

# Department of Foreign Affairs and Trade Foreign Policy White Paper 2017 Taskforce

Submissions from Fellows of the Asia Research Centre, Murdoch University  
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Edited by Jeffrey D. Wilson



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## EDITOR'S FOREWORD

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In 2016, the Australian Government instructed the Department of Foreign Affairs and Trade (DFAT) to begin production of a Foreign Policy White Paper. It is to be the first such White Paper issued since 2013. Recognising that Australia's external environment has changed significantly in the last 13 years, the Foreign Policy White Paper sought to provide a roadmap for advancing Australia's international interests in the years ahead.

Public consultations for the White Paper were conducted between November 2016 and February 2017. A call for written submissions was issued by DFAT's Foreign Policy White Paper Taskforce, alongside roundtable discussions with policy experts hosted in each state and territory capital.

As one of Australia's pre-eminent institutions on the political, economic and social change in the contemporary Indo-Pacific, the Asia Research Centre was well-positioned to contribute to this nationally-significant policymaking process. Centre Fellows contributed insights to DFAT's roundtable discussions, as well as making formal and more detailed submissions for the consideration of the Taskforce.

These contributions addressed a diverse set of policy areas, including environmental security, science diplomacy, language and education initiatives, trade policy and human security. While their content is relevant to a wide range of countries, Indonesia features especially prominently, reflecting the Centre's internationally-recognised reputation as a leader on Indonesia studies. This is particularly timely, given the centrality of both Western Australia and Indonesia to the Indo-Pacific architecture emerging within our region.



This compendium presents the five formal submissions made by Centre Fellows to the DFAT Foreign Policy White Paper Taskforce. They reflect the breadth and depth of our expertise in Australia's role in Asia, and Fellows' engagement with national and regional policymaking. As the Asia Research Centre enters its twenty-fifth year in 2017, we look forward to continuing our involvement in such critically important-policy conversations.

**Dr Jeffrey D. Wilson**

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### Purpose

The Government pursues international engagement to make Australia and Australians more prosperous and more secure. The Government will publish a new Foreign Policy White Paper to establish a comprehensive strategy to guide our international engagement over the next 10 years.

While we cannot predict the future, the White Paper will provide a roadmap for advancing and protecting Australia's interests in a dynamic, complex and unpredictable international environment.

It will be clear-eyed about Australia's interests, grounded in our values and ensure Australia is better positioned to seize opportunities and manage risks.

### Aims

- Examine the foreign, security, economic and international development issues and global trends shaping Australia's international environment;
- Define Australia's interests and policy priorities in response to that environment;
- In light of those interests, outline how Australia should advance relations with major international partners;
- Identify approaches to support and better utilise multilateral and regional structures to promote and protect Australia's interests and values
- Establish a roadmap to pursue Australia's economic interests as an open, export-oriented market economy to ensure we continue to capitalise on our competitive advantages, guard against economic risks and maximise national prosperity;
- Examine how Australia should promote its regulations, institutions and standards in the region, and globally, to support our commercial interests;
- Assess options for mitigating and responding to security risks, including strategic competition in the Indo-Pacific and transnational threats;
- Outline how we can promote prosperity and stability through our aid program with a focus on the Indo-Pacific; and
- Examine how we should best use our assets

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1. DFAT (2016), 'Foreign Policy White Paper Terms of Reference', <https://dfat.gov.au/whitepaper/about/terms-of-reference/index.html>.

*Professor Kanishka Jayasuriya*

### Executive Summary

- Australian science diplomacy is a crucial instrument in shaping the new innovation agenda Australia stands to benefit from such a regional research area, enhancing research quality and innovation through collaboration
- The development of regional cooperation on scientific research has the potential to enhance our capacity to solve problems – such as for example energy, water, food, and health – that confront the region. It is regional public good.
- The proposed Asian Research Area (ARA) would be comparable to the European Research Area. It is designed to allow researchers to move, facilitate research cooperation across national boundaries, and develop transnational research projects and training programs, particularly on issues and problems that cross-national boundaries.
- The key objectives for the Asian Research Area are to:
  - o Facilitate the innovation and research agenda;
  - o Develop regional public good to deal with complex governance and policy challenges;
  - o Enhance the mobility of scientists particularly post-doctoral and early career researchers.
- The proposed ARA has great value for public universities by reshaping the mission of the Public University in a global context

### Introduction

Australia should lead a science diplomacy regional initiative to develop a comprehensive framework for regional scientific cooperation: an Asian Research Area in the context of an enhanced commitment to developing comprehensive science diplomacy. Such an Asian Research Area would help to build Australia's research capacity and provide a regional public good

The Department of Foreign Affairs and Trade (DFAT) needs to be at the forefront of science diplomacy by leading the public dissemination of Australian research by providing a comprehensive institutional framework to facilitate research collaboration and helping to construct an Asian Research Area (ARA).

