areas are very close to the north of Australia, and this makes it much easier for the Northern Territory, and also Australia, to develop closer economic relations with Indonesia, particularly with the Eastern Region of Indonesia.

Obviously, there will be some difficulties in implementing AIDA and the MoU between Indonesia and the Northern Territory of Australia. Firstly, there are language differences between the people of Eastern Indonesia and Australia. Second, labour skill differences between Australians and Indonesians. Third, there are differences in law and regulations between the two countries. Fourth, the degree of autonomy of Indonesia’s provincial government to make or to implement economic cooperation with foreign countries is different to that in Australia. Fifth, there are difficulties for the Indonesian Chamber of Commerce and Industry (KADIN-Kamar Dagang dan Industri Indonesia) to find business partners in Australia, particularly among the small and medium enterprises (SMEs).

Conclusion

It seems that, for the time being, Indonesia will face enormous difficulties in implementing MoUs or any other agreements with other countries on sub-regional economic cooperation. However, it does not mean that cooperation should be terminated. It is highly likely that, in the next five or seven-year period, Indonesia will have the economic
capability to continue its regional economic cooperation in order to achieve high economic growth, similar to the 7-9 per cent per annum reached during the last two decades. In this difficult period, cooperative relationships between Indonesia and Australia are more important than ever before.
I want to give a pretty broad take on two dimensions of this question. One is about Australia in general, and one is about the region itself, East Asia, or what some of my colleagues in East Asia have recently begun calling ‘the Eastern Hemisphere’. Not Gareth’s ‘East Asian Hemisphere’, but similar to his, without the word ‘Asian’.

Let me begin with some frank comments about Australia. There hasn’t been what you could call a real debate in Australia about the meaning of events in our region. There almost never is, and that is a problem in itself. But in case you hadn’t noticed, something has actually happened to Australian foreign policy. Or at least, I think something has happened to Australian foreign policy, even if the government does not proclaim it, or not the point I want to make anyway. But it is very important.

When this government was first elected, it asserted that Australia does not have to choose between its history and its geography—a happy, rose-tinted, missing-the-point way of seeing the big questions for Australia. The government then went on, however, (if I can borrow a phrase from Chairman Mao) to ‘lean to one side’—the side of history.

But in 1997, Alexander Downer, with the support of other Australian leaders responsible for foreign affairs, began to
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make choices of a different kind—withdrawal of co-
sponsorship of the United Nations' resolution condemning
China's human rights record, full attendance at the Hong
Kong handover, refusal to allow Radio Free Asia to operate
from Australia. Wherever one stands on the substance of these
questions, the choices the government made were in each case
choices which involved dispute and opposition from the
United States—and by all accounts some emotion.

And they were the choices of geography.

And now Indonesia. From the 1940s when Australia
supported the Indonesian revolution, which of course meant
opposing the Dutch, through the Soekarno years and the
strategic idea of Indonesia as threat, to the much contested
stand for Indonesia in opposition to Portugal over East
Timor, to 1993 when Paul Keating took on the United States
over its pushing of a self-interested agenda under the guise
of concern for labour relations in Indonesia, it has been
Indonesia which forces on us the choice of geography. And
now the Coalition government, reportedly dismayed and
angered at the way in which the International Monetary
Fund (IMF) and the United States Government were pushing
Indonesia apparently without regard to social and human
cost, has made the same choice. Since early this year, and as
recently as two weeks ago, it has taken on the United States,
privately and to some extent publicly, over the assault on the
Indonesian polity. And for this they deserve our respect and
support. It is a fateful choice.

If we are to draw our own lesson, not only from this grim
tragedy for the Indonesian people but from other events in the
region over the past year, it is that it's now time we had some
self-knowledge and realism and intellectual rigour about how
we are bound to this East Asian part of Asia; and if we are to
do that, then the semantic ducking and weaving we have had
on the matter, which for some people passes for policy, has to
go from our discourse on our foreign policy. Just as before the crises, so also now, we do not look the same and our cultural heritage may not be the same and we may not even think the same, but we are so much bound to East Asia that we are in this sense indelibly Asian, and let us admit it and get on with it. Let us have done with the ‘Yes we are; no we are not’; and the pretending that we can be Asian economically but not politically or socially or in the other aspects of human affairs in which people in a community are bound together in a community of interests; and the diversionary argument that we can not be Asian because we are not, ethnically or culturally; and the idea that we can be half in and half out.

Some superannuated diplomatic dilettantes have suggested it is irrelevant even to raise the question of whether Australia is Asian. The question is not irrelevant, because it confronts us directly with the reality of our place in the world—in good times and in bad. And let any innocent or fair weather regionalist who still thinks we are not Asian in this total, geopolitical, geosocial, geoeconomic, human, good times/bad times sense, contemplate this: what happens to Australia when Indonesia falters or descends into chaos does not happen to the US or to Canada, or Britain or Europe, as it does to us.

It’s not just Indonesia and it’s not just the economic impact—of Indonesia, and Thailand, and Korea, and Malaysia, and Japan—experienced so directly through trade and tourism and the stock market. It is not even just the imperatives which drove our government to contribute to all three financial rescue packages. It is that when the political climate in Jakarta rose the Australian dollar fell, not something which happened to the pound or the euro or the US or Canadian dollar. It is that when social breakdown threatened, our geography required that we set up a special crisis centre, not in our Treasury but in our foreign ministry, because of the Indonesian situation, something which the geography of our historical friends did not require. It is that when security
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concerns intensified, the retiring head of the Australian
defence forces could say that the Indonesian crisis was more
important to Australia than the Vietnam War! Which could
not remotely be said on the part of our historical friends—or,
for that matter, of Russia, or of India. It is that when the
prospect of very large numbers of people moving out of
Indonesia loomed seriously, for us this had a reality which it
does not have for our distant Western historical friends.

So, when the unfortunate Indonesians pick themselves up and
try to make some sense of their future, is the question for us
simply ‘Business as Usual’? Well, in one sense, yes, but also
not yes. Yes, in that there is almost no part of our practical
engagement with East Asia with which we should not
continue to go forward positively, although without the
straight-line optimistic projections we had before the onset of
the crises.

But in two most fundamental intellectual and conceptual
senses it is not ‘yes’. First, while some practical decisions of
this government have now recognised, in piecemeal ways but
increasingly consistently, the imperative of geography, it must,
and we must, now adjust the Australian intellectual and
cultural horizons to the reality, and change the expectations,
and change the rhetoric. Geography has confronted us with
how profoundly we are part of East Asia, and this will be hard
and even unacceptable for some Australians. But it is
dishonest to pretend that it can be anything else. And if
Australian leaders persist in this dishonesty, many more
Australians will find it unacceptable because they will
conclude (as they did in the leadership vacuum which
followed the arrival of Pauline Hanson) that it means more
than it does, the surrender of things fundamental. Perhaps an
‘Eastern Hemisphere’ could be a more welcoming, more user-
friendly concept to Australians, and for that we might usefully
employ it. But let it not be a weapon of concealment of the
truth of where we are and why that makes us different from our historical friends.

But this is only the first part. The other ‘not yes’, which is a corollary of the first, is that we have to have more than just a policy for East Asia and more than just a strategy. We need what we at the Asia-Australia Institute have called in a recent Discussion Paper an East Asia doctrine, which starts from the premise that we are an East Asian (or Eastern Hemisphere) country and which governs strategies and policies not only in this region but elsewhere in the world. This is because there is a major intellectual and structural gap at the heart of Australian foreign policy, and it will remain so for so long as we try to avert our attention from the implications of the imperatives of being bound to this region.

This is an intellectually challenging matter and it is the responsibility of intellectuals to attend to it and develop ideas for a conceptual framework for our relations with the region which will have validity over the very long term—20 to 30 years. It is my view that the development of such a framework is now the most important task facing us in foreign policy. We do not have it in the government’s White Paper issued last year, and it is from trying to work out why that White Paper fell in a heap conceptually and intellectually that has led me and my colleagues to conclude that we have to have something stronger. We say an East Asia ‘doctrine’, because doctrine presupposes matters of belief, commitment to an idea and guiding principles, which provide an intellectual discipline for policies which are forceful, initiating, purpose-driven, and sustained.

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That is for Australia. Let me now come to the second part of my remarks today and switch to a different mode. This is a regional mode. And I should mention here that in what I have to say about Indonesia and other Asian countries I am not ignoring the domestic causes of the crises, nor am I advancing a single-cause explanation of what has happened to them. But what I want to look at is the international side—the international forces acting on these and all of our countries, and the international interventions, and the regional consequences. Because these affect us all. And I’d like to air some of the broad questions we have been left with by these multiple crises in our region, and which were chewed over at a number of meetings the Asia-Australia Institute convened in Hanoi at the end of April—a meeting of the Institute’s Council, the Institute’s annual Asia Leaders’ Forum, and a meeting of heads of East Asian think tanks.

I think any one with a serious interest in our region would agree that we have been left with not a few questions, some of them rather deep questions, and not necessarily all new ones. Before we settle down to the changed climate produced by these crises we should not let these questions pass without some attention. Our questions might not be altogether the same, but they will probably coincide at a couple of points.

One is that in the evolution of a global system—economic, financial, political—there is still much that is unknown, unpredictable and uncontrolled. This is now acknowledged by most of the leading figures involved, and by many other leading players in the international system, and it is surely one of the most disturbing acknowledgments that has been made in modern history. Humankind, in all its ingenuity, has created a new, and new kind of kind of, dynamic force on a global scale which it can not actually control. Think of it for a moment. It is breathtaking. And some of the possibilities could be frightening—which may be one reason why we have tended not to think about this question too much.
But, globalisation cannot be allowed to be anarchic. Nor—and not least from our region's recent experience—can it be allowed to be partisan.

This leads us to many questions around a central issue of how, from now on, we can have a controlled or ordered globalisation, which is the servant of all and in the interests of all, or the greatest good of the greatest number. It is like 'From now on, how are we going to organise and run the world?' And this confronts us anew with that older question, the question of government on a global scale—for some time a possibility, at some point a necessity.

But there is another fundamental question which is a bit different. In one sense it is simply the other side of the globalisation coin, but in another, it is at the opposite end of the spectrum of human concern and it has certainly been around the region over the last half year, and this is: 'How do we want to live our lives?' That may not be quite how it is put, but that is one way of encapsulating it.

These two questions are of course not new in human history. But it seems to me that if the Asian crises have caused a momentary slowing, a pause in the momentum of global history, this presents us with an opportunity to surface these and related questions which so often are submerged in the hectic details of the day, and look for answers appropriate to our time. I have a sense that from a regional point of view, there may now be a lot more interest than there was before in 'how do we want to live our lives'?

Here are a few other questions, or a few other ways of coming at the same questions.

Questions of Living with Globalisation

The Asian economic crises demonstrated the enormous power of the forces of globalisation, in this case the financial forces, now identified by many—from Alan Greenspan and Henry
Kissinger, and the IMF in its latest *World Economic Outlook*, to George Soros himself and (not surprisingly) Ali Alatas and many other Indonesians—as in need of control and regulation. The question is not how to resist or oppose this power, which would be futile anyway. But there *are* questions of how to live with it. Globalisation clearly has many benefits. But it is not heretical to suggest that it is not all good. It would defy both logic and the lessons of history to suggest that it could be, or that it is always or even often in the interests of the greatest good of the greatest number. Global information technology, for example, and satellite television, already attract concern. Globalisation in the environment is often largely negative. We have the dramatic example in our region of the downside of global private financial flows and hedge funds. What of global politics and global government?

Most of our questions on living with globalisation hitherto, or at least the dominant voices, have had to do with how we can maximise the benefits. The Asian crises demonstrate that we ought to be just as much concerned with how to prevent or cushion the negatives. Beyond collective action, and unless one is the United States or one or two others which can influence global affairs in their own right, this is quite difficult in isolation, as Dr Mahathir has said so eloquently since the rupiah was hit last year. But the global forums and institutions we do have were not of immediate help to individual countries in preventing the currency crises or providing early warning. And as everyone has observed, our regional institutions were similarly ineffective, unable either to prevent the crises or to help the afflicted countries out. Asia Pacific Economic Cooperation (APEC) leaders met in summit in Vancouver as the crises raged. APEC was helpless, powerless and irrelevant. And while individual Association of South East Asian Nations (ASEAN) leaders were constructive, ASEAN itself was a paper tiger.
And there was nothing else. Early on in the crisis, Japanese Vice Minister of Finance Sakakibara suggested an Asian fund subscribed and managed only by those in the affected region. This was rejected by the United States and the IMF on the grounds that the Asians could not be sufficiently self-disciplined. Just how self-disciplined the officers of the IMF were in Indonesia was revealed in their subsequent admission that they had made a major blunder in forcing the closure of the banks—which contributed in a major way to the destruction of confidence in the entire banking system—and that their initial analysis was so defective (my word not theirs) that they inexplicably neglected the problem of private-sector debt.

We have globalisation but we do not have global government to go with it. So it’s not just that we do not have institutions which can manage such crises. We do not have institutions, at the global or (with the exception of Europe) at the regional level, which are designed for where we have arrived at in global affairs. And if that is taken to mean simply economic affairs, that is mistaken because of course it really means political affairs—even if we often do not like to acknowledge that—and it means functions we associate with government.

The question for our region seems to be this: we have regional organisations for a variety of purposes; can we allow them to continue to fail us in meeting the impacts of globalisation? Why did they fail in the first place? In an essay prepared for our Hanoi meetings by Dr Michael Wesley of the Asia-Australia Institute, he makes the point that our regional institutions were just not set up to deal with the negative ‘externalities’ or consequences of growth (‘The Impact of 1997 on the Process of Regionalism in Asia’. The Asia-Australia Institute). Nor were they set up to deal with the new forms of globalisation (although some might argue
that APEC was conceived for this even if it wasn’t set up for it).

The crisis has revealed an exposed and gaping hole in the fabric of international institutions serving our region. We should now rethink our whole approach to such regional forms of association and develop something new which would help us to live with globalisation. Not just in matters like trading in regional currencies, or the proposed Asian Fund. But generally. We do not have to abandon the old ASEAN and its satellite moons, APEC, the ASEAN Regional Forum (ARF). But if these institutions are not appropriate, we should create one which is. An institution capable of collectively assisting in the management of such problems in a holistic, and humanist, manner. No longer pretending that problems are simply financial or economic, but acknowledging their political and social dimensions. Such an East Asian association may not initially be able to meet all the needs of rescue package funding. But it must be there for our collective stability, prosperity and security, to help manage such things as the massive movements of people now within the region or the projected increases in our aged populations, and importantly to broker the management of external assistance or intervention from global institutions.

Global mechanisms and institutions may come to be rectified and improved and controlled. But as we know, from the analogy of the domestic political experience, the individual in any polity can achieve less in isolation than through collective effort, and hence domestically we have movements, parties, caucuses and so on to aggregate the individual effort. Which is why regionalisation may now be more and not less important as globalisation advances.
Questions of Culture

Culture, in its broadest possible sense—the cultural identity of our societies and social systems—is at issue. Why? Let me illustrate with a quote. Referring to international or IMF experience in Russia after 1989, Alan Greenspan, June 1997, said:

we discovered that much of what we took for granted in our free-market system and assumed to be human nature was not human nature at all, but culture. The dismantling of the central planning function in an economy does not, as some had supposed, automatically establish market capitalism.\(^\text{10}\)

What should we think of the implications of such a statement? Many critics of the IMF have suggested that its officials may have likewise made such assumptions about ‘human nature’ in their approaches to the Asian crises. And while I emphasise again that I am not advancing single-cause explanations for what has happened in Indonesia, I think it is clear that IMF officials pushed at one part of the system in disregard for the complex political and social and cultural fabric through which it operated. And the result approached a boundary beyond which lies political and social chaos. Their demands of Indonesia were such as to cause those who know Indonesia better, including Foreign Minister Downer, to urge on the IMF sensitivity to the broad societal and cultural issues, and to caution restraint.

The questions of culture here run very deep. If we want to be a willing and cooperative part of the system, as most do, and if it is the case that culture has such a great influence on economic conduct, as Alan Greenspan discovered somewhat late in his career (there were of course many there before

him), what is it that has to change? Is it the global market system, or is it the culture? If it is the culture, then is it possible to change what is necessary in the culture of a society in order to procure a different kind of economic behaviour without fundamentally changing the culture itself, including the political culture and the politics, and ultimately that which gives it its identity? Russia in 1989 may seem to be an extreme. But the idea that markets and democracy are inseparable, and a fundamental expression of human nature, has not been absent from the atmospherics or the imperatives of the external forces acting on the Asian economic crises. Critics of this idea, including liberal intellectuals in Western countries, have challenged it as being without historical or contemporary foundation.

Not only liberals. Martin Feldstein, in his recent piece in *Foreign Affairs* analysing the IMF intervention in Korea ('Refocussing the IMF', March/April 1998), raises an even more awkward issue. He says the IMF must be able to answer 'yes' to three questions before it can justify requiring a country to change its national policy. One of these questions is this: 'If the policies to be changed are also practiced in the major industrial countries of Europe, would the IMF think it appropriate to force similar changes in those countries if they were subject to a fund program?' That uncomfortable question is one which most people in the IMF or closely associated with it seem to prefer to avoid.

But this idea—about the market and democracy being part of human nature—is a powerful idea in the politics of globalisation, and it is pushed in a way that challenges cultural difference, and it is highly political and not simply economic, and it has challenged East Asian societies across a wide front. So we now have to think about these questions of culture. Not just in the countries most obviously challenged. Can we create institutions through which the maintenance of cultural identity can be negotiated? Who is
best placed to do that negotiation? And who should they negotiate with? Effective regional institutions offer one, possibly the only, solution.

Questions of Governance

This is also partly about bigness and smallness. The role of the IMF in our region has raised another most interesting question in this regard. The IMF is big, and that is a strength, for without that bigness it would not be able to provide any solution at all. Its bigness, and the quasi-independent role it has assumed, also make it one of the precursors of world government, and a very powerful one, because it has resources to back it and coercive power; making policy, intervening, enforcing policy, offering funds, withholding funds, telling constituent governments what they must do for their own and the common good, chastising, commending, expounding—expounding technicalities, theories, and beliefs. That is an awful lot of power.

There is nothing inherently wrong with this in the management of a global system, but it raises many questions. For example, with such power what is its representative nature? And its accountability? In other words, if it is indeed a precursor of world government, should it take on other responsibilities and accountabilities of government, including the responsibilities in respect of governance. Bigness and strength are not all that is required for good government, which as Confucius said, is like cooking a very small fish and should not be overdone. By the IMF’s own account, some of what it did initially in both Korea and Indonesia, was badly overdone. But what are we to say? What is the accountability to the people of Korea and Indonesia?

There are major questions to be addressed here at the global level. Finance ministers and specialists have begun the
process, but it is not clear that they have this big question in mind. Yet what we do next with the IMF and the global banking system and global financial markets can and probably will take us, even if inadvertently, one step further towards formalisation, in effect, of an institution of world government, precisely because the IMF has such power of sanction. But will that be good government, and representative, and for all? And how can we ensure that?