Science diplomacy consists of three key dimensions:

1. Science in diplomacy: The use of science to inform foreign policy decisions such as over climate change or nuclear proliferation
2. Diplomacy for science: The promotion of Australian science achievements and policies to enhance the reputation of Australian science
3. Diplomacy for research collaboration: The promotion of international collaboration and infrastructure

Australia is well placed to take the lead in pushing for region based initiatives to promote and enhance research and science collaboration across the Indo-Pacific region. This scientific diplomacy should be a pivotal component of Australian foreign policy. However, such a role requires a coherent diplomatic strategy and we propose that an initiative for an ARA should be a central component of such a science diplomacy project.

## Why an Asian Research Area initiative?

Many of the policy initiatives in the education sector are usually under the auspices of trade in services as countries and higher education institutions attempt to profit from higher education which is now one of Australia's key exports. While this is an important dimension of the Department's activities, it is crucial for the Department to broaden this approach to encompass international research collaboration and cooperation. The reasons for this Asia Research Area (ARA) initiative are:

### 1. Innovation Agenda and Research Collaboration

Research collaboration is important in building and developing research excellence which is vital to the innovation agenda. For example, between 2002 and 2010 the numbers of collaborative research papers with overseas authors more than tripled. In this context, collaborative publications in Asia, and particularly from China, have increased rapidly. Amongst these, there has been a significant growth in Australia-China co-authored papers<sup>2</sup>.

As the regional economy becomes more knowledge driven, governments around the region are developing international strategies to facilitate and enhance bilateral science cooperation and partnerships to support investment in Research and Development. For example, the Obama Administration instituted a range of science diplomacy initiatives with China. As countries, such as China, India, and Korea invest in research and innovation, this science diplomacy will – over the next decade or so – become crucial as the more conventional instruments of economic diplomacy. Australia stands to gain from this by supporting an Asia Research Area (ARA).

In Australia, public universities and governments have attempted to enhance research collaboration with the Indo-Pacific region with such targeted programs as the Australia-India Strategic Research Fund. Leading research-intensive universities such as the Australian National University, University of Queensland, University of Melbourne and University of Sydney have made substantial investments in research collaboration with China.

The problem with these initiatives is that they are driven by bilateral agreements or by initiatives of individual institutions such as those undertaken by leading public universities. These initiatives need to be embedded in broader public policy frameworks that would encourage and consolidate these initiatives. For example, individual university collaborations would be greatly enhanced through a mobility program that allowed researchers, particularly post-doctoral researchers to move easily between countries.

### 2. Regional Public Goods

An Asian Research Area will provide a regional public good in so far as it will promote and encourage regional coordination to deal with common challenges or problems. It is a regional public good in that the development of regional cooperation on scientific research has the potential to enhance our capacity to solve problems – such as for example, energy, water, food, and health – that confront the region as a whole. It is clear these great challenges can only be confronted through global and regional cooperation.

A significant advantage of a regional framework for research collaboration is that it would enable us to conceive of the mission of the post national public university as one component of a shared cooperative enterprise to meet societal challenges and provide for collaborative research infrastructure in the region.

Enhancing regional cooperation has the benefit of developing research capacities in some of the less developed countries of the region while at the same time giving these countries a stake in the development of research collaborative infrastructure. In addition, developing scientific cooperation on areas such as space exploration and the Antarctic research will require sharing the funding of research infrastructure for even the most affluent countries in the region.

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2. See 'The Internationalisation of Australian Science' in The Australian Academy of Science Report - )  
Available at: <http://www.science.org.au/publications/documents/Internationalisation-of-Australian-Science.pdf>

Collaboration on research infrastructure will not merely enhance regional capacities in these areas, but will also serve as a counterweight to the militarisation of research in these fields of research in what are the global commons. It will have the added benefit of enabling public universities to focus on public goods not just on the league tables that increasingly drive higher education policies.