The closest thing we have to international government of an international polity is Europe. I was in China at the time of the March negotiations on the enlargement of the European Union, and being in China, I was struck by how it read in the Chinese press: ‘Countries in the second wave will be able to leapfrog into the leading group if they make faster progress towards establishing functioning market economies and political systems that match western European standards.’ (China Daily, 31 March 1998) In Europe, as in a global or other regional context, this question is similar to the question of culture: who will decide what your or my political system should look like for it to be admitted to this or that market or market culture or market organisation or club? This is not an abstraction; it is already something of a reality for China in respect of the World Trade Organisation (WTO), or Turkey in its repeated attempts to join Europe, or Australia in the Asia-Europe Meetings process (ASEM) context.

I am not suggesting that membership of an international organisation, particularly one as integrated politically as Europe, should not make requirements of its members. Nor am I suggesting that a global government should not have rules, and requirements of its constituents. But there is this major question of who sits in judgment and on the basis of what idea they judge—as distinct from what technicalities. The fate of the proposed Asian Fund last year was instructive, because in its rejection by the US it was implied
that East Asians could not be self-disciplined enough to sit in judgment even on East Asians.

If we are to have global government, some will question whether we also need regional government. But the example of the so far failed Asian Fund suggests that regional government must have a role. It is not that big is bad and small is beautiful. But rather, as John Ralston Saul says:

a multiplicity of levels means a multiplicity of strengths.11

Questions of Sovereignty and Ownership

The economic crises also bring us back to the question of sovereignty, and how much ownership countries have over what happens to them. I am not sure if there hasn’t been a shift away from some of the more insistent stands on sovereignty here. Globalisation of course pushes the erosion of sovereignty but this may come to matter less than ownership in the decisions which affect us. While the IMF strictures in Thailand and Korea were of a kind which might have been seen as unacceptable infringements of sovereignty, the two governments found them acceptable in part because they were able to take ownership of the arrangements. In Indonesia, the IMF found that the Government had to take ownership of the packages before they could be made to work. Not all countries in the region welcome further dilution of sovereignty, but there may be the beginnings of a new dynamic here. Considerations of sovereignty, and the principles of consensus and non-interference, have had an inhibiting effect on integration in East Asia. The idea of ownership of decisions in a joint or collective way within a

regional institutional framework may allow for more initiation and activism in the region, both to handle issues like the economic and environmental crises and to set ourselves up for more effective handling of other problems—economic and political, internally within the region and in dealing externally with the forces of globalisation.

Questions of East Asia and the Asia-Pacific

The American position throughout the crises has been followed with the closest attention by East Asians. Many were concerned that the United States was slow to move at first and then appeared to differentiate between Thailand and Korea on the one hand, and Indonesia on the other, and that the more political elements of the IMF packages seemed to mirror or were the result of the pressure of the views of the United States Government. That is probably less significant now than the enormous importance of the United States to the rescue packages (second in dollar terms only to Japan) but also to the health of all our economies, and to our security, and how we are to think about this in terms of the future of both globalisation and regionalisation.

There is this immense difference between the United States and the rest of us—including, even, Japan and China—in terms of wealth and power. There is therefore a great difference in how we deal with the US and how we deal with each other.

But what should we do next with the US in the regional multilateral context? Given that APEC seemed so irrelevant to the biggest crises in the region’s modern post-colonial history, there is a question over its future and therefore a question of what we should do to keep the regional multilateral engagement with the United States. Here is the March 1998 assessment on APEC of one of its staunchest
advocates and former principal actors, ex-prime minister, Paul Keating:

APEC has been hobbled by the agreement last year to add Russia to its membership.

I think this decision was an act of international vandalism...It was a fundamental mistake...

I am certainly not anti-Russian...but its participation in APEC has already changed the dynamics of the organisation...

Precisely because it is such an important power in its own right, its participation will make it harder to use APEC and the leader's meetings as a focused and effective forum to oversee and coordinate the various responses to the economic crisis. Russian membership makes it impossible, for example, to contemplate using APEC as the basis for a financial fund to address future balance of payments problems in the region, because the potential additional demands it would generate are just too great...

I am not prepared to write APEC off yet. But if it does not show its relevance to the Asian economies this year it will write itself off...¹²

Like Keating, I believe that we would be foolish to write off APEC and the opportunity to develop its benefits, particularly the leaders' meetings, or abandon the attempt to give it what Keating calls 'some relevance' to the Asian economies. But as Keating also said, in that same lecture, of APEC's good intentions:

we haven't been swept aside in the rush.

Whether APEC 'writes itself off', however, or simply remains 'hobbled', what are we going to do? I believe even more that there is now a need for some new form of arrangement between East Asia and the United States. Because of the enormous economic and military power of the United States. And for liberalisation and globalisation reasons. Whether in APEC, or in some other arrangement, that has to be a fundamental goal.

But it is not fundamental, or necessary, for regionalisation. For regionalisation, the questions are different.

So I think we now have to look at designing two distinct institutions. One is trans-Pacific, which will also reflect the friendship and need all countries in East Asia have for the United States and which will express unequivocally the fact that we have no interest in exclusionary or anti-American arrangements. And the other is not trans-Pacific but East Asian, just as the Europeans have Europe as well as their trans-Atlantic arrangements.

Questions of East Asian Regionalisation

There is a great need for balance on all sides in the assessment of these crises and their implications for the regionalisation process. I think there is both a tension and a kind of harmony of opposites between the two fundamental questions I talked about at the beginning of this part of my remarks, and I think they are helpful for looking at the issues from different perspectives. Just what we do next has to be discussed, but I think it seems unlikely that the region will abandon its attempts at regionalisation in some form, including regional integration, precisely because a multiplicity of choices means a multiplicity of strengths.
As Dr Wesley's essay suggests, the region thus far has created institutions:

to *promote* development and economic growth, not deal with its negative externalities and consequences.\(^{13}\)

Can it now do so? Should it? For the region, out of the tragedy for Indonesia, we must find a new and better way. It is unacceptable to allow that this could happen again to them, or to others, or to us. There must be no tracking back to what we had before, but a new and politically realistic, and culturally mature, regional way forward into new, regional East Asian institutions. And for that, certainly, Australia will have to have an intellectually rigorous conceptual framework, whatever it is called.

Thailand and Malaysia
Stable Institutions in the Midst of a Crisis?

JOHN FUNSTON

News agencies, financial houses and most others agree: South East Asia’s financial crisis has profound social and political implications. With recent events in Indonesia seemingly vindicating these fears, developments in other South East Asian countries are broadly expected to take a similar path. Political institutions in Thailand and Malaysia, the two countries that next to Indonesia have borne the main brunt of the crisis, are seen as anything but stable. Among the most common expectations are severe socio-political unrest, the fall of existing governments, and a retreat towards protectionism. Are these expectations warranted?

The Setting

At first glance Thailand and Malaysia do not have a lot in common. Historically, Thailand is the only country in South East Asia to escape colonial rule. Its relatively homogeneous population of 60 million is 95 per cent Buddhist. For many years its political system was described as a ‘bureaucratic polity’, meaning in effect political dominance of the military working in close alliance with the civilian bureaucracy and the monarchy. Since the student-led overthrow of a military government in 1973 Thailand has gradually been moving
away from military dominance of politics, towards a
democracy based on a balance between the military, political
parties (led mainly by different business interests), the
monarchy, the civilian bureaucracy and civil society
(including students, non-governmental organisations, and
the media).

Malaysia was formed in 1963, combining Malaya (which
gained independence in 1957) with the Borneo states of
Sabah and Sarawak. Just over 50 per cent of its 20 million
people are Muslim, and its multi-communal society
comprises some 51 per cent Malay, 27 per cent Chinese, 12
per cent indigenous groups from Sabah and Sarawak and 8
per cent Indian. That has translated into a system where
Malays—acting through the United Malays National
Organisation (UMNO), the leading party in the governing
coalition—were able to entrench political dominance through
provisions in the 1957 independence constitution, and
further changes after racial riots in 1969. However UMNO
leaders have always had to keep non-Malays on-side to
ensure their political leadership, and in recent years there has
been a process of ‘de-communalisation’—reflected in a
majority of non-Malays voting for the government for the
first time ever in the 1995 general election.

Nonetheless, Thailand and Malaysia did share a number of
experiences in the decades leading up to the financial crisis.
Despite different political cultures both remained broadly
committed to parliamentary democracy, most of the time.
Both enjoyed exceptionally high rates of economic growth,
over 8 per cent per annum in recent years, placing them
amongst the fastest growing economies in the world. In each
country prosperity was widely shared, with major inroads
made towards reducing poverty, narrowing the gap between
the rich and poor, and improving social indicators such as
literacy, educational enrolment at primary, secondary and
tertiary levels, and life expectancy. This they achieved by
following an export-oriented growth path pioneered earlier by Japan and other newly industrialising Asian economies. They tapped into foreign investments and foreign markets. Established a variety of incentives to promote investment in the manufacturing sector (in the process increasing manufactured exports from around 30 per cent to 80 per cent in less than two decades). And ensured close co-operation between the government, business and labour. Collectively these policies gave rise to the terms Thailand Inc. and Malaysia Inc.

For both countries there were costs as well as benefits. The massive shift of rural populations into the cities was profoundly unsettling, fostering juvenile delinquency, prostitution, and the spread of a drug culture. From the late 1980s many earlier social gains were lost as the income gap between rich and poor changed tack and began to widen. Political costs included increased corruption and instability, as political rivals mobilised large sums of money to battle each other. Agriculture and the environment took a back seat to the pursuit of ever faster growth. And, by 1997 the economic boom had produced pronounced features of a bubble economy. Malaysia’s economy was, nonetheless, in much better health than Thailand’s before the crisis — unlike Thailand, its financial sector remained strong, foreign debts were only about one third those of its neighbour, the property market had not collapsed, and fundamentals (including the current account deficit and exports) were much stronger.\(^{14}\)

\(^{14}\) Without attempting a full explanation for differences between Thailand and Malaysia in mid-1997, it can be noted that a key reason for this lay in the respective roles played by their central banks. While a number of factors were behind Thailand’s economic woes, foremost were the failure of the Bank of Thailand to exercise proper regulatory supervision of banks and
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When the baht was floated last July it was the similarities that foreign investors focused on, not the differences. Foreign funds moved quickly out of local currencies and the stock markets in both countries. At worst both currencies lost over 40 per cent against the United States dollar, and stock markets declined over 60 per cent, dealing a devastating blow to their economies. Thailand was forced to borrow US$17.2 billion from the International Monetary Fund (IMF), at the time the second largest bailout in the Fund’s history.

Have political institutions remained stable in the face of this crisis? If institutions are understood in a broad social science sense to mean both the formal structures of government and established traditions of political conduct, then the answer is mixed. Contrary to conventional views I believe both governments are relatively stable, and more certainly broad political systems are not in question. Some aspects of Thailand Inc. and Malaysian Inc. will not change—their outward orientations and commitment to further liberalisation—but others will—including the close, opaque ties between politics and business, the philosophy of growth at any cost, and the marginalisation of agriculture and the environment.

Threats from Socio-Political Unrest

The social pain caused by the economic crisis is severe, and will become worse. In Thailand and Malaysia tens of

finance companies as far back as 1995 and 1996, and its subsequent loss of all Thailand’s foreign reserves in a futile attempt to maintain the baht’s peg to the dollar. This was not a result of political intervention in the bank’s operations as often alleged—a recent 200 page official report found no evidence of this—but bad judgements on the part of bank officials.
millions will have incomes drastically reduced. Hundreds of thousands, if not millions, will lose jobs (particularly foreign workers). Education and health budgets will be drastically cut. Other indicators of social disorder such as mental depression, drug trafficking, prostitution and petty crime are on the rise. Governments will be pressured by these changes. But I do not expect them to result in massive social unrest.

Thailand does not have many of the conditions that cause social instability in neighbouring countries. There are no food shortages, or ethnic Chinese problem, as in Indonesia. There are no strong unions as in South Korea, and indeed no tradition of labour militancy. More positively, Thailand has a revered monarch who has intervened over the years whenever socio-political unrest has threatened to get out of hand.

Nonetheless, the earlier breakneck speed of economic change has left social tensions close to the surface. In urban areas protests by squatters in slum areas are frequent, often in response to forced evacuations. Intermittent wildcat strikes are a feature of labour relations. Rural unrest has also increased in recent years, with leadership increasingly focused in the hands of an organisation known as the Assembly of the Poor. In January 1997, 20,000 members of the Assembly marched from the north east and encamped in Bangkok. Some 10,000 remained three months later, and dispersed only after the then Prime Minister, Chavalit Yongchayudh, intervened and promised to address their grievances — centred on issues such as land rights in designated forest reserves, credit, and disruption caused by building dams for hydro-electricity.

In January and February this year, the international media splashed scenes of crouching, bare-chested workers being pummelled by baton-wielding police, and thousands of
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impoverished farmers in north eastern provinces gathering
for a 200 kilometre march on Bangkok.15 Journalists drew
what appeared to be the obvious conclusion: Thailand’s
economic crisis was becoming a social crisis. They failed,
however, to recognise that the rioting workers and
demonstrating farmers represented traditional forms of
social protest, rather than a response to the current financial
crisis. The riot by auto parts workers mirrored almost
exactly labour riots in December 1996, except that in the
latter case a $20 million factory was burnt down.16 The rural
protest was organised by the Assembly of the Poor, and
addressed the same grievances as the Assembly's
demonstration a year earlier.

Such outbursts have the potential to affect political stability
at any time, particularly if they occur in conjunction with
other political crises. Two incidents involving heavy-handed
police actions against protesting labourers and farmers
contributed to the unravelling of the first Chuan Leekpai
government (1992-1995). But for social tensions to escalate to
higher and more dangerous levels there would need to be
massive increases in unemployment and/or inflation.

Comprehending Thailand’s employment statistics is an
esoteric art form. They are prone to large fluctuations, only a
part of which can be explained by seasonal agricultural

15 See for example Straits Times, 22 January 1998, and 12 February
1998 respectively.

16 Each dispute was over the size of the annual bonus (workers
were not losing jobs). Inept handling of negotiations, for which
managers and workers were probably equally to blame, and
widespread consumption of alcohol by striking workers, led to
the situation getting out of control. In both cases agreements
between the two sides were concluded soon after the incidents
took place.
patterns. In February 1997, for instance, some 700,000 were listed as unemployed (2.2 per cent of the workforce), but in August 1997—at the economy had experienced further decline—the figure was under 300,000.\textsuperscript{17} Current official estimates range from 1.5 million to 2.8 million. Many Thai economists would dispute figures of this order. Without unemployment benefits very few people can really afford to be unemployed. They must find some way of making a living, whether it involves returning to village agriculture or entering the informal sector. In reality, Thailand has had several years of full employment, demonstrated by the fact that for some years it has had around one million foreign labourers in the country.\textsuperscript{18}

Thailand's economic problems will get much worse through 1998. Liquidity problems, high interest rates and increased inflation will lead to more corporate bankruptcies and factory closures. But there is still an enormous amount of guesswork in estimating total redundancies, because these


\textsuperscript{18} The International Labour Organisation (ILO) has issued dire warnings about increasing job losses, painting a picture of unemployment in Thailand going from zero at the beginning of 1997 to 1.15 million at the end of that year and 2 million at the end of 1998 (5.8 per cent)—or worse, given recent declines in growth estimates. (International Labour Organisation, \textit{The Social Impact of the Asian Financial Crisis}, technical report for discussion at the High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries, Bangkok, 22-24 April 1998, p.12.) To reach this conclusion, the ILO ignores a government report of 700,000 unemployed at the beginning of 1997, based on actual survey work, but accepts \textit{estimates} from the same source for the end of 1997 and 1998.
will depend on such unpredictable variables as the exchange rate, foreign investment, and the availability of special credit to exporters. If the export sector continues to perform reasonably pressures on employment will be greatly eased.

It is also worth noting that even if official statistics are taken at face value, the projected number of unemployed is similar to the figure of 2 million recorded in the middle of the 1980s.\(^{19}\) The workforce then was 6 million less than it is today.

Accepting, nonetheless, that there will be substantial redundancies, what will be the social affects? A proportion of the one million foreign labourers will be repatriated to provide opportunities for Thais, but the majority probably will not be anytime soon; these workers take the dirty and dangerous jobs Thais are reluctant to accept. Many Thais will be forced to return to village agriculture. While this sector has many problems of its own, which will be aggravated by the financial crisis (particularly by way of higher fuel prices) and \textit{El Nino}, 1998 growth will still be positive while other sectors are in recession. The total number of poor may increase as a result, but there will be some consolation in this being a 'shared poverty'. In urban areas also, family traditions remain strong enough to ensure that those retrenched have some place of refuge.

As for inflation, this remained at 6 per cent in 1997 and is expected to be just over 10 per cent in 1998. Some items such as rice have gone much higher (because of increased exports), but overall inflation is not abnormally high by Thai standards. Sugar and cooking gas have price caps, and the government liaises over the price of other essential goods,

but does not impose controls. Bus fares—an item of extreme political sensitivity—are kept low by subsidising government bus companies.

Malaysia's communal make-up ensures that its potential social problems assume a different form to those in Thailand. Journalists, and organisations such as the Hong Kong-based Political and Economic Risk Consultancy, have been quick to predict a sharp rise in communalism as Malays and non-Malays compete for increasingly limited resources.

There have been some indications of heightened communal feeling since the financial downturn last year. The hard-hit Malay corporate sector, and organisations such as UMNO Youth, have issued loud calls for special government assistance to ensure that Malay corporate gains made incrementally over the past couple of decades are not eroded overnight. Criticism of entrepreneurs investing money outside the country has implied that this is a Chinese phenomenon. And at the local level there has been a clash between adherents of a mosque and a Hindu temple in Penang, and the torching of a temple in Pahang.

Yet the absence of open communal tensions has been remarkable. Non-Malays have not become the targets of attack as the Chinese in Indonesia have, thanks in part to external targets such as George Soros. Adverse social implications from the crisis have largely been confined to an increase in petty crime, and official clashes with illegal foreign workers. And the current issues preoccupying the public are water shortages and the haze, which do not discriminate on the grounds of race.

Not only have communal tensions been contained, but in February the government announced a policy of selling some

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corporate assets of financially strapped Malay businessmen to non-Malays and foreigners. This was greeted with disbelief in some quarters, since Malaysian wariness towards the IMF was widely seen as based on an unwillingness to compromise the government's pro-Malay policy. That reaction, of course, betrayed a lack of historical perspective: privileges for Malays were in fact substantially curtailed during the economic recession in the mid 1980s, and eased further in the 1990s.

The mid-1980s did, however, see an increase in communal tension, that in 1987 led to over one hundred arrests under the Internal Security Act. Is there a likelihood that communal tensions will again escalate to such levels? There are at least three reasons for doubting that emotions will reach danger levels on this occasion.

First, the process of de-communalisation referred to earlier—including perceptions of Mahathir as a protector of non-Malays—is a new factor. On the sensitive language issue, for instance, not only have Chinese benefited from the wide availability of private English language education, but in 1997 the government approved the opening of the first tertiary college using mandarin as a medium of instruction, a development strenuously opposed in the past. Some Malays now worry that these changes imperil the position of the Malay language, but will likely pursue their concerns in a manner that avoids inflaming communal sentiment.

Second, there is still no employment problem in Malaysia, unlike the mid-1980s when unemployment was around 8 per cent. Indeed there are now around 2 million foreign workers in Malaysia; some, particularly those without legal work permits, will be deported, but many will stay. Retrenchments will increase this year, but most Malaysians will not find it difficult to find new employment. Official
statistics predict an increase in unemployment from 2.5 per cent to 3.7 per cent.\textsuperscript{21}

Third, Malaysia’s political stability is not currently under serious threat (see below). In 1987 UMNO nearly split in two when Tengku Razaleigh narrowly failed to unseat Mahathir as party president, and UMNO relations with Chinese coalition partners was affected by conflicts over education. Such problems distracted leaders from the careful management of communal relationships.

In both Thailand and Malaysia there is also evidence of societies coming together in the face of adversity, in support for patriotic funds, and ‘buy Thai’ and ‘buy Malaysia’ campaigns. Thailand has also recorded a sudden growth in interest in traditional Thai folk music, and Thai culture in general.

**Governmental Stability**

Media reports give the impression that all of South East Asia is politically threatened by the economic crisis. In fact, the broad systems of government in Thailand and Malaysia have not been questioned. Thailand’s democratic, constitutional monarchy was reinforced by a new constitution approved in September. Malaysia’s UMNO-dominated democracy came under no challenge. Nor have the affects on either government yet been overwhelming.

Conventional wisdom has it that Thailand’s financial crisis led to the downfall of the discredited Chavalit administration in November and its replacement by a reformist

\textsuperscript{21} By late July 1998 Government were accepting that unemployment might get as high as about 5.5 per cent (around 500 000), though at that time official redundancies still numbered only 50 000.
administration led by Prime Minister Chuan. This is at best a half truth. Chavalit was already highly unpopular before the floating of the baht in July. He ultimately resigned not because of public opposition to his economic policies, but because of a fallout with coalition partner Chat Pattana, whose leader Chatchai Choonhavan saw a last opportunity for regaining the premiership. What then occurred was a protracted period of bargaining in which Chatchai initially appeared to have the upper hand, but late defections from two minor parties handed a narrow majority to Chuan. In the end public opposition to Chavalit caused the defections that put Chuan in power, but this was not pre-ordained.

During times of political difficulties Chavalit turned to the military for moral support. The military, however, maintained a low profile, and contrary to much media speculation a coup never appeared likely. When Chavalit briefly contemplated imposing emergency rule military leaders rejected this, and they were early supporters of the new democratic constitution. The military have continued to remain in the background under Chuan, who has strengthened the basis for civilian control over the military by holding the defence portfolio himself—only the second civilian to do so.

The monarchy may have played an indirect role in the Chavalit period through the senior Privy Councillor, former Prime Minister Prem Tinsulanonda, whose advice and support was sought by a wide range of groups. In August Prem expressed support for the Chavalit government, but in October proposed a non-party 'national government' without suggesting Chavalit as its leader—putting considerable pressure on the ruling coalition. The monarchy generally refrained from any direct role, though late in Chavalit's rule the King advised governments to speed up passage of three election bills, required for holding elections under the new constitution. In December, on the eve of his
birthday, the King also entered the debate on the direction of Thailand’s economy, when he spoke of the need for more emphasis on agriculture and self-sufficiency. Looking to the future, how Thailand will be able to cope after the present King remains an issue of intense speculation.

Chuan’s coalition is fragile. He heads an eight-party coalition that commands only a small majority in parliament. Outside economic portfolios he was forced to make compromises, and appointed several cabinet ministers whom the media dubbed ‘political dinosaurs’. Nonetheless his government enjoyed a remarkable political honeymoon during its first six months in office, one of the longest periods of strong public support extended to any elected Thai government. Chuan’s unblemished reputation for probity, and the perceived competence of his economic team, were important reasons for this. So was the fact that former Prime Minister Anand Panyarachun lent his services to the administration, together with the highly-regarded economic think tank he is associated with, the Thailand Development Research Institute.

Chuan’s leadership was tested by a conjunction of events beginning in late April. A major government report on the financial crisis—leaked to the media—reopened old wounds, and reminded the public that no one had yet faced legal proceedings for contributing to the crisis. Rumoured disagreements between the government’s economic czars, Deputy Prime Minister and Commerce Minister Supachai Panitchpakdi and Finance Minister Tarrin Nimmanahaeminda—over Supachai’s stand that IMF policies should be eased to allow greater liquidity according to some accounts, over personal differences according to others—received extensive media publicity, and created uncertainty about the direction of economic policy and unity within the Democrat party. Riots in Indonesia during the final days of the Suharto regime caused fears that Thailand
would be next. Finally, a leader of the 1973 student uprising, now academician, Thirayuth Boonmee, published an influential open letter accusing the government of being unsympathetic to the poor, particularly for its use of public funds to pay off debts accumulated by government institutions that had loaned money to the private sector.

The Democrats are well-placed to survive this setback. Supachai and Tarrin have spoken much the same language on economic issues in recent weeks. And there is no alternative to Chuan in sight—Thirayuth’s suggestions that Chart Pattana or business tycoon Taksin Shinawatra might be entrusted with government found no favour. In the longer term elections held under the new constitution (discussed below) hold the prospect of further gains for the Democrats. But with a strange convergence between the opposition and reformers such as Thirayuth, the government will face more difficult times ahead.

In Malaysia, questions of political stability have centred on Mahathir’s ability to remain as Prime Minister—many foreign journalists have even suggested that he should resign—and a perceived power struggle between Mahathir and deputy Anwar. A further issue receiving some attention is the strength of the government, since elections are due within two years.

There is evidence of unhappiness in Malaysia over Mahathir’s sometimes controversial handling of the crisis—including in articles and opinion pieces appearing in the Malaysian media—though it is difficult to judge how

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22 Articles criticising Mahathir’s confrontational international style, and inconsistency in statements by Mahathir and Anwar, can be found in the columns of Datuk Nazri Abdullah in Berita Harian (especially 7 Disember, 1997), and those of Ramon Navaratnam and A Kadir Jasin in the New Straits Times. See also the views of
deeply such feelings run. Since Mahathir's political dominance rests to a considerable degree on his success in managing sustained economic growth, such feelings are likely to intensify as the financial crisis drags on.

In the short term, however, Mahathir's position was not significantly weakened. Calls for Mahathir's resignation by the international media and some United States congressmen had an inevitable consequence: all Malaysians, including even members of the opposition parties, rallied to the Prime Minister's defence. To many Malaysians, Mahathir's outspoken criticisms of external manipulators made a lot of sense. They have been told for years that the West is jealous of Malaysia's progress, and therefore hostile to it.23

These events once again focused attention on a long-running political issue in Malaysia, namely, the nature of the relationship between Mahathir and deputy Anwar, and the related question of when Anwar would succeed to the top job. Mahathir's decision to take two months overseas leave from late May 1997 did convey an unambiguous message of support for Anwar: it was the first time he had been outside the country for more than three weeks since becoming prime minister, and the first time he had appointed an acting prime minister since the early 1980s. It may also have been a hint that he was preparing for Anwar's succession in the short to medium future, rather than—as many critics allege—planning to remain in office indefinitely.


23 Mahathir's leadership was strongly endorsed at the UMNO general assembly held in mid June. Mahathir again demonstrated that he has not lost his ability to sway sentiment in his favour, and that he retained the loyalty of a very substantial section of the party.
Mahathir’s handling of the crisis was different to Anwar’s—Mahathir ignited international fears and hostility, while Anwar demonstrated a deft touch in calming such feelings. This, and occasions on which the two leaders issued contradictory statements, led many observers to see a deep conflict between them. In September Mahathir was reported to have said that Malaysia would ban currency trading; the next day Anwar denied this, and said Mahathir had been misquoted. In November Mahathir announced that a RM10 billion land bridge across the isthmus would go ahead; a day later Anwar announced that only a gas pipeline component would be implemented. In February Mahathir was quoted as saying that the policy of allowing non-Malays to take over Malay firms would be ‘temporary’; Anwar responded by saying they could not be temporary. In April Mahathir expressed support for a mooted restructuring of Malaysian Airlines which analysts saw as meeting only the interests of the controlling shareholder, Tajudin Ramli; Anwar said the restructuring could occur only if the interests of minority shareholders were protected. In late May Mahathir said government was trying to lower interest rates; the following day Anwar ruled out immediate interest cuts.

Do such cases represent clear examples of policy difference? In some cases Mahathir may have been misquoted, or may simply have used words carelessly—for instance his press secretary did clarify that Mahathir had said the policy of allowing non-Malays to purchase Malay firms would be ‘selective’ not temporary. More significantly, once Anwar had clarified a Mahathir statement the issue stopped there, so that any differences between the two were quickly resolved. Such incidents probably do reflect a more cautious approach

on Anwar’s part, but they hardly represent evidence of a clear policy difference.

The overall economic policy Malaysia is following—which has been worked out in close co-operation with the IMF and comes very close to representing an IMF package—reflects the views of both Mahathir and Anwar. A widespread perception that these are Anwar’s policies and Mahathir is against them reflects a naive understanding of political power in Malaysia: the Prime Minister is much more powerful than his deputy, and anyone else. While Mahathir allows Anwar considerable latitude to express his views, basic policies require his acquiescence at least.

The appointment of Tun Daim Zainuddin as executive director of the National Economic Action Council, an organisation announced in November 1997 with broad powers to advise on economic reform, was widely seen as an attempt to sideline Anwar. Daim is a confidant of Mahathir, and generally seen as a rival of Anwar. Yet by all accounts Anwar and Daim have worked cooperatively in addressing the crisis—as indeed they have done on other occasions in the past.25

The current relationship between Mahathir and Deputy Prime Minister Anwar, together with when and how

25 The Anwar-Daim relationship was again a focus of much media speculation in late June 1998, when Mahathir reappointed Daim to the cabinet, with special responsibilities for co-ordinating economic recovery. This was undoubtedly intended as a reminder by Dr Mahathir that he remained in overall control of economic issues, but it did not significantly change relations between the top three economic decision-makers. Contrary to many reports, Anwar and Daim have not always been rivals. For example, Daim supported Anwar’s campaign for the UMNO Deputy President post, against Mahathir’s initial opposition.
Mahathir's succession will be accomplished, are of course matters of lively speculation in Malaysia. A degree of rivalry is inevitable, and the supporters of each are engaged in constant manoeuvring for advantage. But the odds are that tensions between them will not split UMNO apart. Both are skilful politicians, and have worked together—through periods of intermittent difficulty—since the 1960s.26

Indeed in some respects the working out of the Mahathir-Anwar relationship in the context of the financial crisis may even have improved prospects for stability in Malaysia. Anwar has emerged from this with his reputation enhanced, and will be better prepared when his moment of succession arrives.

The financial crisis has not had a major impact on the overall position of the ruling National Front. Towards the end of 1997 by-elections indicated a small swing away from the government, particularly in non-Malay seats, but the Malay heartland remained secure. Elections must be held within two years, and non-Malay parties may well regain ground lost at the last election—which, indeed, was likely in any case, as some retreat from the record 1995 pro-government vote has always been expected. UMNO is well-prepared to face an election, having just absorbed a major faction that broke away after the party split in 1987, and it still has a strong base in rural areas which have not been too adversely hit by the financial turmoil. The main Malay opposition, Party Islam, has done little to use the economic crisis to

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26 In July 1998 Mahathir-Anwar relations hit another low, with Mahathir campaigning strongly against claims of corruption in his administration, implicitly criticising Anwar for siding with the critics. Pro-Anwar newspaper editors of the two major Malay-medium dailies were removed from their posts.
expand its influence, though it may still prove difficult to dislodge from state government in Kelantan.

Whenever Mahathir calls elections, economic conditions are not likely to be at an optimum. It should not be forgotten, however, that the ruling coalition managed an overwhelming victory at the high-point of the last recession in 1986.

Move To Protectionism?

A common concern among analysts has been the possibility that the financial crisis might lead governments to raise protectionist barriers and halt the move towards increasing liberalisation and deregulation.

In Thailand there has been a nationalist backlash against the IMF for its efforts to open all sectors of the Thai economy to foreigners, and to the perceived desire of foreigners (particularly from the United States) to buy Thai assets at firesale prices. This is hardly surprising, as for years Thailand has sought to keep key areas of the economy in Thai hands, particularly banks. Media pictures of a Thai politician smashing a US-made television set provided a visually dramatic illustration of Thai sentiment.

Nonetheless, Thai leaders recognise that there is no alternative to opening up, and have stated this repeatedly in public. A law has already been passed allowing 100 per cent foreign ownership of Thai banks for ten years (foreign firms will not have to divest after this, but will not be able to take a part of any future share issues until they have lost majority control), and a bill to allow foreign participation in a broad range of previously restricted industries will be passed in the second half of 1998.

Just as there is no alternative to openness and liberalisation, development of the industrial sector and services remains the
major preoccupation of government. Industrial exports, and service industries such as tourism, are looked to as the main engine to drive Thailand out of its existing crisis. And getting the financial sector right is of course crucial to supporting the real economy. This will require greater regulation, but will not amount to a new form of protectionism.

Political discourse has, however, increasingly focused on issues such as self-sufficiency, sustainable development, and equitable distribution of wealth. The King’s message in December provided a notable fillip to the many non-government organisations involved in rural support and environmental issues. This approach is not necessarily anti-foreign, or in conflict with the general thrust of economic policy, as a leading social advocate, medical doctor Prawase Wasi, has affirmed.\(^{27}\) But conflict could very easily occur if industrialisation and financial reform are pursued in a manner that fails to take account of such interests.

In the Malaysian case also, there has been no move towards protectionism. Malaysia’s offer to the World Trade Organisation (WTO) for the General Agreement on Trade in Services in December 1997 included opening its insurance industry to 51 per cent foreign ownership. It removed a RM100 000 levy on foreign housing purchases, and promised to review the 30 per cent limit on foreign ownership of banks. Allowable foreign equity in stockbroking and telecommunications has been increased from 30 per cent to 49 per cent, and some stockbrokers have been allowed to go as high as 70 per cent.

Nationalistic anti-IMF sentiment is even stronger than in Thailand, but this is directed at extensive control over economic policy where IMF packages are in place rather than

\(^{27}\) Bangkok Post, 22 May, 1998.
a reflection of support for protectionism. As already noted, Malaysia has in practice worked closely with the IMF. Malaysian leaders have strongly reaffirmed their commitment to continued liberalisation, both in international bodies such as Association of South East Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC), and domestically. This will, however, be at a measured pace in areas such as cars and finance, and Anwar has suggested that there should be a quid pro quo—to help stave off the claims of misplaced nationalists, the international community:

should commit itself unequivocally to reforming the international financial regime in tandem with the changes being demanded upon nation states.28

Political Reform

Political reform was very often urged on South East Asian countries, but with very little expectation that this would occur. In Thailand’s case, the financial crisis did make a very direct contribution. Popular opposition to government handling of the crisis translated into strong support for a new constitution, drawn up with widespread public consultation during the first half of 1997. This addressed particularly issues of corruption, stability and transparency—crucial for both economic and political reform. Parliamentary support was uncertain at the beginning of 1997, but the vote in September was 578 to 16. The constitution will come fully into effect after the holding of new elections, not required until the year 2000 but likely to be held earlier.

The constitution will not be a panacea, and in some respects is elitist, particularly in its requirement that parliamentary candidates must hold a university degree. But overall it should help. Thailand will become more democratic – the senate will be elected, and there are a range of ways in which individuals and interest groups can bring influence to bear on the political process. The influence of money politics should also be reduced. The legislature and the executive have been separated, so that cabinet ministers cannot use their powers to distribute largesse to constituents; and institutions such as the Electoral Commission, National Counter Corruption Commission and Constitutional Court have been established to enforce prohibitions against corrupt behaviour. Allocating 20 per cent of seats to a national party list should favour major parties (particularly the Democrats, the only party with a genuinely national following) and thus enhance political stability.

Also likely to benefit political reform is the widespread debate taking place over the issue of governance. As articulated by people such as Anand and Thirayuth, the concept involves transparent and accountable government, an end to patronage, and a focus on sustainable economic growth. Thirayuth has coined the term *dhammarath* – taken from *dhamma* (the Buddhist teachings) and *rath* (nation) – to reflect this in the Thai language. The other important change in political discourse involves a renewed focus on agriculture, sustainable development and self-sufficiency, mentioned above.

The interest in spreading the idea of governance to the corporate sector, and reforms being undertaken in the financial sector, should also help the reform process. New laws which impose stricter requirements on disclosure, transparency and auditing requirements for banks and other financial institutions, together with increased involvement of foreign firms, will reduce the opportunities for ‘incestuous’
ties between such institutions and politicians. The political will of the present government to take tough decisions was demonstrated in its sweeping closures and take-overs of four banks and 56 finance companies.

Political reform in Malaysia is likely to be less obvious than that in Thailand. No wholesale re-drafting of the constitution is in the offing. But changes to Malaysia Inc. will take place.

Anwar is at the forefront of reform efforts, giving speech after speech in which he acknowledges that ‘cronyism’ must end, and demands for good governance and development of civil society must be taken note of. Mahathir, in a more nuanced way, has supported these policies. 29 Concrete measures to achieve this are under way. Improvements in corporate transparency being imposed by the Kuala Lumpur Stock Exchange will help. Anwar and other ministers have affirmed that future government contracts will be awarded by open tender, doing away with the opaque ‘first come, first served’ policy. 30 Legal reforms are in train to remove state

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29 In the early months of 1998 Mahathir endorsed Anwar’s views on cronyism and corruption, though he was quick to note that Malaysia had no monopoly on such ills. See, for instance, ‘Business Week’, published in Straits Times, 4 May, 1998. However in the lead up to the UMNO general assembly in mid-June, Mahathir changed tack, denying that such negative features existed in Malaysia. There was clearly a strong tactical element in this change. In practice Mahathir continued to support economic reforms at home, but in his speeches he focused on the external aspects of the economic crisis, to ensure that domestic shortcomings were not sheeted back at him.

30 See The Star, 23 January, 1998. The ‘first come, first served’ policy gave companies the opportunity to propose initiatives in areas such as privatisation. Where these were accepted, the
government discretionary powers over re-classification of land,\textsuperscript{31} which in the past led to windfall gains for insiders and inappropriate land use. A new, tougher anti-corruption law, putting the onus of proof on the accused not the prosecution, was announced just prior to the financial crisis, and came into effect in January; it will, no doubt, be implemented vigorously.