### 3. Mobility

The proposed Asian Research Area (ARA) would be comparable to the European Research Area in that one of its key objectives is to allow researchers to move, facilitate research cooperation across national boundaries, and develop transnational research projects and training programs, particularly on issues and problems that cross-national boundaries. The ARA will encourage and facilitate the movement of academics particularly early career academics and postdoctoral researchers. APEC has already looked at the possibility of business visas, but why not one for academics and researchers so that they can be more mobile within the region? We need to develop regional policies that allow academics and researchers to move more freely within the region. It is only by allowing such mobility that we can develop the organic grounds for research collaboration on projects and programs. We probably need to take baby steps to develop such a mobility scheme but it is an essential facet of ARA.

#### Strategies to facilitate an Asian Research Area (ARA)

Like many regional initiatives, the ARA will need to start on a small scale. One such step could be through weaving a mini-lateral agreement between research funding agencies of Singapore, Hong Kong, Korea, China, Japan, India, and Australia. One small step is for the DFAT to collaborate with the Australian research Council (ARC) in helping to internationalise research collaboration. It is possible to see the ARC place officers in embassies – such as in China, India, and Korea – to facilitate research collaboration and to seek to develop agreements between few likeminded countries.

Regional public goods of the sort being discussed here do not require the construction of distinctive regional institutions. It is more a question of regionalising regulatory governance at all levels and forms of governance. Hence this regulatory regionalism would mean regionalising research funding agencies and ministries so that they have the capacities to deliver these public goods. More crucially, this regulatory regionalism means giving the leading universities in the region a clearer regional focus on cooperation on research infrastructure. Public universities in the region have a pivotal role to play if we are to build an ARA.

The Asia Development Bank has a potential to play a crucial role in the possible funding of fledgling collaborative research platforms in areas such as food and health. And at a minimum, such a proposal needs to be placed on ASEAN+3 track agenda. It is precisely in such functional areas as research cooperation that regional solutions have displayed the greatest possibility of success, and this may well be the key ingredient for the success of an ARA.

#### Future steps

We should not underestimate the difficulties of instituting an ARA. The nationalistic and militaristic bias towards national research policies in the region poses challenges for initiatives such as the ARA. Nevertheless, if we are to deal with the significant societal challenge confronting the Indo-Pacific region, we need to build a regional public goods such as common research infrastructure.

This is the kind of niche diplomacy that Australia does well, and the high standing of our public universities in the region provides significant opportunities for Australia to take a lead in an initiative for an Asia Research Area. The government has committed to helping to facilitate an innovative economy. Australian science diplomacy is a crucial instrument in shaping this new economy and providing a crucial regional public good.

*Associate Professor Carol Warren*

### Executive Summary

- Environmental security should attract greater prominence within Australia's foreign policy framework.
- Australian foreign policy should actively promote regional collaboration and evidence-based trade, aid and development policies that systematically take account of long-term environmental impacts.
- To ensure foreign policy engagement offers the most promising long-term contribution to the protection of Austral-Asia's environmental security, Australia should
  - o (1) extend inter-governmental collaboration on good governance to emphasise environmental security; and
  - o (2) expanding research collaboration and scientific exchange between Australia and its Asian counterparts.

### Introduction

Environmental deterioration is directly or indirectly implicated in a range of challenges of global significance that are already having serious political and economic implications for Australia as well as its Asian neighbours, notably in the areas of migration<sup>3</sup>, food security<sup>4</sup>, health<sup>5</sup> and bio-security<sup>6</sup>. The impact of inadequately understood environmental security risks suggest that:

- National governments can no longer afford to trade off protection of environmental values and services for economic development, and cannot rely on domestic policy alone to assure national environmental security.
- The extent and seriousness of Australia's engagement with its immediate neighbours in the Asian region is not only essential for economic development and political security, but for the viability of Australia's environment and quality of life.

Several areas of environmental deterioration have or will significantly affect sustainability of the economy and quality of life in Asia and Australia: pollution, fossil fuel dependence and degradation of forest and marine environments. These are independently important issues, as well as contributing to cascading impacts by virtue of their cause and effect relationship to climate change<sup>7</sup>.

Effectively addressing these issues at the highest level of international trade, aid and development policy is not only important to the future sustainability for the nations which must steward these resources, but is also of profound significance to the provision of environmental services which underpin local livelihoods as well as the global economy.

Interdependencies between economic and environmental security, as well as their effects on broader aspects of human wellbeing, are most evident with respect to the predicted health and food security consequences of climate change, which have cross-sector feedback effects on (and from) agriculture, fisheries and forest ecosystem services throughout the region<sup>8</sup>.

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3. Khalid Koser (2013) The Lowy Institute, Environmental Changes and Migration - Implications for Australia. <https://www.loyyinstitute.org/publications/environmental-change-and-migration-implications-australia>

4. FAO (2016) Climate Change and Food Security: Risks and Responses. Rome: FAO; FAO-HLPE, 2012. Food Security and Climate Change. A Report by the High-Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome 2012.