Malaysia is not about to reverse policy—as some are demanding—and stop all support to individual companies. The political necessity of ensuring that Malay companies have a reasonable share of the corporate sector is just one reason why such an option is unthinkable. But the disrepute in which ‘cronyism’ is now held, and the broader antipathy to ‘bailouts’, will serve to constrain past excesses.

Malaysia’s political discourse is also changing. The vision of establishing a modern industrial society has not been abandoned, though Mahathir has conceded that it may be later than the target date of 2020. There have, however, been a number of modifications. New megaprojects are not likely for some years and will probably be subject to more rigorous examination before acceptance. A greater emphasis is now given to agriculture, to reduce Malaysia’s large food import bill. Environmental issues and related concepts of sustainable development continue to gain more attention, reinforced by the severe smoke haze from forest fires in both Indonesia and Malaysia in the second half of 1997 and first quarter of 1998. And Anwar has spoken at length about the need to focus on social issues—a theme that has always been a strong part of his ideological identity, but now finds a more receptive audience.

\textsuperscript{31} Sunday Times, 1 March, 1998.
In the present environment there are conflicting pressures to present a united front in the face of adversity, and to allow a wider democratic space. But events in Indonesia have tilted the argument in favour of democracy, for the repressiveness of that regime has been identified by most Malaysians as a key reason for its downfall. And if the crisis is prolonged, some further weakening of Mahathir’s position seems likely, widening the arena for political contestation within UMNO.

Conclusion

It is axiomatic that economic difficulties make for difficult political times, but apocalyptic views of developments in Thailand and Malaysia are a long way from being realised. The main conclusions from this paper can be summarised as follows:

• While there are considerable social problems in both countries, particularly Thailand, most are not caused by the financial crisis. Social conditions are unlikely to deteriorate rapidly and precipitate political instability. There is evidence of social resilience as well as fragmentation.

• Existing political systems and, to a lesser extent existing governments, continue to enjoy a high degree of legitimacy.

• In the main, governments have not responded to the crisis by turning inward or tightening political controls. Popular resentment against the IMF, with some government support in Malaysia, does not imply a retreat into protectionism. A commitment to export-led growth and liberalisation remains, though growth at any cost is no longer acceptable. Sustainable development, agriculture and equity now have a greater priority in public discourse.
Bad Times, Good Friends
Australia and East Asia in 1998

- Public opposition has been strengthened to corruption and suspect links between politicians and business. Measures to address such issues include reform of corporate governance and limits on discretionary powers awarded politicians and bureaucrats. In Thailand’s case democratic institutions have been strengthened—through a new constitution—to enforce greater accountability. More democratic space seems probable in Malaysia.

Unlike Indonesia, governments in Thailand and Malaysia do not face immediate prospects of mass unemployment, food shortages, racial tension, hyper-inflation and a complete lack of political legitimacy. Both countries have been through tumultuous political change in recent decades—including the 1973 and 1992 mass uprisings against military governments in Thailand, and the 1969 racial riots and split in the ruling UMNO party in the late 1980s for Malaysia. Both faced economic recessions in the mid-1980s, which in some respects were more severe on the general public than the current crisis. On each occasion they quickly bounced back, reflecting the strength of each country’s institutions—formal organisations such as political parties, the bureaucracy, the monarchy, non governmental organisations; the division of power set out in national constitutions; and more diffuse traditions of political behaviour, including broad national agreement on an economic system based on free enterprise, but with a priority placed on reducing poverty. These institutions have so far largely survived the current crisis. And the cautious reforms now being introduced may better prepare them for the future.

The challenges will, of course be much greater if the regional crisis enters a ‘second phase’—in the event of currencies being dragged sharply down by continuing turmoil in Indonesia, or other possible causes as diverse as devaluation of the Chinese currency, economic paralysis in Japan, or a
South Asian arms race. At some point economic pressures may become so intense that an Indonesian-type scenario becomes possible. But there is no inevitability that economic pressure will have the same political fallout as in Indonesia, and there is some way to go before such a scenario becomes a possibility.
Economic and Social Impacts of the East Asian Crisis on the Philippines
What Can Be Done?

JOSEPH LIM

This paper is based on a paper originally commissioned by the United Nations Development Program (UNDP). I am using this paper as an entry, not just to talk about the social and economic impact of the crisis in the Philippines, but to discuss the East Asia crisis.

The Philippines has a very poor performance in poverty alleviation vis-à-vis other East Asian countries. But there are Philippines success stories. Most of the East Asian countries have reduced the absolute number of poor people since 1965. The Philippines has not. In the Philippines, the number living in poverty has grown from 15 million to more than 17 million from 1965 to 1995. Using the World Bank estimate of one dollar per day (1985 prices), most countries have also reduced poverty incidence, not just the absolute numbers, but in relation to the percentage of the population that is poor. The Philippines does this at a slower rate than China, and even slower than Vietnam.

Because of this, the Philippines’ share of East Asia’s poor people has doubled from 2.1 per cent in 1975 to 5.1 per cent
in 1995. What are the causes? Everybody knows that the Philippines was not considered as one of the great success stories of East Asia prior to the crisis, so let us look at some of the reasons. First there is a series of boom-bust cycles in the Philippine economy, unsustained growth and stagnant per capita income. In fact, Gross National Product (GNP) per capita now is the same as GNP per capita in the early 1980s. There is also a series of economic recessions, the biggest one being between 1983 and 1985 which compares to that of Indonesia today. In fact, several comparisons could be made—political and economic—between the two countries.

The second reason for poverty in the Philippines is the higher inflation rates compared to those of other East Asian countries. This has had negative effects on growth and export competitiveness, with higher real and uncompetitive wages and with negative effects on fixed and irregular income earners.

Third, is the lack of agricultural and rural development, with low agricultural and rural productivity. We have never achieved increases in agricultural and rural productivity to the level of Indonesia, Thailand and Malaysia. These countries are central to the East Asian model. There has been a lack of investment in human capital, although enrolment rates are high, and the educational systems are of a poor quality. This, in turn, has a negative effect on the quality of labour supplied and affects real wages.

Fourth, and on the demand side of labour, there has been a lack of improvement in science and technology, with very little going up the technology ladder in the industry. We missed out on the boom elsewhere in South East Asia because of a series of coups in the Philippines, in particular, against the Aquino administration. Except in the semi-conductors industry, the Philippines did not experience the kind of foreign investments that brought the industries in the
East Asian success stories up to peak. The result of all this has led to low-skilled employment, low labour productivity, low real wages and high poverty conditions.

The fifth reason is the concentration of expansion in growth centres, connected to the lack of rural industrialisation, continual regional disparities and continuing urban-rural gaps. This was emphasised in the 1990s when prices were distorted. Moreover, there was a tendency for growth to be concentrated on these centres and, as a consequence, the rural areas became the biggest victims in terms of poverty incidence.

However, the incidence of poverty improved during the Ramos administration, falling from 35.6 per cent of the population in 1991 to 28 per cent in 1994. The improvement concentrated in urban areas and less in rural areas. All of this growth and poverty alleviation occurred around metro Manila area and around metro Cebu area. This was the situation before the crisis erupted.

The Crisis

The origins of the Philippines’ economic and financial crisis can be blamed on the boom-bust cycle. One main reason is the low domestic savings rate compared to the other East Asian countries. The Philippines has only 21 per cent of Gross Domestic Product (GDP) as domestic savings compared to more than 30 per cent in the other East Asian countries. The opposite side of the coin is a low export capacity compared to the other East Asian countries. This makes the Philippines dependent on foreign capital inflows in order to grow.

Similar to the other East Asian countries, however, the other root causes of the crisis are the dependence on foreign capital flows based on the indiscriminate opening up of the capital
accounts. The Philippines depended less on the good foreign direct investment inflows and more on the bad foreign portfolio investments, and on short-term foreign borrowings.

A major cause of the crisis is, of course, increased globalisation. Most countries opened up capital accounts simultaneously—Eastern Europe, Latin America, China and all other countries—to increase the two way flow of portfolios. The Dow Jones index increased rapidly during the periods before and during the crisis and this allowed portfolio investment over a wide choice of destination. Most countries also undertook massive trade liberalisation at the same time so they became more competitive. Of course, the threat of China devaluing is part of this phenomenon.

But observers continued to say, 'The fundamentals are good, the fundamentals are good!' Actually, the fundamentals were not good. When the foreign influence came in—mostly portfolio inflows—the currency was overvalued because the trade deficits were growing and there was high growth during this period—all the countries experienced high growth and a growing current account deficit. But, at the same time, as the foreign inflows were coming in, so the currency was overvalued vis-à-vis the current account deficit. In terms of fundamentals, that was the one key element that was wrong. Another aspect of the problem was the twin effect of this over-valuation of the Philippines peso, import liberalisation and then tariff reduction.

Imports became very cheap and there was a rising import intensity contributing further to the rising trade deficits. More importantly, it distorted relative prices versus tradeables, which affected manufacturing—trade, exports and imports. It was a bias towards non-tradeables, real estate, trade centres, particularly megamalls—most in the Philippines know the phenomenon of megamalls, and financial institutions, stock markets and such.
A major contribution to the crisis was financial liberalisation and over-sterilisation. This brought about higher domestic interest rates *vis-à-vis* the dollar interest rates. With a stable and appreciating peso, or currency, this led the overlending and overborrowing syndrome and a lot of unhedged dollar borrowings that became worse when the currency began to depreciate.

Finally, we saw a weak financial sector, lack of transparency—this is what the International Monetary Fund (IMF) has attacked in most of the packages—in the financial sector. Also, the central banks, particularly the commercial banks, lack prudential regulations on these financial transactions.

The economic impact of the crisis is clear. There is an increased risk of loan defaults as real estate prices fall. Most of these loans are exposed to real estate and, hence, import-dependent firms suffer because of the devaluation. Foreign borrowings become exposed to the currency devaluation and the instability increases with the risk of loan defaults and bank runs. The first quarter figures show that stock markets are plunging again, with lower growth and higher unemployment. There is higher inflation too, for the Philippines. It was unfortunate that the Philippines achieved its lowest inflation in 1997, 5.1 per cent because, with the crisis, it rose to 8 per cent. For the Philippines it is a return to the boom–bust cycle.

Foreign inflows have forsaken us and so the solution is long-term. We need to improve the domestic savings and export performance. The fiscal constraints are very strong. In the latest IMF program there is a 25 per cent mandatory savings across the board. It is just another way of saying 25 per cent cutback on all expenditures, on all the budgets of all the departments in the executive branch.
The Social Impact of the Crisis

Interest rates have gone down from a previous high but the threat of high interest rates is still there and, with the recent devaluation, are likely to return.

The social impacts of the crisis will result in unemployment, fewer job openings and vacancies, gender discrimination in layoffs and in new hires. Many firms have indicated that they will fire women first, especially in firms where both husband and wives are working in that firm. Inflation will hit the fixed income groups. The twin effects of inflation and unemployment will impact on poverty and result in a shift and a deterioration in income distribution. The poor people have less diversified assets than the rich.

Social and human development will decline as income per capita decreases, and all indications show that education, health and sanitation levels are going to suffer. The decrease in education and health is particularly important. Medicines have high import content and textbooks also have high import content in the Philippines. Most textbooks have not been translated into the Filipino language. The lower enrolment rates than expected show that there will be pressures towards child labour also, as the enrolment rates fall for the children. Present and future sufferings will result because, with lower education, human capital is lowered to the point where that part of the economy is not used, hence lower future earnings.

Then there is the combined effect of El Nino on the recession: famine in Mindanao and poor crisis assistance for famine victims. The warehouses are stocked, but the poor people do not have money.

The safety nets are gone because of the fiscal pressure. Most of the safety networks will now come from the extended family system, something that Filipinos are well known for,
whether on the negative side or positive side. The effect on both the breadwinner and housewife will be severe.

The pressures on the overseas workers, for which the Philippines is well known, will increase. One out of five Filipino families are completely dependent on overseas remittances. With the US dollar being so expensive, compared to the Philippines peso, this will put a lot of pressure on these workers, many of whom are in Australia. The crisis also is putting pressure on the workers in terms of employment. For example, many of the East Asian overseas workers from the Philippines are going to lose their jobs, especially from Singapore and Malaysia. This claim is based on predictions made by the International Labor Organisation (ILO).

In 1997, the total layoffs was 15,848. In mid 1998, the number is already more than 48,000—three times the increase in layoffs. Most of the layoffs are in regions which were high growth areas—the metro Manila area and the metro Cebu area. The biggest layoffs are in manufacturing, construction and trade, with obvious effects on both business and labour.

Response and Summary

The main response to the crisis in the Philippines has been the IMF’s program. There are positive points in that program. Monetary targets were not as stringent as past programs. In past programs, monetary contraction was very high and that was one of the causes of the big economic collapse in 1984 and another collapse in 1991. They are now more relaxed. A lot of financial sector reform, especially in prudential regulation, is called for. Everybody, from the left to the right of the political spectrum, agrees on prudential regulation. Moreover, at a time of fiscal recession one can expect revenue generation to increase. The major critique of the IMF program for the Philippines—and we were
supposed to have a fiscal surplus of 1 per cent of GNP—is the strong concentration on achieving fiscal surpluses at the period of recession when tax collections will go down in order. Expenditures also will have to go down to meet fiscal targets. Indeed, that is one reason why the government imposed this 25 per cent mandatory savings. A second reason is blanket capital account liberalisation.

The root causes of the crisis were the capital account liberalisation and the bad performance. But, by the same token, there was no attempt to tackle the root causes of the crisis. In fact, some believe that individual country packages by the IMF preclude regional and international solutions to the crisis, because they are packaged in such a way, country-by-country, that they reduce attempts by countries to unite to solve the problems in a regional and international manner.

The burden borne by the affected countries is very similar to the foreign debt crisis of the 1980s. Somehow, the burden is borne by the affected countries alone, and especially by their citizens, not by the foreign creditors or portfolio investors, who also should be liable.

For countries most affected by the crisis, shock treatment was given. Indonesia was hit by price increases, immediate closure of firms and banks. Immediate austerity measures aggravated the situation and deepened the crisis, both for its citizens and from the viewpoint of the foreign investors. The reform package of the IMF has little concern for human development.

The Philippines government’s response has been to call for a national economic summit, as many helpless governments try to do things by calling summits and consulting with people. The government decided that there was very little that it could have done. It also decided that a basic social service was not exempt from the 25 per cent mandatory savings but will be the first to be restored once fiscal targets
are achieved. But, revenues will fall this year and the social services will be hard hit and there is little that the government can achieve.

In the short run, it is clear that the fiscal bind is one of the key problems. It does not provide safety nets for those who need them—social services were cut at the wrong time. There must be further negotiations with the IMF to try to create more fiscal leeway—one per cent fiscal deficit of GNP is not that bad. Of course, we do not want a 5 per cent GNP fiscal deficit. Interest rates will zoom upwards if that happens. Instead of a 1.2 per cent, the target now is 1 per cent surplus for 1998, plus 2 per cent for 1999, which is just too stringent. We are afraid that, because of the decline in revenues, Treasury bill rates might increase dramatically.

In the medium and long term, employment-generating programs will have to be undertaken urgently. In the long run, we need to work on international and regional agencies to institute some sort of discrimination for capital—to discriminate between the good and the bad—perhaps tax bad capital. The Philippines has a completely different problem to its neighbours. Recovery for the other countries means a 30-plus per cent savings rate. These countries can easily grow to 46 per cent without relying on foreign capital. But the Philippines, with a 20 per cent savings rate, cannot sustain that for more than two years. We need good capital but the direct foreign investments are no longer there. Japan, the biggest provider of foreign direct investments, is in trouble. Maybe exports will help, if there are good exports strategies and the world market is conducive to that.

There are many things that distinguished the Philippines from other East Asian countries, before the crisis: poverty, the need to increase rural productivity, investment in human capital, education, health and basic social services have always needed more attention. I am a believer in the East
Asian model and it has worked for several decades, with high savings rate. But, it has simply not been possible to succeed in alleviating such a massive level of poverty, and to sustain that level through such a crisis. Development strategy was strong, but what went wrong in the 1990s was too much dependence on portfolio influences, foreign borrowings, lack of financial transparency, and poor financial regulations.

The Philippines, together with all the other East Asian countries hit by the crisis, needs to unite in the region and establish protective mechanisms for its future.

The reasons for the decline of the Philippines' economy are clearly argued in this paper: poverty induced by bad strategies, foreign investments and lack of attention to developing human capital.

The problem is system-wide and affects the entire country and region. A massive effort is required to reverse the poverty trend.
Regional Institutions
An Economic Perspective on the Current Position of ASEAN and APEC

ANDREW ELEK

At the outset, let me express my thanks to the organisers of the workshop for the opportunity to come and present a talk and I wish them very well in their ‘north-south’ axis venture of establishing the Institute for Regional and International Studies (IRIS). I notice one of the papers in the workshop is titled ‘Business as Usual’ but certainly it is not business as usual this year. There is a great economic and sometimes political upheaval going on to our north and that will keep all of us busy, in unexpected ways, for several years to come. At the same time, it is also pleasing to hear that people are not getting too bogged down in the current state of affairs, but looking ahead to what will happen in the longer term.

The crisis has caused a lot of reassessment. A lot of reassessment is going on within the Association of South East Asian Nations (ASEAN) itself, as well as some reassessment in Australia, at times in some worrying directions, to which I will come back at the end. Despite the current serious setbacks, we have reason to be confident about the long-term economic outlook. By and large, most parents in East Asia expect their children should, and can, have a much better standard of living than they have. They
are also prepared to work very hard to realise these expectations. The average person in East Asia is at least as smart as the average Australian and, on average, prepared to work harder for less. When the capital investment that supplies their skills and technology improves, so will their productivity and their income. So there is no doubt Indonesia will be an economic giant in 50 years time, no matter how difficult a path it may travel between 1997 and 1999. Other ASEAN economies will also grow

I believe it is important for us in Australia to keep thinking about ASEAN as a group. There is a huge advantage for Australia to be able to deal with an entity which has a consensus-based international policy. When we relate to individual countries of ASEAN, it is in our interest to see them as part of a wider context and, in turn, to see ASEAN as part of East Asia. Whilst Indonesia is by far our closest neighbour, Indonesian policy-makers think of themselves as part of the ASEAN in very important ways and we should do the same.

ASEAN and the Asia Pacific Economic Cooperation (APEC) are both institutions that are very important to Australia, and fit into an even broader context. Both operate within important multilateral institutional settings such as the United Nations on the political side and the World Trade Organisation (WTO) on the economic side. Both those multilateral institutions have such a large membership that they can be very unwieldy at times. Therefore, it makes sense for those countries and economies that interact more intensely to co-operate in regional groups as well, and there is a strong trend to do so. ASEAN itself is at the intersection of the East Asian Economic Caucus, APEC, and recently the Asia-Europe Meetings process (ASEM), which brings leaders and officials of those two regions together. Through the rest of the world we are now seeing intense regional cooperation in the European Union as well as the free trade area among

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North American economies which are also part of APEC. We all need to think through these developments together and try to find ways to steer them sensibly in a way which can reinforce our overriding interest in a rules-based international order. While Indonesia will be an economic giant in 50 years, the United States, the European Union and China will be larger still. The rest of us are all relatively small compared to those, so we have a very big interest in making sure that the really big players play by the rules, not just use their strength in an opportunistic or capricious sort of way. Therefore, all our experiments in regional cooperation need to be designed in a way which strengthens the global as well as the regional economic order.

While we need a strong World Trade Organisation (WTO), the challenges it faces are getting ever more complicated. Unlike 50 years ago, the trade in commodities and finished manufactures no longer dominates international economic transactions. International movements of capital labour and information are becoming increasingly important complements to trade in both goods and services. International economic rules have to try to keep up with the ever-growing range and sophistication of international economic transactions. And the way these new rules of the game evolve is very important to relatively small players like ourselves. None of us, be they Australia or individual members of ASEAN, can ever expect to be very influential by ourselves in global bodies like the WTO, which are devising these new rules. That is why it is useful to think of Australia and members of ASEAN working together, especially in APEC, towards these objectives.

Coming back to ASEAN, the group is certainly going through a difficult period with some tough challenges. Recent developments have put enormous pressure on ASEAN. The El Nino-driven drought, the major fires and the trans-border pollution problems happening at the same time
as the recent economic problems have been combined with the inevitable strain and extra load of absorbing new members of ASEAN. All of these are going to cause some difficulties for the group, but I am fairly confident that they will be overcome. ASEAN has a very strong track record of consensus-building and cohesion among a remarkably diverse group. Some observers have tended to dismiss its economic aspect, to say it is just a political organisation. But it is important to consider the enormous economic benefits to ASEAN members of not having to arm themselves to deter aggression from each other. The economic benefits of a cooperation which has made an arms race unnecessary are already huge and will continue to grow.

ASEAN is essentially a relatively new model of international organisation. Most international organisations tend to be driven by formal arrangements, international treaties and rules and obligations. By contrast, ASEAN is an open association which promotes voluntary cooperation among this very diverse group. The ASEAN model of regional economic cooperation has been a very important example for the rest of the Asia Pacific region. At the heart of any attempt at successful co-operation in the Asia Pacific region, we find essentially the same kind of principles of openness, equality and evolution, which are also at the heart of ASEAN. In this context, openness means a willingness to relate to the rest of the world as well as to themselves and to keep thinking about expanding participation. The principle of equality is reflected in a strong sense of the importance of mutual benefit and genuine mutual respect, even if current economic and political strengths may be quite different. Evolution is an acceptance that the nature and process of cooperation should take shape gradually, rather than expecting to have a ready-made solution for everything from the outset. Working consistently with these important principles, members of ASEAN have been able to caucus effectively. As a result, they
have been able to have a very strong, united voice and have left a very important imprint on all Asia Pacific economic institutions like APEC and in the ASEAN regional forum to nurture security cooperation.

APEC has certainly benefited from ASEAN and, in some sense, ASEAN has also benefited from APEC. As APEC began to take shape, ASEAN had an even stronger reason to focus on its own internal economic cooperation, and I think that helped to spur the revival of thinking about practical options, leading to the initiative to establish an ASEAN Free Trade Area (AFTA). That initiative is moving along fairly purposively and I am fairly confident the 2003 targets of very low tariffs will be met. That coordinated drive towards trade liberalisation has proved particularly useful in recent times. The APEC-wide consensus on the benefits of more open trade policies has meant that, despite the heavy blow many Asia Pacific economies have suffered, there has been no hint of turning their backs to the world, nor any hint of a relapse into economic nationalism or protectionism. The structures created by APEC and AFTA helped to preserve a consensus that outward-looking economic policies must be sustained whatever else happens.

In view of all these new challenges and developments it is reasonable to expect that ASEAN itself will continue to adapt. As the economic capacity of its member nations evolves, there should be new opportunities for ASEAN to evolve in line with that capacity.

APEC is like ASEAN, an open association, although it has a strictly economic rather than a political focus. There’s no question that, by now bringing 21 governments together from the vast Asia-Pacific, APEC has a political dimension, but its agenda is economic, whilst security issues are being pursued in a parallel forum, the ASEAN Regional Forum (ARF), whose structure is similar to ASEAN and APEC in
Bad Times, Good Friends
Australia and East Asia in 1998

terms of openness, informality, mutual respect and evolution.

What has APEC done? It has been in existence for less than ten years, but it has very quickly agreed on its guiding principles, established a mode of operation and embarked on a work program covering many sectors, not just trade and investment. APEC has widened its participation from 12 to 21 (some may say it has widened it too much, but I do not agree with that view). At their 1994 meeting in Bogor, Indonesia, APEC leaders set themselves a very ambitious goal of free and open trade throughout the region by 2020. APEC governments have begun to make tangible progress towards that vision in a quite orderly, methodical way. Once again, despite the need to focus on many things as they confront short-term financial crises, no member of APEC has suggested that the targets for achieving free and open trade and investment are no longer relevant. 1998 may not be a year for big break-throughs on trade liberalisation, but there’s no hint at all of any kind of reassessment of the agreed coordinated drive towards closer economic integration of the region.

While the early focus of attention has been on reducing obstacles to trade and investment in the Asia Pacific region, APEC has other aims. As I hinted earlier, its primary objective is to try to strengthen and underpin a global economic system; regional trade liberalisation is an important means to promote that more important long-term multilateral objective. A third important objective of APEC is to intensify development cooperation in the region. APEC will need to promote all three of these objectives in a balanced way.

There are some quite encouraging signs on the multilateral front. APEC’s model of open and outward-looking economic cooperation is having a positive influence on regional economic cooperation in other parts of the world. It is no
coincidence that the new ASEM process evolving towards a structure rather like APEC itself; starting from an informal base and gradually feeling its way towards more concrete cooperation which is consistent with promoting other efforts at international economic cooperation, including APEC and the European Union (EU) as well as the WTO. In recent months there has been an interesting new proposal for a New Transatlantic Marketplace between the EU and the United States which has a surprising number of APEC-like features, suggesting that the Asia Pacific model for economic cooperation may prove to have broader relevance.

Only quite modest progress has been made towards promoting economic and technical cooperation through APEC. Part of the problem is that it is not easily to apply the principles of mutual respect and mutual benefit to such activities. The experience with traditional 'foreign aid' has shown the difficulty of maintaining mutual respect between 'donors' and 'recipients'. Accordingly, APEC is seeking to design a new approach to development cooperation which looks forward to the days when some of the currently poorest will become some of the biggest Asia Pacific economies. This new model tries to move away from a traditional model of one-way transfers of funds, to finding ways of pooling the region's resources, of information expertise, experience and technology in a much more mutually beneficial and mutually respectful ways.

There is still a lot of scope for people in the Asia Pacific region to give constructive support to each other on how to solve their own problems. But there is less and less room in this region for people to insist on certain ways of solving problems. The current unfortunate experience of Indonesia with the International Monetary Fund (IMF) is something which hopefully will never be repeated. APEC has begun to think of ways to help each other strengthen financial systems and their supervision. Had APEC been around for longer, I
think it would have played a stronger mediating role as well as a stronger direct role in helping to overcome the current financial crises. Although APEC’s contribution this time has been rather modest, by exchanging experience and expertise about the effective management of our financial sectors, it can be in a better position to make a contribution to reducing the likelihood of future financial crises.

There are many other opportunities for mutually beneficial exchanges of information, expertise and technology. APEC can help bring the relevant people from the region together to engage in cooperative activities. An early example has been the agreement to adopt fully compatible approaches and technologies for the recording, transmission and processing of customs information. This will yield significant return to all Asia Pacific economies by allowing more efficient customs clearance and faster turn-around times at harbours and airports. In the longer term, there is scope to implement wide-ranging programs to promote regional economic integration by encouraging the mutual recognition of products standards and professional qualifications.\textsuperscript{32}

To take advantage of such opportunities to facilitate trade and investment, officials from all around the region need to get to know each other, to understand the pressures all of them are under, to understand each others’ motivations and have confidence in each other’s abilities to set policies and administer procedures such as the effective monitoring of product standards. Such things only develop if officials meet

\textsuperscript{32} Further details of opportunities to facilitate trade and investment in the region can be found in Elek and Soesastro (1997). Options for implementing cooperative arrangements to promote such activities by the private sector as well as regional governments are discussed in \textit{The Foundation for Development Cooperation} (1998).
regularly: APEC can provide the venue. It was very interesting to hear, earlier today, that the Northern Territory participates directly in a more local international grouping in a way which brings officials regularly together. That is a valuable opportunity, quite crucial for building sound long-term linkages with our neighbours.

APEC is not only about bringing down tariff barriers. The bread and butter cooperation is going to be by reducing risks and fostering trade, not so much by formal tariffs, just by different ways of doing business. And Europe has shown the huge gains that can be had by thinking through why different countries do things in different ways. Often the origins of different approaches to policy-making and administration are historical and now obsolete. Just by sensible convergence, not by imposing a system of uniformity, but with mutual recognition of each other’s procedures, a tremendous amount can be done to reduce costs and risks of international transactions. And that is going to be the agenda in APEC.

APEC is a very big organisation, already with 21 members. So it is inevitable that they’re not all going to do all the things at the same time. But we’ve seen one example, which is fairly small but is a sign of many more things to come. In 1996, Australia, Philippines and Korea introduced a streamlined system of issuing and processing visas for business travellers through special APEC channels at the various airports. In 1997, two more countries decided to join the scheme; this ‘club’ of easy access for business travellers will probably grow very quickly to embrace all of APEC.

More and more, these clubs will be started by different sub-groups in APEC. When they do, it will be very important that they take account of interests of all other APEC participants. It is easy to say, well, go ahead and set some possible examples. But without some care, such
arrangements among various Asia Pacific economies could lead to tensions, misunderstanding and friction. A paper on ASEAN, APEC and ASEM, by Elek and Soesastro (1997), argues that there are certain principles that APEC will need to design and adopt to ensure that cooperative arrangements, formed to facilitate trade and investment among some participants, support the concept of 'open clubs' which others are encouraged to join. The 'open club' is preferable to exclusive arrangements, which could damage the interest of other Asia Pacific economies and thus damage the cohesion of APEC.

Such principles or guidelines can set the context for the further evolution of closer economic relations between ASEAN and Australia and New Zealand, which have been under way now for five or six years. If these arrangements are designed to ensure that the interests of other economies are taken into account, they can set positive examples by having those linkages which later embrace more of the APEC region. Similarly, I think it is very important that when we think of the relationship between, let us say, Australia and Brunei, or Australia and Indonesia, we automatically think ahead to make sure that each of these fits into our relations with the whole of ASEAN; to seek to involve as many members of ASEAN as possible from the beginning and also to think of the implications of such arrangements a wider Asia-Pacific context.

We need to be aware that, while ASEAN is vital to Australia, we are not so vital to them. They need to look in all directions at the same time, and they do. As noted earlier, they are part of East Asia, with important relations with North America through APEC as well as with Europe through the new ASEM process. They will seek to develop all of these arrangements for cooperation in a way which is consistent with their own cohesion and with their global interests. ASEAN's stance in APEC has been wholly
consistent with that. Since the inception of the APEC process, they have consistently resisted poorly-thought-out suggestions that APEC should develop into a traditional trading bloc which, like other blocs, discriminates against the rest of the world, East Asian economies are much too sensible for that. They realise that their links with North America are very important, but their links to Europe are also worthwhile. That in turn has led to the initiation of the ASEM process, which will over time develop the same kind of cooperative arrangements for mutual recognition and convergence: the kind of agendas that we are developing across the Pacific as well as in East Asia.

We can keep all these initiatives for closer economic integration moving in a consistent direction by adopting some appropriate principles or guidelines. A fairly important principle is to avoid making needless choices among our trading partners, seeking to deal with them as much as possible in a non-discriminatory kind of way. It is natural we are going to develop closer relationship with some economies rather than others. We must learn to manage all such initiatives in a way which does not cut across existing or potential new relationships. ASEAN, I think, is likely to help us in that respect. I am fairly sure ASEAN member nations realise that any relationships they enter into will not disadvantage their other ASEAN partners. As they form closer economic links with North America and Europe through different institutions, I believe that they will adopt a principle which, probably informally, expresses that none of these links should have an adverse effect on economies which are not directly involved.

That will give them the right to ask others to abide by similar principles. For example, if a New Transatlantic Marketplace is set up between the EU and the United States, then ASEAN will have the right to expect that such a new arrangement should not be to the disadvantage of ASEAN. Similarly it is
very important for Australia to make sure that nothing we do discriminates against or otherwise disadvantages our ASEAN neighbours. We should be seeking to work with ASEAN to encourage the adoption of principles to achieve consistency among many ongoing initiatives for regional economic co-operation.33

Coming back to Australia, there has been some reassessment of our relationship to East Asia in view of the ongoing financial crisis, some of which is in worrying directions. As a small player in the region, Australia needs to take care about the consistency of the messages we are sending to ASEAN and to the rest of the world. Over the last few years we’ve made a lot of song and dance that we are part of Asia, so we must be part of any Asia–Europe dialogue. But only a few years ago the Australian Government was openly flirting, against the clearly-stated view of East Asian participants of APEC, with the idea of transforming APEC into an anti-Europe grouping. Such inconsistency can cause long-term damage to our credibility in Asia and elsewhere.

A more recent problem is that, although claiming to be part of East Asia while it was booming, as soon as some East Asian economies run into short-term difficulties, we find the Australian Prime Minister and Treasurer seeking to reassure the world’s financial markets that we are not part of Asia. We need to take much more care to be consistent and coherent in how we deal with the region, if we want to promote a confident long-term mutually beneficial relationship with our Asian neighbours. We certainly need to pay more attention to how our policies are likely to be perceived by our most important neighbours in ASEAN.

33 Elek and Soesastro (1997) propose some principles for cooperative arrangements for economic cooperation involving APEC economies.
Regional Institutions—An Economic Perspective on the Current Position of ASEAN and APEC

In that context, we are going to have to re-think our attitude to Burma. There are many serious concerns about the way Burma is currently governed. At the same time, any knee-jerk reaction that we should have nothing to do with Burma flies in the face of ASEAN cohesion. If ASEAN chooses to admit Burma as a brother member, it is not wise for us to continue to say, ‘well our policy on Burma, shutting them off from the world, is more constructive than your policy of engagement. And we will not have anything to do with that part of ASEAN’.

I think we need to think a little bit more carefully before we slap on sanctions whenever people are not like us. We have to be careful and consistent in our policies and dealings with all of Asia, within a global context. The constructive initiatives being taken by the Northern Territory and other Australian states are valuable building blocks of a sound longer-term relationship with East Asia.

To conclude, Australians need to keep an eye on our long-term relationship with our neighbours in these times of difficulty. We should continue to foster our links to both ASEAN and APEC, seizing the opportunities for practical cooperation offered by these institutions. I am confident that both ASEAN and APEC will cope with the strains which are placed on them over the next 15 to 20 years. They are organisations which will be of great benefit for Australia, providing the broad framework for the more practical and directly productive linkages which are forming, some of which are being discussed at this valuable conference.
Part 3

Neighbours Bound by Treaties and MoUs
The State of State Relations with South East Asia

RICHARD MATHEWS

In this paper I will explore the network of relationships that the Australian States and Territories have built up over the past decade with our neighbours in South East Asia, and explain the importance of these relationships for Australia.

Until the 1980s, South East Asia barely existed on the travel map for State and Territory government ministers and premiers. Singapore was one stop on the way to London or perhaps Tokyo, or a particular capital city where an important trade deal required a bit of ministerial push. This was not surprising considering how small was our trade with South East Asia.

However, Australia’s trade with South East Asia began to increase exponentially, as the region’s first phase of industrialisation began in the mid-1980s. In the past decade, State and Territory Governments began to take notice and to establish relationships and representative offices in many of the capital cities in countries in the region. The governments which have put the greatest effort and resources into developing their relationships with regional and national governments and business communities in South East Asia are those of the Northern Territory, Western Australia and Queensland. All three governments have established very
strong networks of contacts in Indonesia and worked hard to develop their links with the other major Association of South East Asian Nations (ASEAN) trading partners—Malaysia, Singapore, the Philippines and Brunei. The other State governments are catching up, with varying degrees of commitment.

Currently, the Northern Territory, Queensland, Western Australia and Victoria have representation in South East Asia. Some governments also have broadened their relationships beyond purely commercial commitments and have developed links with political institutions, schools and tertiary educational institutions, and to promote cultural exchanges. The Northern Territory Government is a pioneer in this area.

The Northern Territory

The people of the Northern Territory have been aware of the importance of their proximity to South East Asia for a very long time. Long before the white settlement of northern Australia, trade and social contact flourished between the Aboriginal tribes of the north, and sea-faring traders from the Macassar and Gowa region of South Sulawesi. For several months of each year Macassan traders would arrive along the north Australian coast to collect timber and to trade with local tribes for the rights to harvest beche-de-mer, pearl and turtle shell. This trade is believed to have existed for at least 150 years before white settlement, after which it declined. The impact of this trade on the Aboriginal economy of northern Australia was significant.34

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34 Corner, L, ‘Indonesia and Northern Australia: Potential Economic Linkages with Special Reference to Eastern Indonesia’, in Northern Australia, Progress and Prospects Volume 1: 138
In modern times the Northern Territory’s relationship with the region has grown rapidly. In the early 1970s student and teacher exchanges began between Northern Territory schools and schools in Bali, and this program later grew to cover four provinces in Eastern Indonesia. In 1989 Darwin established a sister-city relationship with Ambon, capital of Maluku province. In the 1980s the Northern Territory Government began serious efforts to formalise its long-standing relationships with the Eastern Provinces of Indonesia. These culminated in the signing of a Memorandum of Understanding (MoU) on Economic Development Cooperation in Eastern Indonesia in 1992. The MoU noted the complementarities that both regions have, such as the Northern Territory’s high level of skilled manpower and technological expertise, and Eastern Indonesia’s abundance of unskilled, low-cost human resources.\textsuperscript{35} The aim of the MoU is to build on these complementarities to the benefit of both regions.

The Northern Territory Government has also signed trade and culture agreements with the Indonesian Province of Bali, the Malaysian States of Sabah and Sarawak, and the Governments of Brunei and the Philippines.

The Northern Territory conducts frequent trade and ministerial missions throughout South East Asia, and in recent years has presented a strong showing at regional trade exhibitions, especially at regional mining shows. A major


item on the Northern Territory business calendar is the annual Northern Territory Expo, held during the dry season every June. In 1997 over 450 business people from countries in South East Asia participated. The largest delegations came from the Eastern Provinces of Indonesia. Northern Territory Expo also has become an important cultural crossroads, as many delegations bring cultural groups along to participate in the vibrant Northern Territory Expo entertainment program. In South East Asia, trade and culture often go hand-in hand, as has been the case for centuries.