5. Sly, P.D. (2011) Health Impacts of Climate Change and Biosecurity in the Asia Pacific region. *Reviews on Environmental Health*. 26 (1): 7 -12; Shuman, E.K. (2010) Global Climate Change and Infectious Diseases. *New England Journal of Medicine*. 362:1061-63.

6. Worldwatch Institute (2015) State of the World 2015: Confronting Hidden Threats to Sustainability. Washington: Island Press; Dobson; A., K. Barker and S. Taylor 2013. *Biosecurity: The Socio-Politics of Invasive Species and Infectious Diseases*. Routledge.

7. IPCC (2014) Climate Change 2014: Impacts, Adaptation, and Vulnerability, Part A: Global and sectoral aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press. <http://www.ipcc.ch/report/ar5/wg2/>

8. Beukering, P., ed. (2013) *Nature's Wealth: the economics of ecosystem services and poverty*. Cambridge University Press.



The 2016 FAO report on Climate Change and Food Security: Risks and Responses points to changes in resource distribution; fish, animal and plant productivity; increasing risk of extreme weather events, disease and pests; competition for water; reduced options for local diversification; loss of marine and forest ecosystems and the services and resilience these previously provided to livelihoods directly through food self-sufficiency and incomes. The report concludes:

“Climate change is already impacting, and will increasingly impact, food security and nutrition. Through effects on agro-ecosystems it impacts agricultural production, the people and countries depending on it and ultimately consumers through increased price volatility... [In each domain] from climate to biophysical, to economic and social, to households and food security... vulnerabilities exacerbate effects, with rural poor and especially women, who tend to be most directly dependent upon land, forest and water resources, most adversely affected.” (FAO 2016:34)

Several widely-reported examples of intensifying impacts that link local to global health and economic livelihood issues with environmental degradation in the Asian region include:

- Annual burning of Indonesia’s forests, largely driven by oil palm plantation development, contributes directly to global carbon emissions and reduced capacity for carbon sequestration. It also has immediate and costly impacts on the health of Indonesia’s population as well as those of neighbouring Malaysia and Singapore<sup>9</sup>.
- China’s urban industrial pollution similarly has well-documented impacts on the health and longevity of its population. The economic costs of inadequate attention to environmental impacts of economic development strategies in these cases threaten the very prosperity that current development policies have produced<sup>10</sup>.
- Illegal and unregulated exploitation of the marine environment has decimated coastal resources in many parts of Southeast Asia where competition for increasingly scarce natural resources has led to intensified destructive practices including use of illegal gears, blast fishing, potassium cyanide and the clearance of mangroves. In Indonesia, out of livelihood insecurity and indebtedness, fishers resort to high-risk practices, including illegal trans-boundary fishing, smuggling and trafficking in people. Apprehension in Australian waters send boat crews into a spiral of debt and dependence, often forcing further risk-taking<sup>11</sup>.

It is clear from these examples that good governance is a matter of great importance for environmental security and that it requires engagement with populations and institutions at every scale within the region to be meaningfully addressed. Australia’s domestic policies on environmental protection therefore cannot be delinked from foreign policy. Leadership on environmental governance in the Asian region and beyond will depend upon demonstrable implementation of best-practice and scientific evidence-based policies, and adherence to high governance standards throughout the region. Australian Foreign policy should actively promote evidence-based policies and regional collaboration that systematically take account of long-term environmental impacts.

Opportunities for engagement that offer the most promising contribution to the protection of AustralAsia’s environmental security lie in expanding our commitments in the areas of good governance and scientific collaboration. They would be best served by:

- Extending the focus on good governance in Australian foreign policy to emphasise multi-lateral agreements that support environmental security; and
- Increasing the foreign policy focus on scientific and educational exchange between Australia and its Asian neighbours.

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9. World Bank (2016) The Cost of Fire: An Economic Analysis of Indonesia’s 2015 Fire Crisis. Washington: World Bank.

<http://pubdocs.worldbank.org/en/643781465442350600/Indonesia-forest-fire-notes.pdf>

10. World Bank and State Environmental Protection Administration (China) (2007) Cost of Pollution in China: Economic Estimates of Physical Damages. Washington: World Bank. [http://siteresources.worldbank.org/INTEAPREGTOPENVIRONMENT/Resources/China\\_Cost\\_of\\_Pollution.pdf](http://siteresources.worldbank.org/INTEAPREGTOPENVIRONMENT/Resources/China_Cost_of_Pollution.pdf). See also, ‘Pollution - The cost of clean air’, The Economist, 7 February, 2015.

11. Fox, J. (2009). Legal and Illegal Indonesian Fishing in Australian Waters. Indonesia Beyond the Waters Edge: Managing an Archipelagic State. Institute of Southeast Asian Studies, Singapore, pp. 195-220; Jaiteh, V. et al. (forthcoming) Marine Policy. Special Issue.

## Recommendations

Australia's aid and development policies have previously focused on promoting good governance from national through to local scales. Building on its experience in governance capacity building and reform in the region, future foreign policy should:

- Ensure that agreements on trade include internationally monitored frameworks for environmental and social protection, and devote resources to ensuring that governance of these frameworks is effective.
- Expand direct support of translational scientific research and collaborative policy development in the through ACIAR, CSIRO, and ARC linkage research.
- Strengthen the relationship between Australian and Asian environmental agencies and NGOs at provincial and district as well as national level.
- Support community-based sustainability programs that bolster local NGOs and their community and government engagement on a long-term rather than ad hoc project basis.
- Incorporate governance capacity building, skills development and access to scientific information in country-based small grant programs, rather than limit these programs to infrastructure development, as currently applies to DAP programs in Indonesia, for example.
- Collaborate with regional governments and international agencies to support a wide range of experiments with Blue Carbon, REDD +, Fair Trade, Organic and Stewardship Certification schemes that would overcome the heavy transaction costs imposed on local communities and natural resource user groups.

Australia should respond to the threats posed by regional environmental degradation by enhancing the following areas of collaboration and exchange with governments in Asia:

- Expand the support for short course training programs in environmental policy and management.
- Build on the success of the New Colombo Plan and Endeavour initiatives by expanding opportunities for practical placements, funded short courses and collaborative research at postgraduate as well as undergraduate level.
- Establish collaborative postdoctoral fellowships involving both environmental and social science research teams that focus specifically on environmental issues and regulatory regimes of importance to the Asian region.

*Dr Ian Wilson*

### Executive Summary

- Religious radicals and hardliners are forming opportunistic alliances with some political elites in Indonesia, using this to move into the political centre.
- Both share a short-term goal of undermining the current administration, with a longer-term goal of rolling back democratic gains. Religion is being used as a political wedge.
- This has seen an upsurge of sectarian discourse, attacks on the secular foundation of the political system, together with the political 'mainstreaming' of radical causes and issues.
- A series of mass street mobilisations have been successfully used by hardliners to obtain key political concessions, including the laying of blasphemy charges against Jakarta's governor, setting a dangerous precedent for the future.
- Hardliners are outmanoeuvring religious moderates by capturing widespread resentments at the trajectories of Indonesia's economic growth, drawing in large numbers of followers particularly from the poor and lower classes.
- This poses several potential security and political challenges. Indonesia's democratic future is by no means secure.
- It also indicates that religious radicalism can be effectively impacted via targeted socio-economic policy, in particular social welfare provisions.

### Introduction

Indonesia in recent months has seen some of the largest mass public mobilisations in the country's history, with hundreds of thousands hitting the streets of the nation's capital, Jakarta for a series of rallies demanding the arrest of Jakarta's Christian Chinese governor Basuki Tjahaja Purnama, or Ahok, for allegedly insulting Islam while quoting Qur'anic verse al-Maidah 51.

Hardliner and far-right Islamist leaders, such as Habib Rizieq Shihab of the Defenders of Islam Front (FPI), supported by fatwa from the state funded Indonesian Council of Ulama (MUI), used the demonstrations and nation-wide coverage as a platform for their anti-democratic and illiberal views, with Islam becoming a conductor for a broader range of grievances.

The FPI and MUI have both had long argued that liberalism, pluralism and electoral democracy are antithetical to both Islam and the Indonesian constitution. The blasphemy case has become a vehicle through which hardliners interpretation of Islam can be brought to the wider public and enabled them to portray themselves as representative of whole community of believers.

In this they found bedfellows among certain political elites, including figures such as presidential candidate Prabowo Subianto and former president Susilo Bambang Yudhoyono. Both were widely speculated to have sponsored the demonstrations. None have a specific in Islam per se, but see its instrumental value as a means of legitimating both short and long term political agendas. For hardliners, alignment with elite political interests serves to protect them from legal or political censure.