Until last year, the growth in this relationship translated into dollars. The Territory’s exports to Brunei, Indonesia, Malaysia, the Philippines and Singapore in 1996–97 totalled $233.9 million, and consisted mainly of live cattle exports (over $192 million). However, since then, the Asian monetary crisis has seriously affected three of the Territory’s main markets—Indonesia, the Philippines and Malaysia. In 1998 the live cattle export trade to Indonesia has all but ceased and exports to Malaysia and the Philippines have halved.

Western Australia

Western Australia was the first Australian government to establish formal sister state relations with a regional government in South East Asia. In 1989 Western Australia established a sister relationship with the Indonesian Province of East Java. Former prime minister Paul Keating officially opened the Western Australian representative office in Surabaya in April 1994.

These events followed a growing awareness within Western Australia that Indonesia would become a major trading partner for the state in the 1990s. Indeed, exports from Western Australia to Indonesia increased from A$197 million
in 1985–86 to A$768 million in 1995–96. In 1995–96, Western Australia hosted almost 4000 Indonesian overseas students, and over 53 000 Indonesian tourists visited Western Australia. For wealthy Indonesians, Perth became the most popular Australian shopping and golfing destination as well as an important destination for specialist health services.

In 1994, Western Australia established a trade office in Kuala Lumpur which covers the regions of Malaysia and Singapore. Malaysia has long been an important source of overseas students: over 120 000 Malaysian students have attended educational institutions in Western Australia.

In July 1997 the Western Australia Government appointed a local business expert as the State government’s commercial representative in Bangkok, in a special arrangement with Austrade. Under this arrangement the representative is based in the Austrade office in Bangkok, and works for the Western Australia Government, which pays his salary. This is a pilot arrangement, which will no doubt be closely watched by other Australian State governments with similar interest.

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For Western Australia, like the Northern Territory, proximity to Indonesia and isolation from the other main population centres of Australia has influenced its approach to South East Asia. Cattle trade and exports of various primary products to Indonesia have existed for many years. But, like the Northern Territory, Western Australia’s exports of live cattle to Indonesia all but ceased in 1998.

Queensland

Queensland began its push into the South East Asia region around the same time that Western Australia and the Northern Territory were setting up their MoUs and commercial representative offices in Indonesia. In September 1991 Queensland signed an MoU with the Indonesian province of Central Java.\footnote{McCawley, P, ‘States and Provinces: New Linkages Between Australia and Indonesia’, paper presented to Bilateral Relationship Conference, Australia Indonesia Today ‘94, Surabaya 5 July 1994, p.7.}

Since that time, Queensland has seen exports to Indonesia almost double to A$328 million in 1994–95.\footnote{Government Statistician’s Office, Queensland Government, ‘Imports by Country of Origin’, http://www.gso.qld.gov.au/compend/tab17.htm, 1998.} Queensland mining companies have been strong investors or operators in the mining sector throughout Indonesia, especially in coal. Until the economic downturn, cattle from the Gulf Country were exported in large numbers through Port Darwin into Indonesia. Queensland’s universities also have attracted increasing numbers of private students from Indonesia and South East Asia in general.

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In June 1997, Queensland upgraded its information office in Semarang to a commercial representative office. However, in recognition of the fact that most major commercial decisions are made in Jakarta, and the fact that government decision-making on trade and investment issues is highly centralised in Indonesia, the Queensland Government also decided to establish a representative office in Jakarta.

Since 1992 an association of small-to medium-sized enterprises interested in export and based in Cairns has also begun to expand relations with the region. The Far North Export Group has conducted trade missions into the region, and hosted return delegations. The main focus has been on Papua New Guinea, and Eastern Indonesia.42

South Australia

In October 1994 the South Australian and Northern Territory Governments signed a Memorandum of Understanding (MoU) enabling South Australia to utilise the network of contacts that the Northern Territory had developed throughout South East Asia. This agreement has led South Australia to broaden its own experience and expertise at developing relations with Indonesia in particular. In April 1997 the Premier of South Australia led a trade delegation to West Java. In August 1997 the Governor of West Java, Nuriana, visited Adelaide and signed a sister State-Province agreement with Premier Olsen. South Australia now has commercial representative offices in Jakarta, and in Bandung,
the capital of West Java. The South Australian Government also has a commercial representative office in Singapore.\(^{43}\)

In January 1998 Premier Olsen paid a return visit to Bandung. During that visit he signed an agreement with Governor Nuriana on cooperation in water infrastructure development in West Java. During Premier Olsen’s visit Governor Nuriana expressed satisfaction that, despite Indonesia’s monetary crisis, the Province’s sister-state was still willing to become involved in a project to assist West Java.\(^{44}\)

South Australia’s foray into developing relations and links in South East Asia is relatively new and enthusiastic. The State Government appears committed to providing the resources to help its companies develop these links, despite the timing—the MoU was signed just as the Indonesian rupiah began its free fall against the US dollar.

**Victoria**

Victoria has an office in Jakarta but the Kennett Government places little faith in the value of MoUs or protocol agreements with the countries of the region. Victoria’s aim has been to attract investment into the state by putting sufficient resources into promotion and advertising.\(^{45}\)


\(^{45}\) Personal communication from Mr Kevin McGee, adviser in the office of The Hon. Mark Birrell, Minister for Industry, Science and Technology, in the Department of State Development, Melbourne, 25 March 1998.
However, one of Victoria’s recent market pushes into the region has been in agriculture, and processed and value-added foods. Agriculture Victoria has developed an agribusiness initiative, focusing specifically on Indonesia, Malaysia and Singapore. Food industry delegations have travelled in both directions, and a cooperation agreement has been signed between Agriculture Victoria and the Indonesian Ministry of Food Affairs. This covers training programs, staff exchanges, and the promotion of two-way investment in the agribusiness and food sectors.\textsuperscript{46}

Despite the apparent low-intensity relationship at government-to-government level, Victoria has had very strong people-to-people and educational links with countries in the South East Asian region for many years. Monash and Melbourne Universities have been the universities of choice for many students from the region. Monash has one of the highest Asian student enrolments in Australia.

**New South Wales**

Like Victoria, and because of its relative size, New South Wales has long-standing links with the countries of South East Asia through educational institutions, community groups, and professional and business associations. Sydney’s multicultural base is also a commercial asset, and several international corporations have located their regional headquarters in the city. Indonesia, Singapore and Malaysia are all in New South Wales’ top ten export destinations.

Nevertheless, the approach of New South Wales towards developing relations with South East Asia has been similar to Victoria’s—to leave it to business and other organisations to take the lead. New South Wales has only two overseas offices—a trade and investment office in London, and a government office in Tokyo. The prime function of the Department of State and Regional Development is the attraction and facilitation of investment into New South Wales. Although there is no single government approach to relations with the region, various individual New South Wales Government agencies have developed their own relationships with counterpart agencies—for example New South Wales Tertiary and Further Education has a joint venture in Malaysia to establish a training college.

New South Wales signed a Memorandum of Cooperation with the Special Area of Jakarta in 1994. This has led to one significant potential commercial prospect—an integrated wastewater and sewerage project for the Jakarta city area. In the current environment, however, some smaller demonstration projects also are being considered.47

An interesting case of a group of business people going ahead and developing their own relationships with South East Asian business, without any State government assistance, is the Hume-Riverina Business Connect Program. This program encompassed the inland cities of Albury-Wodonga and Wagga-Wagga, and surrounding districts. In 1996 the Hume-Riverina business community hosted a visit by seventy-six business people from the north west Malaysian states of Kedah, Perlis and Penang. In March 1997 a return delegation visited the Hume-Riverina district.

47 Personal communication from Mr David McGeachie, General Manager Trade Services, Department of State and Regional Development, NSW Government, 26 March 1998.
Outcomes have included Wodonga Tertiary and Further Education (TAFE) setting up training programs in Kedah; exports of agricultural machinery to Malaysia; imports of furniture from Malaysia; exports of building products, food and vegetables, and civil engineering services.

Australian Capital Territory and Tasmania

Both the Australian Capital Territory and Tasmania have shown relatively recent interest in building links with South East Asia. Tasmania and the Australian Capital Territory each signed MoUs with the Northern Territory in 1997 to access the Northern Territory’s network of contacts and expertise in South East Asia.48

Canberra, the national capital, hosts Embassies from all the countries of the region, as well as sizeable populations of migrants from South East Asia. The Australian National University hosts significant numbers of South East Asian students, and the Australian Defence Force Academy and some other institutions around Canberra frequently receive students from the senior ranks of South East Asia’s governments and military. The Australian Capital Territory Electricity and Water (ACTEW) has carried out a number of environmental management projects in Vietnam, Cambodia and Indonesia.49

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48 Personal communication from Neil Almond, Assistant Secretary Strategic Services, Northern Territory Department of Asian Relations, Trade and Industry, Darwin March 1998.

49 Australian Capital Territory Government

How These Relationships Benefit Australia

All States and Territory Governments like to think that they are modern, efficient results-orientated organisations, and that the resources they devote to developing links with the region bear immediate and justifiable fruit. Nevertheless, the nurturing of relationships with the countries of South East Asia is a long and difficult process.

The Governments of the Northern Territory, Queensland, Western Australia and, more recently, South Australia are very much aware of the need for cultural sensitivity and understanding in South East Asia, and persistence in developing relationships.

I would argue that appropriate resources devoted by State and Territory Governments to developing relationships and links with South East Asia, and to supporting their own firms who wish to explore opportunities in the region, are well spent for a number of reasons.

First, government and private firms in South East Asia often feel more comfortable when dealing with companies which have the backing, support or recognition of other governments with which they have a relationship. Government backing adds weight to the bona fides of the foreign firm and helps open doors at senior levels that otherwise may stay firmly closed. 50

Secondly, there are good social policy grounds for developing our relationships with our neighbours. Quite apart from the national approach, promoting cultural and educational links between States and Provinces contributes

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towards increased tolerance and understanding within one's own community—this is healthy. In the long term such interaction leads to greater integration between societies, and thus contributes towards increased trade and investment flows.

Thirdly, State and Territory links to countries in the South East Asia region add ballast to bilateral relationships that may occasionally encounter stormy times. For example, during the rocky period of our relationship with Malaysia in 1994-95, following former Prime Minister Keating's 'recalcitrant' remark about Dr Mahathir at the 1993 Asia Pacific Economic Cooperation (APEC) leaders meeting, established State and Territory relations with Malaysia helped keep the bilateral relationship going.

This leads to a fourth reason why State and Provincial links are, in my view, so important. Such links can help preserve Australia's national interests in a time of uncertain regional security and instability. In the current climate, when radical change is occurring in one of our closest neighbours, it pays to keep alive a wide range of contacts. A wide network of links and friendships across a range of levels of government and business would prove extremely valuable if increased regional autonomy, or even disintegration, were to become reality for example, in Indonesia.

Finally, State governments will find it increasingly hard to ignore demands for assistance from their own business communities, in developing links with the region. Austrade and Department of Foreign Affairs and Trade (DFAT) do a good job, but they have limited time and resources to assist Australian business. If, for example, Victorian companies cannot get the right sort of advice and assistance from their own government then they may well find it attractive to seek help from other State governments, which will be very keen
to assist. This may lead to decisions to relocate to other States.

Department of Foreign Affairs and Trade and Austrade play an important coordinating role in the state and territory relations with the region. For a number of years, Department of Foreign Affairs and Trade have promoted the Team Australia approach and organise on an annual basis meetings of trade ministers and officials. These are very important in coordinating the approach, making sure there are no negative images projected by competition between States. Competition between the States in the region is a fact of life and generally this cooperation has been good and all State governments have worked well with Department of Foreign Affairs and Trade and Austrade.

Trade, commercial, people-to-people and educational links between Australia and South East Asia are today becoming so complex and diverse that it is beyond the ability of any single government agency to provide all necessary advice and assistance. The more assistance available from State and Territory Governments, the better-prepared our companies will be for advancing into our own commercial neighbourhood. Of course, this assistance and advice must be of a high quality and be based upon the development of a wide ranging network of contacts and relationships, nurtured by professionals who are qualified in the knowledge of the cultures and markets that they are dealing with.
Current Regional Relationships between Governments, Peoples and Economies

Mick Palmer

The events to our north obviously provide a very interesting backdrop for today’s discussions. Imagine if someone had said 12 months ago that Indonesia would have a new president, the economies of many of our major trading partners would be in dark holes, and the most influential group in the region would not be the Association of South East Asian Nations (ASEAN) but the International Monetary Fund (IMF).

You might have thought this feasible in a five-year time frame, but this has happened in less that 12 months. This time last year, we had no idea what was about to unfold.

Even in cities such as Bangkok—a major regional financial centre—everyone from Reserve Bank chiefs to street vendors watched helplessly as their currency was stripped of its value almost overnight.

Our nearest neighbour and major trading partner Indonesia followed soon after, with implications for our economy that are now only being realised. The challenges for Australia are immense.
Bad Times, Good Friends
Australia and East Asia in 1998

Having impressed on the financial markets how closely our own economy was linked with the high growth of our South East Asian friends, our own dollar soon came under pressure as we confronted the implications of the burst bubble that was Asian economic growth.

Cartoonists often can sum things up far better than hundreds of column centimetres from economic writers and I recall one that captured the moment quite well.

The cartoon had the evil looking 'Currency Police' rounding up Asian leaders into a jail van, with our Prime Minister being dragged helplessly along, saying, 'I only live in the area.' Economic guilt by association, the financial markets may say.

To understand how we address the current issues, it is vital we do not let the progress of the last three decades fall away. In all the coverage coming out of Indonesia in recent weeks, one small item illustrated a major advancement in our relations with the region. That item concerned joint military exercises Australia was conducting with Indonesia, based out of Surabaya with the use of RAAF F-111 fighter bombers.

Many of us are of the age when we remember the rationale that went into this major defence purchase. The aircraft were specifically chosen for their range and, in particular, their ability to take the fight to the home turf of any country that wanted to have a go at us.

In those days Australia had a say in the running of Papua New Guinea, and it was fairly obvious where the military planners saw the threat coming from.

In the space of a couple of generations, we have gone from buying aircraft that could strike Jakarta, to actually conducting joint exercises out of one of the cities they could attack.
Another important aspect of the exercise was the rejection by the Howard Government of the easy knee-jerk reaction of scrapping the exercise and recalling the aircraft when the recent disturbance began. This might be a metaphor for an approach that Australia must continue to take.

Do not abandon relationships at the first sign of trouble. The business community, all levels of governments and the Australian people have years of time, millions of dollars and important cultural and professional ties that not only have to be maintained, but expanded.

Having travelled the region since becoming Minister for Primary Industry and Fisheries, I have never been accused of representing a country that was only interested in a quick buck at the expense of an emerging country. This is a major asset in our relationships, as I have heard this often said about other Asian countries, let alone those from outside the region.

One of the important reasons behind this is the range of levels on which we approach the region. My Department of Primary Industry is particularly active in what we refer to as ‘after sales service’, where our scientific and technical staff visit farms in the Philippines and Indonesia to provide assistance. The cattle industry in these countries knows it can buy from the Northern Territory, not only with confidence in the product, but confident in the knowledge that our local industry and my department will work with them in areas such as feedlot nutrition.

In short, we do not simply sell these countries 210 000 head of cattle, worth $200 million, without seeing a role in providing inside knowledge on the productivity of running Territory livestock.

Darwin is Australia’s premier live cattle export port and the understanding that both the private sector and government
have of the region is one of the key factors behind our success.

Having been at the ‘Gateway to Asia’ concept a bit longer than Western Australia and Queensland, we understand the importance of this more acutely than most other states.

Without being too harsh, both states still do not quite appreciate the need for a relationship built on something other than commercial values.

Whenever I have talked to people who buy millions of dollars of north Australian cattle, I do not hear them talking about the Queenslander or Western Australian who took the time to visit their property and offer their expertise. But they can often remember the name of the person from the Territory who may have been there 12 months ago assisting them in extracting the best productivity out of their Australian cattle.

On the grand scale of a trade prediction contained in the hundreds of pages of the Commonwealth or Territory budgets, a Territory government officer working with an overseas cattle buyer may not appear significant. However, we have enjoyed being at the cornerstone of the trade success and, without that, our trade figures would not have been as high.

The Northern Territory’s links also have a strong scientific capacity and perhaps the best evidence of this strength is our presence on the board of an influential Indonesian research body. In 1996, the Deputy Secretary of my department, Dr Howard Dengate, was invited to join the board of the Indonesian Animal Science Research and Development Foundation, known as INI ANSREDEF.

The foundation’s formal aim is to raise the prosperity of rural communities by the development of sustainable livestock
systems. However it also has a powerful influence in many other areas.

Dr Dengate’s position on the board provides Australia and the Northern Territory with unique access to key decision makers through an organisation which is equivalent to the Commonwealth Scientific and Industrial Research Organisation’s (CSIRO’s) rural sector division. This appointment came about through the persistence and energy of professional people to broaden their understanding of their field beyond our national borders.

In a technical context, my department’s expert in fishing technology has also been active in the region, providing hands-on advice. In some parts of Asia, Richard Mounsey has a profile not far below provincial governors for his work at all levels, from village level through to assisting commercial operators. Richard’s role is fairly simple but his impact can be immense.

As an authority on what fishing methods to use to catch particular species, Richard has assisted subsistence fishermen in changing their methods to catch fish that were always there, but not harvestable through traditional methods. This has enabled both small fisherman and large companies to reduce the stress on traditional target species by more effectively fishing for alternative, often higher value species. This can be as simple as changing fishing gear to better target deeper water fish. These changes may not need to be huge and are not confined to sophisticated operations.

Through the work of Richard and its implications in a wider resource question, my department is working with aid organisations in an effort to promote the benefits alternative fishing methods can have on the sustainability of shared resources.
Bad Times, Good Friends
Australia and East Asia in 1998

This is particularly relevant with the Australian Fishing Zone, known locally as the Timor Box. This rich fishing ground is off limits to non-Australian fishermen except those using traditional methods such as sails instead of motors.

The theory is that if Australia improves the ability of Indonesian fishermen to better utilise their own resources, then that may reduce the attractiveness of illegally fishing in Australian waters.

While it may been seen as simplistic to suggest that illegal fishing is being done by people who just want to feed their village, projects such as this open a dialog with these people many of whom only have a passing interest in the actions of their own government, let alone ours. Our work in this area indicates that not all of our relationships are entirely altruistic.

One area where we have again spent many hours of face-to-face contact with a degree of self-interest is the monitoring of regional animal and plant health and quarantine issues.

Ensuring the integrity of Australia’s quarantine barrier is not something that can be done without an understanding of the threats posed. Territory Government officers are constantly monitoring quarantine issues in the region, with the entire Weeds Branch of my department travelling to Timor several years ago to get on-the-ground knowledge of weeds that may pose a threat to our environment.

Animal health officers also do much the same and the overall effect is a greater understanding of the various quarantine issues in each country.

There is also a greater focus on reciprocal trade with countries such as the Philippines.
We need a comprehensive understanding of the implications for our plant and animal industries of imports presented by the importation of commodities from nearby countries.

While we are active in the region, I would hate to convey the impression that our activities are somehow overbearing, lecturing or unwelcome. In fact, one of the first government-to-government communications we had with the incoming Habibie administration in Indonesia, was a request from Jakarta for a scientific trial to resume as quickly as possible.