The short-term agenda is the removal of Basuki, seen as a proxy and loose confidant of President Joko Widodo. The longer term is a broader 'democratic downgrading' agenda, such as in the calls from Yudhoyono's Democrat and Prabowo's Gerindra party's calls for the ending of direct regional elections.

## Structural causes

Such marriages of convenience are by no means new to Indonesian politics and are often contingent and short term. These opportunistic alliances between Islamists and powerful elite interests have, however, served to submerge some of the deeper structural issues driving this upsurge in public displays of support for religious intolerance and hard-line views.

It is significant to note that many of those joining in the racially and religiously charged mass demonstrations, particularly the urban poor, were just several years' earlier strong supporters of secular politicians and parties, in particular current president Joko Widodo<sup>12</sup>. This suggests that the shift towards intolerant and illiberal forms of political Islam is not just the result of elite machinations, but is linked closely to the impacts of policy exacerbated by broader structural conditions.

Oxfam recently reported that despite rapid growth in its GDP, poverty reduction in Indonesia has slowed to a standstill, with 93 million Indonesians living in poverty. Growing inequality, often manifested in an increasingly urban Indonesia in segregation and lack of access to services, has generated significant widespread anomie, anxiety and anger.

Hardliners frequently seek to exploit these anxieties and material hardship, rhetorically linking critiques of neo-liberalism and democracy, arguing that both brings not only moral decay and economic and social hardship, but also facilitate corruption. This also often has xenophobic undercurrents, in particular directed towards the role of ethnic Chinese in the economy.

## Losing the tolerant middle

The Nahdatul Ulama (NU), often considered a central pillar of liberal, tolerant and pluralist Islam in Indonesia, has failed to effectively counter these narratives and mobilisation strategies. It has also faced internal fragmenting, with an upsurge in popular conservatism undermining the authority of its central leadership

The emphasis placed by NU's national leadership on pluralism and tolerance has, at times, translated into support for socioeconomic policies that have arguably had detrimental impacts on its traditional social base. This includes policies such as mass evictions as well as removal of government subsidies.

This seeming disjuncture between progressive social and democratic values and acquiescence to economic policies hostile to the poor and the lower middle-class has provided openings for neoconservatives and hardliners to capture widespread popular resentment. This helps to explain the huge upsurge in mass support for previously marginal hard-line and illiberal Islamic groups from within what have traditionally been NU heartland areas<sup>13</sup>. Liberal pluralist and 'tolerant' Islam, and democracy itself, is being effectively cast as the ideology of elites socially and economically out of touch with the majority of Muslims, feeding into a populist backlash.

This indicates something of a crisis of the 'tolerant middle' as hardline groups capture not just the national political stage, but also expand their grassroots appeal and networks by capturing a broad range of grievances and resentments, many of which are grounded in broader structural issues, such as rising inequality.

By appealing to religious, and ethnic rather than economic interests, Islamists and select elite allies can gain reliable 'foot soldiers' in the larger shared project of undermining the current administration and generating momentum for a broader challenge to democratic institutions. Some analysts have also suggested that violent extremists, such as ISIS, are also seeking to hitch a ride on this broader wave<sup>14</sup>.

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12. Wilson, I.D. (2016), 'Making enemies out of friends' New Mandala, 03 November, <http://www.newmandala.org/making-enemies-friends>.

13. Varagur, K. (2017), 'Indonesia's moderate middle is crumbling', Foreign Policy, 14 February.

14. Jones, S. (2016), 'Why Indonesian extremists are gaining ground', Lowy Institute, 01 November <https://www.loyyinstitute.org/the-interpreter/why-indonesian-extremists-are-gaining-ground>.

## Policy challenges

Analysis and detailed understanding of these dynamic is important for assessing the possible trajectories of Islamist politics in Indonesia. It will also aid in providing targeted and appropriate support for Indonesia as the region's largest democracy and the world's second largest Muslim majority state.

While a focus upon CVE as a central pillar of national security policy in the region remains important, the rise of a populist 'intolerant middle', the mainstreaming of illiberal and hard-line Islamist groups and discourses, and its connection to broader structural issues of unequal equal development, also requires urgent attention.

A recalibrating of understandings of the parameters and spectrum of religious radicalism and extremism, the core drivers of it, and its complex relations with broader political dynamics, also needs to be done as a matter of priority.

*Professor David Hill*

### Executive Summary

I welcome this opportunity to provide input into the development of the DFAT Foreign Policy White Paper. In the interests of brevity, I endeavour to keep my points succinct, but provide references with supporting evidence. This submission focuses on several inter-related themes, but is premised on the belief that Australia's relationship with Indonesia is one of, if not, the most significant bilateral relationship, and will remain so into the foreseeable future. A deterioration in this relationship would have a potentially disastrous impact upon our relationships with Southeast Asia, Asia as a whole, and the broader global community.

To ensure the maintenance of a productive collaborative relationship with Indonesia over the next century, this submission asserts the White Paper should take account of the following:

### Indonesian language in Australian universities is in crisis

A comprehensive, multi-faceted community-to-community relationship between Australia and Indonesia is important in weathering the occasional tensions which emerge in government and business affairs. The nature of people-to-people relations is that they are multi-focal and diverse. One key factor in facilitating such dispersed community relations is a deepening appreciation within each society for the other.

While long assumed and asserted, recent research now demonstrates that the experience of learning Indonesian language (usually at school or university) inclines an Australian to take a more positive view towards Indonesia, compared to those who have not studied the language<sup>15</sup>.

It is of great concern that during 2000-2009 enrolments in Indonesian language in Australian universities declined nationally by 37%. This occurred despite total student enrolments in Australian universities increasing by approximately the same percentage over that same period<sup>16</sup>. Thus, the decline in Indonesian enrolments was doubly alarming.

Between 2009-2014 enrolments in Indonesian language in Australian university degrees remained flat.

During the period 2000-2014 the number of universities offering 'full-service' Indonesian language programs (that is, taught by their own staff rather than contracting materials from another provider), declined from 20 to 14<sup>17</sup>.

Significantly, during 2009-2014 the proportion of students who were enrolled in Indonesian language courses as part of their Australian degrees but who were, in fact, going to Indonesia to take their language component 'in-country' was increasing. As a percentage of Indonesian language's total student load in Australian universities, the proportion actually studying in-country increased from about 11% in 2010 to 17% in 2014<sup>18</sup>. Thus, evidence suggests that, when given the opportunity and encouragement, Australian undergraduates will choose to study Indonesian but increasingly they prefer to do so in Indonesia rather than in Australian classrooms.

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15. David T. Hill, 'Language as 'soft power' in bilateral relations: The case of Indonesian language in Australia', *Asia Pacific Journal of Education*, 36:3, September 2016, pp.364-378

16. David T. Hill, *Indonesian Language in Australian Universities: Strategies for a stronger future*, Australian Learning and Teaching Council National Teaching Fellowship Final Report, Murdoch University, Perth, April 2012 second edition (with corrections), <http://altcfellowship.murdoch.edu.au/Docs/Why-indonesian-extremists-are-gaining-ground>

17. Hill, 2012, Appendix A

18. David T. Hill, 'Facing the Twenty-First Century: Indonesian in Australian Universities' in Paul Thomas, ed. (forthcoming) *Talking North: history, literacy and policy in Australia's first Asian language*. Clayton, Vic.: Monash University Publishing.

## Australian students studying in Indonesia

The Australian Government is to be commended for implementing the New Colombo Plan (NCP) to encourage and support Australian university students to study in universities in Asia and the Pacific. In the case of Indonesia, this support from the NCP is essential if Australia is to continue to benefit from an increasing flow of Australian students into Indonesian universities, given the substantial impediments unsupported Australian students face if seeking to study in Indonesia<sup>19</sup>.

Until the early 1990s virtually no Australian students enrolled in Indonesian universities. There were several programs offered during Australian university vacations when students could study Indonesian in Indonesia, but it was virtually unknown for an Australian student to enrol (for a semester or more) in an Indonesian university.

The establishment of the Australian Consortium for 'In-Country' Indonesian Studies (ACICIS) in 1994, dramatically changed this by encouraging and enabling Australian undergraduates to enrol in Indonesian universities where they study for academic credit back to their home university degrees. The first ACICIS cohort in August 1995 had 29 Australian students from seven universities<sup>20</sup>.

The ACICIS Study Indonesia program has since produced more than 2000 Australian alumni, many of whom now occupy significant places in Australian business, government (most notably within DFAT and the Department of Defence) and academe<sup>21</sup>.

ACICIS now offers more than 15 study programs in Indonesia, from two-week study tours and 6-week internship programs, through to semester-long programs taught in English and in Indonesian language, across a wide range of disciplines.

In 2016, ACICIS enabled 100 students to undertake semester-long studies in Indonesia. In January-February 2017, 106 additional students undertook 6-week professional internship programs in Business, Journalism, Development Studies, Creative Arts and Design.

ACICIS is now the largest and longest-running bilateral educational program of its kind in Australia. It is recognised as a 'successful model for in-country learning' and has been adopted as the model for a similar university consortium to support student mobility to India<sup>22</sup>.