The trial involves the planting of Territory Soyabean seed throughout Indonesia to test its yields against local varieties. Chief Minister Shane Stone presented the seed to former President Suharto during his most recent trip to the capital. Officials of the new government were very quickly in touch with their Territory counterparts, requesting that a postponed visit by one of our agronomists should occur, so the crop trials could progress.

The new government wanted to get the wheels back on, or at least create a 'business as usual' impression, and the Territory was one of the first to get a call.

Probably the Territory’s biggest challenge in its relationship with Asia is not being recognised in the region as a friend, but influencing our national agenda to counter the foothold extreme parties are getting in this country's approach to the region.

The region knows and trusts the Territory, but at times it is not so sure of Australia as a whole.

Inflammatory statements on issues such as Asian immigration, for instance, often get overblown in the domestic press of nearby countries. Despite the source of the comments being someone who has no chance of ever leading our country, such statements still reverberate around the region.
Our challenge is to reverse these misconceptions carried into the region by misinformation.

The Asian mass media is not all that different to our own in its news values and often coverage of Australia is restricted to the sensational issues. This means that the understanding of many people of Australia is based on screaming headlines carried in the regional press that do not accurately portray Australia’s position within the region.

This might sound poetic, given that many Asian countries might claim that they have been given a less than fair run in our media. However, the fact remains. A student in Kuala Lumpur choosing an overseas university is not going to disregard a story in Asiaweek that portrays Australia as a racially intolerant society.

The Territory’s efforts can only go so far if we are handicapped with a negative view of our national identity and agenda. Such extreme statements need to be countered: not allowed to go unchallenged so they can become de facto policy.

Our role is to counter those who wish to destabilise our relationship with Asia by using our domestic government, business and media contacts to influence our national agenda.

While we watch events to our north, one of the positive aspects we can look forward to is the possibility of having an enhanced reputation in the region by sticking through the tough times. Adversity very quickly sorts out those who are mouthing the words and those who really are committed to relationships.

Some multi-national companies took the step of having helicopters based on the roofs of their Jakarta office blocks to evacuate staff if the disturbances became threatening.
Current Regional Relationships between Government, Peoples and Economies

While the protection of staff is one thing, such an overt indication of what large companies thought about their future in the country may not have gone unnoticed. This, after all, was not Algeria where religious fundamentalists had threatened to kill all foreigners, this was largely a student uprising demanding political reform.

When the Asian machine starts running at a speed to once again become attractive on a trade and investment basis, those who have been there through the difficulties will be better placed than those who were last seen fleeing by helicopter.

The events of the previous 12 months have obviously not been all that beneficial from either a Territory or Australian perspective. John Wotton, chairman of the Australian Business Group in Korea summed it up in March this year when he said of the region:

We may not be able to conclude business there right now, but the time to really cement relationships is in times of difficulty.\textsuperscript{51}

If we set our policies to reflect that concept then our relationships with the governments, people and economies of the region will be on the right track.

\textsuperscript{51} Time, dated 23 March, 1998.
The MoU as a Framework for Regional and International Agreements

BIMP-EAGA & AIDA—a Northern Territory Perspective

LYAL MACKINTOSH

The Territory’s Memorandum of Understanding (MoU) is a tangible way of indicating a relationship. It is a way of saying that we know each other, that we are friends and that we are prepared to do business with each other.

By far the most important aspect of an MoU is what lies behind the agreement, in the years of developing the relationships and in the friendships, the trust and the respect that is epitomised by the MoU.

The Northern Territory Government has been approached on numerous occasions by various entities and governments with which we have no past relationship, for the purpose of signing a document to establish a form of mutual understanding between us. In some instances such documents may well be a waste of time, but this has not been the case in Asia.
MoUs are shorthand for a range of interactions that have built a firm and lasting relationships between the signatories over a long period of time.

MoUs are also a tool for promoting trade. They are not, in themselves, the key to friendships, commerce or trade—or indeed to economic stability and prosperity—but good neighbourly relations built up over time and networks are a key factor. The challenge is to access markets and opportunities.

The Territory is doing well, but we are still learning the importance of face-to-face communication and gaining an increasing appreciation of cultural sensitivities and practices. Tolerance and appreciation of cultures is a way of life in the Northern Territory and a way of doing business in Asia.

The Region

It is probably difficult for people from southern destinations to completely grasp the fact that Indonesia is just 30 minutes flying time from Darwin. In Darwin, we are closer to Jakarta than we are to our nearest Australian capital city, Adelaide.

This proximity is a fascinating and very relevant topic in the Territory especially in Darwin where almost 25 per cent of the population is from South East Asia. With more than 50 nationalities among Darwin’s population of 80 000, we are truly multicultural.

Many Australians consider themselves as part of a nation of 18 million people—here in Darwin we consider ourselves part of a region of some 300 million people. Indeed, Territorians are often just as much at ease in Ambon, Ujang Pandan, Cagayan D’Oro and Kota Kinabulu as they are here in Darwin.

Cultural interaction is a way of life and, needless to say, the Northern Territory is strategically placed to take advantage
of the trading opportunities to our North. The ‘neighbours’ I refer to range from small, developed countries like Singapore and South Korea to large, so called less-developed countries, such as China and Indonesia.

The Agreements

At this point in time, the Department of Asian Relations, Trade and Industry in Darwin has directly facilitated or assisted in the establishment of a Memorandum of Understanding with Indonesia in 1992, China in 1993, the Philippines in 1995, Brunei in 1995, and Labuan in Malaysia in 1996.

In addition to these agreements, the Territory has been formally recognised as an observer at a ministerial level within the Brunei, Indonesia, Malaysia and the Philippines—East ASEAN Growth Area (BIMP-EAGA) region.

The BIMP-EAGA region contains a blend of natural resources, including relatively cheap and abundant land, major mineral petroleum and natural gas deposits, marine resources and almost unlimited tourism potential.

Opportunities exist in this region for cooperation in the development of:

- air links
- shipping
- fisheries
- tourism
- human resource development
- health and education services

Energy, telecommunication and agri-industry initiatives are already under way.
Potential Territory contributions to BIMP-EAGA include the integration of tourism into and within Australia, which can be expanded to include BIMP-EAGA destinations; quality transport, education, health and legal services; supply of urban and industrial infrastructure; and the integration of core industries such as cattle production and mining and minerals processing, agribusiness and aquacultural expertise.

These relationships epitomised in the MoUs give the Territory extraordinary access to governments and individuals within a relationship, which is envied throughout Australia. The relationships are a means to an end: growth in trade, sporting and cultural events.

An example of the growth in export trade can be seen in trade figures within the BIMP-EAGA region. Exports, excluding mineral fuels, have increased from $20 million in 1992–93 to $206 million in 1996–97, with total exports excluding mineral fuels growing from $755 million in 1992–93 to over $1 billion in 1996–97.

Opportunities

The second key area for expansion is to identify potential business development opportunities beyond the target areas of Asia, and export the skills and enterprise of the Northern Territory for maximum economic return.

Our neighbours in the region are unaccustomed to trading with countries and businesses that they are not familiar with. Hence, the identification of opportunities can be difficult. Translating any potential opportunities into reality becomes near impossible until the links, through friendships, have been established. By understanding and responding to this aspect, the Territory Government has begun to build the cultural and sporting links which are so desired by our neighbours and fundamental for trade.
Building the Relationships—Conversion

The Northern Territory’s relationships with the region go back over 20 years, however, it is only in recent years that the efforts of frequent meetings and face to face meetings have become beneficial.

Agreements stimulate trade investment and other business involvement and help to establish a shared vision for the future.

The MoU with Indonesia has led to flow-on agreements. For example, a cooperative agreement on alternative energy was signed to formalise cooperation arrangements between Indonesian markets and Government agencies. As a direct result of this second and more specialised agreement, negotiations are now under way between a local business group working with the Northern Territory Power and Water Authority (PAWA), and the Flores electricity supply company.

A cooperative regime is now in place as a result of the energy agreement, which is assisting PAWA to develop knowledge and expertise with respect to offshore markets, and for the Northern Territory to develop its off-grid power generation technologies.

The alternative energy agreement has also assisted a second Territory business in the further development of markets in Indonesia for its solar program. The company is now offering a training program for solar system installers.

Perhaps the greatest single contribution to developing regional links from a Northern Territory point of view is the Northern Territory Expo. Northern Territory Expo is now an international event and the largest trade fair of its kind in Australia. The Northern Territory Expo has grown from its beginnings 22 years ago as a local trade fair to a 3-day trade Expo with conferences, seminars, business matching and
associated activities. Expo now attracts over 700 delegates from the Asian region and underscores the strong and enduring links, that, I believe exist in the Northern Territory and the region in spite of the current regional financial difficulties. The 1998 Expo had strong international representation once more.

Both the Northern Territory Government and industry groups are also aware of the importance of participation in many other expos held in various countries throughout the region. These include mining in Indonesia and also defence expositions.

Participation in mining, defence trading and tourism expos in the region include invitations to ministerial meetings and inclusion in the Australia Indonesia Development Area (AIDA). The Australia Indonesia Development Area agreement provides Australia with a distinctive role in Indonesian efforts to further develop its Eastern Provinces. AIDA can be basically divided into three tiers—ministerial, senior officers and economic sector groups. The Northern Territory representative is co-chairman of the agriculture sector group which meet regularly to discuss issues such as Australian quarantine and food standards, procedures and regulations.

Involvement in AIDA has provided the Territory with the opportunity to present ideas which, if implemented, will be beneficial to the Northern Territory and Australia as a whole.

Such ideas include the establishment of Darwin as a customs pre-clearance zone for goods to be shipped to Indonesia, the exemption of customs duties for individuals travelling within the AIDA region and a proposal for investigating reciprocal business visa conditions.
Australia

The States of South Australia, the Australian Capital Territory and Tasmania all recognise the ability of the Northern Territory to 'open doors' in the northern region. Moreover, each of these States has recently signed individual MoUs with the Territory to better facilitate trade.

The Northern Territory government and local business are leading the way for the rest of Australia. The Department of Asian Relations, Trade and Industry (DARTI) is aware of the need to demonstrate that we are not dissimilar to many other countries in the region. The Northern Territory is a multicultural society, and can legitimately sell itself as part of the region and as both a neighbour and a friend.

The networks that are established are a consequence not of a strict cross-cultural policy but, rather, they have developed from an acceptance, on the part of Territorians, that we live in the region and we are part of it.

We will do our best with our regional friends, to cement the linkages and provide introductions for the private sector in an effort to develop their markets in the region.

I have not included all of the extensive local or interstate trade shows and functions at which an opportunity to network with our Asian neighbours is provided. But, DARTI, and the Northern Territory Government more generally, recognise the importance of providing assistance to others within the Territory, be it local or interstate business, or other government agencies that are looking to promote the Territory within the Asia region.

Sponsored conferences such as Asia Pacific Economic Cooperation (APEC) and the 1998 South East Asian Regional Computer Conference are also important.
DARTI also is currently working with:

- the Department of Sport and Recreation, with its efforts in promoting the Territory as an acclimatisation capital and training facility for sporting bodies,
- the Health department on tele-medicine activities promoting the Territory as a prime location for emergency medical treatment, and
- the Education department in promoting the Territory as a place to study and facilitate ‘train the trainer’ roles for Territorians in Asia.

We are attracting mutually advantageous projects into the region, including the newest, and arguably most exciting and economically viable of all projects, the expansion of the petroleum industry in liquefied natural gas (LNG). The proposal to build an LNG plant in Darwin, or off shore in the Timor Sea, offers proximity to the potentially huge gas resources in the Sunrise Troubadour, Loxton Shoals, Bayu Undan and Evans Shoals gas fields located in the area. If successful, the LNG plant will continue to deliver jobs to both Indonesian and Australian workers.

Other projects and services are also promoted into the region including defence force activities, and education facilities at the NTU.

The promotion of the Top End of the Northern Territory as a location for defence training has already seen the arrival of Singaporean, Philippino and Malaysia defence personnel.

The Future

In the wake of continuing economic hardship in the Asian region, where is the Territory positioned?

It is essential that my department (DARTI) and the Northern Territory Government continue to be innovative and pro-
active in efforts toward building trade and maintenance of agreements binding the relationships. It is important also to remember that Asia is not one country or one economy acting alone, and as such, not all countries within the region have been effected to the same degree as has been splashed across the media.

Indonesia is our closest, and potentially most valuable trading partner, and has suffered more than most. In the short term, Indonesia will continue to grapple with a steep decline in investor confidence and the consequent scarcity of funds needed to maintain the impressive economic growth it has displayed over recent years.

Despite the general downturn in Asia, opportunities for the Territory, and Australia, still exist in the region. However, we in the Northern Territory, are demonstrating that we are not just a fair weather friend, but that we are committed to a long and lasting relationship.

Relationships in commerce, sport, defence and health must continue, and as the Asian economies regain their strength, our trade will also reap the rewards. The future holds the promise of more transparent Asian economies, allowing greater direct investment and being more open to trade.

Our efforts to establish new markets and agreements with industry and government through participation in trading expositions and through ministerial and industry delegations during this period must also be pursued along with innovative trading arrangements such as barter trade, joint ventures and partnering.

Darwin is at the top end of the Northern Territory. It is beginning to promote itself as not only the gateway with Asia, but as the regional hub for the northern region—the critical link between Asia and Australia. The hub concept, which incorporates road, rail, air and sea is based on a long-
term framework which emphasises the need for a vital partnership between government and industry within Australia and within the region, in order that the concept reaches its full potential.

The recent announcement to build the Alice to Darwin railway is a great boost to the Territory's ambitions to become a regional hub. Coupled with this is the activity off shore in oil and gas, and prospects in tourism, horticulture and the service industries. The Territory's future in Asia looks bright. In addition, the decision taken by the Japanese company Mitsui to set up in Darwin, seeking to be involved in the oil and gas boom, is evidence that confidence in Darwin and the Territory is strong.

These are obvious indications that the effects of the currency crisis will be felt by livestock exporters to Indonesia. However the Territory will prosper into the 21st century with major projects such as the railway, the Darwin port, LNG and the mining at Jabiluka. Moreover, there is identification and promotion of new markets, with livestock markets, for example, being explored in China and Mexico.

In addition to the opportunities for growth of exports of goods and primary produce, opportunities exist to export the Territory's specialised knowledge and skills in education, training, mining engineering, primary industries, research and in legal, financial and health. These are currently being pursued.

In conclusion, I can say with confidence that the commitments we have made, within the MoUs and other agreements, will be met by the Territory Government and will continue to be a focus of my department (DARTI) and of the Northern Territory Government.
The Memorandum of Understanding between South Australia and the Northern Territory

IAN DIXON

Initially the Memorandum of Understanding (MoU) was drawn up to facilitate stronger links between South Australia and the Northern Territory. At the time there was a view that the Northern Territory was going to become increasingly important to South Australia. This situation came about partly as a result of increasing export growth in South Australia, and in particular because of strong export growth into the Asian region. The other factor influencing the decision was a realisation that the South Australian domestic market was small and increasingly open to foreign competition. In order for local firms to survive there was going to be a need for them to tap into foreign markets so that they could increase the scale of their production and hence capture economies of scale. To achieve this there was going to be a need for them to seize any competitive advantage. Since that time there have been a number of changes, most notably the Asian financial crisis, which have changed the situation in Asia and hence changed the reasons why the MoU is important.
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Ten years ago, South Australia would have had little use for such an agreement. In the 1988–89 financial year the State exported only $2.4 billion, which was only 9.6 per cent of total Gross State Product. By the last financial year total exports had grown to $5.0 billion and accounted for over 13.9 per cent of Gross State Product. It is in fairly recent times that South Australian firms have begun to shift to an outward, export-oriented focus. It is only really since 1992 that South Australian exports have been showing strong growth. Since that time exports have, on average, grown more strongly than Gross State Product, hence it can be seen that the South Australian economy has grown into an outward-oriented one. Hence, there has been sufficient development for there now to be gains for both the Northern Territory and for South Australia from closer collaboration between the regions.

The potential for gain is largely born of the complementarities that exist between the two economies. The Northern Territory has a trade focus with a particular emphasis on the Asian region, South Australia an outward looking manufacturing focus. The Northern Territory has developed these strong linkages in the Asian region to a much greater extent than South Australia. However, both the Northern Territory and South Australia have connections in the Asian region, but it is not often that there is much overlap in the coverage. The Northern Territory has a strong trading culture that has seen it develop links throughout Asia, in particular there are good connections between the Northern Territory and the Brunei, Indonesia, East Malaysia, Philippines East ASEAN Growth area, known as BIMP-EAGA. South Australia on the other hand has business offices in Jakarta in Indonesia, Shanghai, Jinan and Hong Kong in China, Tokyo in Japan and Singapore, areas where the Northern Territory is less strongly represented. The Northern Territory has an office in Jakarta as well as the
The Memorandum of Understanding between
South Australia and the Northern Territory

Memorandum of Understanding with the Nusa Tenggara region of the Indonesian archipelago. Together, South Australia and the Northern Territory have very good coverage in Asia.

From the point of view of complementarities within the economic structure of the two regions, there are further points to consider. The Northern Territory has its focus on trade, but also has a strong live cattle industry, a strong mining sector and is a major tourist destination. South Australia is strong in food and beverages, has a strong manufacturing base that is export-focused, developing infrastructure industries such as water and waste water management and information technology. There are hardly any areas in which South Australia and the Northern Territory compete.

For firms in South Australia to make the most of the export market potential, it is necessary for them to exploit every potential advantage. Trading through Darwin presents such an opportunity. First, there is the consideration of reductions in transport time. By transporting goods overland to Darwin and then shipping them to their destinations it is estimated that a company could save considerable time in transport. Anywhere from 3 days on items being shipped to Singapore, 8 days as opposed to 11, up to 18 days on goods going to Manila, 11 days as opposed to 29.

Second, operating an office in Darwin gives a firm’s representatives access to established trade linkages without much of the expense associated with operating an office in a foreign country. Hence there can be clear benefits for South Australian firms. The links the Northern Territory has with the Asian region makes Darwin a sound choice for South Australian small to medium enterprises looking to expand into the Asian region. Venturing into exporting is often seen as a prohibitively expensive risk by firms of this size.
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Darwin is a sound alternative because it is relatively low cost when compared with other sites in the Asian region that have the same level of connections throughout Asia.

Third, Darwin, being part of Australia does not provide the same difficulties inherent in trying to set up an office overseas: there are no language or currency difficulties and little difference in legal codes.

On the flip side, the benefits to the Northern Territory come from increased usage of facilities in Darwin and the likelihood of these firms setting up offices in Darwin. Both of these actions would lead to an increase in employment in the Northern Territory, Darwin in particular.

Many political and economic commentators have stated that it is important for Australia to remain actively engaged with the Asian region. To withdraw from the region at this point would mean that Australians would come to be viewed as ‘fair weather friends’. This perception would be damaging to Australia’s efforts to re-enter the Asian region once the financial crisis is over and the countries affected have returned to a strong growth path. For South Australian firms to remain committed to the region is going to be difficult—the competition for shrinking regional markets from US, Canadian and to a lesser extent European firms, is going to be tough. Currently Australia has an edge due to our lower currency against North American and European currencies. However, this situation will not last forever and therefore longer-term solutions have to be adopted, to ensure that South Australian companies have a lasting competitive advantage in the Asian region. Conducting business through Darwin, with the associated time saving in transport, offers South Australian firms the opportunity to maximise the advantage of Darwin’s geographic proximity to Asia.

Given the recent difficulties experienced in Indonesia, both South Australia and the Northern Territory will need to look
to expand existing trade and develop new opportunities elsewhere in the region. In order to achieve this end, both the Northern Territory and South Australia will need to fully exploit their connections in the region. Of particular interest are the Northern Territory’s links with the Philippines and South Australia’s links with China and Singapore. These countries are especially significant, given the lesser extent to which they have been effected by the Asian currency crisis. Hence, they are the countries to which both the Northern Territory and South Australia will have to seek to increase their exports.

There are obviously benefits to be gained by closer cooperation between firms in South Australia and the Northern Territory. However, to date, there has not been a great rush to utilise these opportunities. Part of this is due to a lack of infrastructure, in particular the Alice Springs to Darwin rail link. However there are some opportunities aside from this. Hence, both governments sought to display some leadership on this issue through signing a Memorandum of Understanding in June 1995. This agreement is, in part, recognition of the benefits that can be realised by greater cooperation and, in part, an attempt to gain a greater share of what was a booming market in South East Asia.

Since the signing of the memorandum there have been a number of valuable joint initiatives between the two governments. South Australian government departments have undertaken activities with the Department of Asian Relations, Trade and Industry, and other Northern Territory departments. Additionally, the South Australian Tourism Commission and the Northern Territory Tourist Commission, in conjunction with the two regions’ transport departments, have been collaborating on the ‘Explorer Highway’.
The South Australian Government has shown an interest in activities in the Northern Territory over a number of years. South Australia, through the Department of Industry and Trade, and its precursor the Economic Development Authority, have sent delegations to the Northern Territory Expos in 1995, 1996, 1997 and 1998. The Department of Industry and Trade has also attended the recent Timor Sea Oil and Gas Symposium, in conjunction with the Department of Asian Relations, Trade and Industry. Finally both the Department of Asian Relations, Trade and Industry in the Northern Territory and the Department of Industry and Trade in South Australia are supporting a Northern Territory North West Adelaide Region linkages program.

These are areas where collaboration is currently taking place. However, the MoU provides some potentially strong future benefits. The Asian region is experiencing financial difficulties at the moment. The political, economic and financial instability in the region makes any kind of business planning difficult. In light of this, joint efforts in the region may seem to have relatively little merit. The markets have shrunk, making competition even fiercer, there are fewer opportunities and Australian firms will find the limited opportunities available increasingly more difficult to access. However, the current scenario throughout the Asian region makes the Memorandum of Understanding and general cooperation between the Northern Territory and South Australia more important than ever. With opportunities more difficult to seize, it becomes increasingly important to utilise every possible advantage.

Therefore both the South Australian and Northern Territory Governments need to explore a range of mutually advantageous programs and areas of cooperative activity that will benefit their economies, improve business efficiency and result in employment growth. There is significant seasonal variation in the two regions, which offers the
opportunity for greater agricultural and horticultural trade. Collaborative opportunities for the food sector need to be explored and developed. There will be significant opportunities in the oil and gas industry: for investment, supplying manufactured products and specialist expertise. The Northern Territory's special relationship with Nusa Tenggara provides an opportunity for collaborative bidding on aid projects offered through the Australian Agency for International Development (AusAID) and other multilateral funding bodies. SAGRIC, a South Australian company, is one of Australia's most successful bidders for international aid projects and currently has several projects in Indonesia. Finally, staff exchanges which have already taken place can be expanded and occur more regularly, in order to ensure closer cooperation and understanding of the economic and trading direction of both governments and ensure that maximum advantage is taken of possible economies of scale.

In spite of the current Asian financial crisis, South Australia's future trade relationships will be strongly linked to Asia. South Australia and the Northern Territory have much to gain from cooperation on trade in the region. The MoU will play an important part in fostering and enhancing this cooperation.
Part 4

Conclusion
Good Friends in Bad Times
Introduction

I am very pleased to be able to address this workshop which is considering whether Australia, in particular South Australia and the Northern Territory, needs to ‘redevelop’ good neighbourly relations with its trading partners in East Asia.

As you heard, earlier this morning, Australia has proven itself to be a genuinely close partner and regional friend in good times and bad.

In a sense, I think we can say Australia has already redeveloped its relationship with the region for the better. In very tough circumstances we have reforged our links and recommitted ourselves to our friendships with trading partners. We have been a good neighbour in all weathers.

In this presentation I want to talk about a number of different facets of this all-important process of redeveloping Australia's friendships in the region.

First, I want to set out for you how Australia has been affected by the regional crisis, how we have been well placed
to weather the storm, and what the Australian Government has done to help those who find themselves in less fortunate circumstances than ourselves. Second, I want to talk about another very important sense in which we are promoting good neighbourly relations in the region—that is at the people-to-people level through education, and at the government-to-government level, through dialogue. Finally, I want to talk briefly about the important contribution the Northern Territory and South Australia have been making to advance the cause of good neighbourly relations with South East Asia.

Australia and the Regional Crisis

I would like to turn first to Australia’s situation in the regional crisis.

Australia has long-standing relationships with the countries of East Asia and more broadly the Asia Pacific region. These have emerged from a practical and constructive commitment to individual countries, and a broader commitment to the development of multilateral relationships and mechanisms that underpin the region’s stability and security.

In recent times, that is until mid 1997, Australia’s fostering of regional relations had taken place in the context of a relatively untroubled environment.

Our neighbours were embarked on dynamic growth trajectories, the assurance of long-term economic prosperity was becoming the norm rather than the exception for the citizens of East Asian nations, governments were stable and unchallenged to a large degree by significant political or social upheavals, and the underpinnings of regional stability and security were being developed at a steady pace through institutions such as the Association of South East Asian Nations ASEAN Regional Forum. The economic upheavals
of the past six to twelve months have brought about abrupt changes in this regional environment.

Mrs Sullivan has already outlined the Australian Government's assessment of the outlook for the region following these events. Let me reiterate that Australia certainly remains confident that badly affected regional economies can return to high levels of growth provided they renew their commitment to economic reform and liberalisation. In the case of Indonesia, there is, as well, recognition of the need for commitment to political reform.

Our approach to the region and our relationships with key regional partners will continue to reflect this assessment.

The Impact on Australia

Australia, happily, continues to weather the regional economic storm relatively well. Next year, Australia will still be one of the fastest growing economies in the industrialised world. And the message we've been receiving from Australian businesses is they are committed to the region for the long haul.

But it remains a fact that the Australian economy's high level of regional integration means the economic and financial instability of key East Asian markets is already affecting Australia's export growth.

Two key points emerge from the latest trade data: first, export growth to East Asia is clearly slowing. In the ten months to April 1998—compared with the same period to April 1997—Australia's total merchandise exports increased by 10.5 per cent, whereas exports to East Asia increased by only 7.2 per cent. But, when considering these figures, it is worth bearing in mind there exist significant differences between various markets in East Asia. For example, in the
same ten month period, our exports to Indonesia were down 8.9 per cent, while those to Japan increased 15.4 per cent.

Second, the impact of the crisis on Australian industry varies from sector to sector. Some sectors, like tourism and the live cattle trade, have seen significant falls, and I know that the Northern Territory is feeling the impact of the decline in exports of live cattle to Indonesia keenly. Other industries, such as mining and telecommunications, have experienced continued strong growth.

This suggests that exports of intermediate goods that are used in turn by East Asian countries to produce exports can be expected to perform better than exports of consumer products. The reason for this is that East Asian countries recognise the need to trade their way out of their current economic difficulties.

In any event, it is important to remember that East Asia will still be a major buyer of Australian goods. Regardless of shorter-term growth prospects, the East Asian market is 18 times larger than the Australian market, and imports around US$1.4 trillion worth of merchandise each year.

A strong domestic economy here at home, should help offset the impact on Australia of slower exports to East Asia. It will be helped by a growing demand from the United States and Europe, as well as other markets in the Middle East and South Asia, in which Australia is now more competitive.

To minimise the negative impact, the Australian Government, in close consultation with the private sector and State and Territory Governments, is refining trade strategies in East Asia and beyond. We are ensuring the availability of appropriate levels of trade credit and insurance, through the short-term National Interest insurance cover for exports to Korea and Indonesia.
The Government is also providing information and identifying opportunities through Austrade's Asia Crisis Centre and its Internet site, with alerts and advice updated weekly. 'Exporter summits' are being held where industry representatives can discuss directly with Ministers the impact on Australian firms and address the question of how government can assist. This consultation process is not restricted to the big capital cities. The Parliamentary Secretary to the Minister for Trade, Senator David Brownhill, has held a number of round table meetings with exporters in regional centres in every State and Territory. Senator Brownhill plans to convene a meeting in Darwin in July.

Through such initiatives, Australia has demonstrated its confidence and commitment to the economic relationships it has with regional neighbours. We are determined to sustain our long term economic links and to maximise the opportunities for Australian business to remain engaged in the region. The Government will not turn its back on these links.

Such tactics have assisted us, so far, to survive the economic crisis quite well. However, there are other important reasons as well. Australia has, in recent years, become a much more competitive economy and this is paying dividends in terms of our ability to continue to hold market share in export markets around the world. Over the past two years, the Government has undertaken major reform of the Australian economy. Disciplined economic management over the past two years has led to the lowest interest rates in Australia since the 1960s and continuing good economic growth.

The results of this comprehensive and sharply-focused reform effort are already clear. Australia has moved up from 18th to 15th in the annual world competitiveness ranking released in April by the International Institute for Management Development in Switzerland. The survey
found that Australia's best competitiveness gains have been made in government and finance, including public sector efficiency and stock market dynamism.

Australia's improved competitiveness has helped us withstand the East Asian crisis. We are thus in the fortunate position of being able to stand by our regional friends at this difficult time.

Let me outline briefly for you once more what Australia has done to come to the aid of its regional neighbours. At the broad regional level, Australia was among the first countries to commit itself to a practical contribution to the International Monetary Fund (IMF) rescue packages for the three major casualties of the economic crisis—Thailand, Korea and Indonesia. We have contributed over A$4 billion to the IMF packages, and apart from Japan, we are the only country to have contributed to all three packages.

We also have contributed practical aid to individual countries to help alleviate the negative social impact of the crisis. For Indonesia, we have worked consistently to ensure that the international donor community has 'stayed on the case' and continued to take a sensitive and balanced approach to the provision of aid to Indonesia, particularly in humanitarian areas.

Australia has also lent considerable moral support to our neighbours throughout the crisis. Australian ministers and officials have maintained constant and open dialogues with their counterparts in the region and Australia has participated actively in bilateral and multilateral forums which have met to formulate responses to the crisis and to map out early strategies for recovery.

In March the Minister for Foreign Affairs, Mr Downer, flew to Washington to discuss new steps which the international community could take to help Indonesia work through its
difficulties. In meetings with the IMF, the World Bank and the United States administration, Mr Downer made sure that Australian views on Indonesia's crucial importance to our own interests, and as a key South East Asian political and economic player, were heard loudly and clearly in the lead-up to decisions about the IMF package and other assistance.

Clearly, Australia's efforts to bring understanding of the situation have helped Indonesia at its time of need. Public commentary in Indonesia has characterised our actions as demonstrating Australia's 'good neighbour policy' approach.

**Australia's Bonds with the Region**

I now turn to two very important areas in which Australia has established lasting bonds with its regional neighbours—at the people-to-people level through education and at the government-to-government level through open and regular dialogue.

**People-to-People Links—Education**

For decades, Australia has been attracting many students from around the East Asia region to study at its first class academic institutions. Good people-to-people links are a vital part of establishing shared understanding, friendship and mutual concern, the building blocks of good international relations.

Successive Australian Governments have recognised the importance of these fundamental links and devoted significant resources to their cultivation through, inter alia, educational linkages.

Australia has been assiduously developing people-to-people links through education for the better part of forty years. Since the days of the Colombo Plan in the 1950s, Australia has educated some hundreds of thousands of students from
countries in the East Asia region. (As an example, from Malaysia, one of our most important neighbours in the South East Asian region, we have seen some 140 000 students study in Australia since the commencement of the Colombo Plan). The numbers have grown rapidly since Australia began to compete in the international marketplace, following the introduction of full-fee paying courses for international students in the late 1980s. In 1997 alone there were more than 150 000 overseas students in Australian universities and other tertiary institutions, with students from East Asian countries strongly represented.

A significant proportion of students educated in Australia over the past forty years have maintained close connections with the institutions they attended and with the people they met in Australia, long after they have returned to their home countries. Large numbers of graduates return home with a special understanding, high regard and affection for Australia. They leave behind Australian colleagues and friends, who in turn commence their professional lives with an awareness of and empathy for a range of regional countries.

Many alumni of Australian universities have gone on to become senior figures in business and government across East Asia, while their Australian colleagues have entered similar fields here. The potential of the personal links created by this process is clearly substantial. It is a starting point for many of the productive relationships which feed into mutually beneficial relationships between nations. It has been an essential component of Australia’s development of good neighbourly relations in the past, and will continue to be so in the future.

The Australian Government will continue to support the development of these links wherever possible and has recently announced an important initiative to supplement
the strong people-to-people links which are created through education. The A$10 million Australian Youth Ambassadors for Development Program will provide an opportunity for some 500 young Australian volunteers from all walks of life to contribute to the development of countries in the Asia Pacific region. These youth ambassadors will enrich their experience and develop skills and contacts that will stand them, and Australia, in good stead for the rest of their lives. The resulting strengthened mutual understanding between Australia and its neighbours will be to the benefit of all.


Open and productive dialogue at the government level helps to translate the people-to-people links formed through education and other means into effective bilateral relationships between nations.

The Australian Government has developed an impressive range of forums in which such dialogue can be pursued. A recent key initiative with Indonesia has been the Australia Indonesia Development Area (AIDA). Government ministers also meet regularly with their counterparts whenever the opportunity arises. In addition, Australia has developed formal mechanisms for dialogue between leaders and Ministers across East Asia.

These range from annual Prime Ministerial Summits, Ministerial Committee meetings (involving up to five different ministers in key portfolios), annual political-military and military-military talks, Joint Trade Committee meetings and a broad range of talks at the senior officials level on political, sectoral and commercial issues. In recent years Australia has greatly increased the level and profile of these forums. In the past two years alone, we have commenced or agreed to commence prime ministerial summits, political-military and military-military talks with
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Japan, military to military talks with Korea, and regional security dialogues with the Philippines, Thailand, Vietnam and China.

These dialogues are a vital component of Australia's engagement with the region. They have helped us sustain our good neighbourly relations with regional partners through difficult times. They will ensure that we continue to develop our relationships to the maximum extent possible in the future.

The Northern Territory—on the Cutting Edge of Regional Engagement

The Northern Territory has been building up an impressive range of links with its neighbours for several years. It is not geography alone that has placed the Northern Territory on the cutting edge of Australia's regional engagement. There is a very real understanding in the Territory, in government, in business and in the community, that Australia's future well-being is directly linked with East Asia's, and by its actions the Territory is making a difference.

Through decades of personal contact, Territorians have forged enduring links with near neighbours, with Indonesians, Malaysians, Bruneians, Filipinos and Singaporeans. The links extend further out to less immediate but no less valued neighbours, to China, Japan, Vietnam and Thailand. These people-to-people, business-to-business, government-to-government links can be seen in action at the annual Northern Territory Expo, and will be seen in 1999 at the biennial Arafura Games. They can also been seen in action throughout the region, whether it is Territory businesses exhibiting at a tradeshow in Mindanao or a Territory crew participating in a dragon boat race in Sabah. The wedding analogy is apt to describe the familiarity and
warmth with which the Territory is regarded in East Asia. It is not a member of the immediate family but it is in the first rank of honoured guests.

These close ties have afforded the Territory a unique place in the Brunei Indonesia Malaysia Philippines East ASEAN Growth Area initiative (BIMP-EAGA). Aimed to increase inter-regional linkages and economic development in the East ASEAN region, BIMP-EAGA has been a particular focus for the Territory since its inception. And while the Northern Territory can never be a member of BIMP-EAGA—that honour is reserved for ASEAN countries—it has nevertheless achieved a remarkable affiliation with the grouping. For example, the Northern Territory Government has been invited to participate in four sectoral working groups, where its specific expertise is recognised, and the International Business Council of the Northern Territory Chamber of Commerce and Industry is a member of the business council serving BIMP-EAGA.

I am glad to say the Northern Territory is not alone at the cutting edge. A number of Australian states pursue similar agendas of relationship building in East Asia. South Australia, Tasmania and the Australian Capital Territory have entered into formal cooperative arrangements with the Northern Territory to mutually enhance their reach into East Asia. For well over thirty years, South Australia has valued its close ties with the region, especially with Malaysia. Premier John Olsen and Governor Sir Eric Neal have recently led business missions to Malaysia underlining the enduring nature of their relationship. Mr Olsen stressed, as indeed have all Australian leaders, that his State is in for the long haul. It is through such ties that trade and investment grow, that peace and prosperity flourish.
Conclusion

To conclude, I would like to congratulate both the North Australia Research Unit of the Australian National University and the Centre for Economic Studies, Flinders and Adelaide Universities, for their initiative in conducting this workshop.

It is always important to take stock regularly of how we are travelling in our relationships with near neighbours. In difficult times it is even more important to do so.

I think that Australia can hold its head up after what has been one of the most difficult periods in the region's recent history. One of Australia's highest foreign policy objectives, as Senator Tambling said this morning, has been to engage closely with the region.

By proving that Australia is a good neighbour in all weathers, we have forged even closer bonds with our most important regional partners.
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This collection of essays is focused on the economic crisis in Asia and the affects on Australia's relationship with countries in the East Asia region. The essays are taken from the proceedings of a workshop held in the midst of the crisis and followed the fall from grace of Indonesia's President Soeharto in May 1998.

The core questions addressed in this volume are linked to the quality and strength of Australia's relationship with its northern neighbours. The book is invaluable as an update on the impact of the political and economic upheaval on the treaties and memorandums of understanding that network Australia into the East Asia region. It is also a rich source of information on the dynamics of Australian State and Territory involvement in the region. All of the contributors are acknowledged as experts in their field and include senior politicians, public officials, and academics from Indonesia, the Philippines, Singapore, and Australia.

The event leading to this publication was funded partly by a special grant from the Research School of Pacific and Asian Studies (RSPAS), the Australian National University, with the purpose of establishing a joint venture between the North Australia Research Unit (RSPAS) and the Centre for Economic Studies, Adelaide and Flinders Universities.