The ACICIS Consortium now includes 24 Australian universities (that is, the majority of Australia's universities), plus one member university each in the UK and the Netherlands. Its membership is open to other universities and it continues to expand year by year.

However, despite the contribution made by the NCP student mobility grants to stimulating student interest in studying in Indonesia, the scheme currently does not provide any funds to support essential program development. (Developing a new full-semester academic program at an Indonesian university for Australian students is approximately \$100,000.)

This submission recommends that the Australian Government (either through the NCP or an ancillary program) **provide grants to support the development of appropriate in-country academic programs for Australian students in Indonesia.**

## Support for Indonesian language teaching in Australian schools.

The most recent national research (published in 2010) found that, with approximately 191,000 Australian school students studying Indonesian that year, school enrolments since 2001 had been declining annually by at least 10,000 students<sup>23</sup>.

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19. Higher Education Internationalisation in Indonesia: Inbound Australian Student Trends, August 2011, pp. 33-34, and Appendix II: Visa and Immigration Details.

20. In the interests of transparency, I acknowledge a role as founder and Consortium Director of ACICIS. The initial sending universities were Murdoch, UWA, ANU, Curtin, Monash, UWS and Griffith.

21. Testimonials from ACICIS alumni now pursuing careers in key Australian government departments can be found at <https://vimeo.com/acicis>.

22. Australian Government, Australia in the Asian Century White Paper, October 2012, p.173. ([http://www.defence.gov.au/whitepaper/2013/docs/australia\\_in\\_the\\_asian\\_century\\_white\\_paper.pdf](http://www.defence.gov.au/whitepaper/2013/docs/australia_in_the_asian_century_white_paper.pdf)); and John Bayliss, Pathways to India: promoting student mobility, La Trobe Asia, October 2016 (commissioned by the Commonwealth Department of Education and Training).

23. Michelle Kohler and Phillip Mahnken, The Current State of Indonesian Language Education in Australian Schools, ESA, Carlton South, 2010, pp.5-6.

The critical state of school-level Indonesian language programs is highlighted by the alarming fact that there were fewer Year 12 students studying Indonesian in 2009 than there were matriculating in the language in 1972<sup>24</sup>. That is, facility in Indonesian by senior school students in Australia has declined rather than increased over the past half century!

The most successful program to stimulate study of Asian languages (including Indonesian) was the National Asian Languages and Studies in Australian Schools (NALSAS) Strategy. Established in 1994 and due to run until 2006, NALSAS terminated prematurely by the Howard Government in 2002. At a cost of \$208 million over eight years, NALSAS successfully doubled enrolments in the target Asian languages (Japanese, Chinese, Indonesian and Korean) within less than a decade! In view of the current state of Indonesian in schools a new NALSAS strategy is essential.

This submission recommends that a **National Asian Languages in Schools program** (at least for Indonesian) be (re-)introduced, and funded for a minimum period of a decade, at a level at least equivalent to, and preferably higher than, that provided to NALSAS, in relative terms.

Such a National Asian Languages in Schools program would enable students to develop facility in the languages they need to participate fully in, and ensure optimal benefits from, the New Colombo Plan at university level.

While these educational issues may seem to be separate from core foreign policy questions, they are in fact fundamental drivers of foreign policy as they determine how the Australian community will engage with, and relate to, our region this century and beyond. The Australian Government needs a comprehensive strategy to develop and deploy such intellectual assets as part of our foreign policy strategy to engage with our regional neighbours.

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24. William Thomas, Paths to Asia: Asian Studies at universities in Australia, Working Papers in Asian Studies No.6. Centre for Asian Studies, University of Western Australia, 30 October 1974, p. 69, gives the 1972 figure of 1,190 for students matriculating with Indonesian language (see [http://altcfellowship.murdoch.edu.au/Docs/Thomas\\_William\\_\(1974\)\\_Working\\_Papers\\_in\\_Asian\\_Studies\\_No\\_6\\_Paths\\_to\\_Asia.pdf](http://altcfellowship.murdoch.edu.au/Docs/Thomas_William_(1974)_Working_Papers_in_Asian_Studies_No_6_Paths_to_Asia.pdf)), sighted 16 January 2012.



*Dr Jeffrey Wilson*

### Executive Summary

- With headwinds facing the Trans-Pacific Partnership, Australia needs to recalibrate its trade strategy.
- The turn towards a bilateral FTAs during the 2000s posed several challenges – collectively known as the ‘noodle bowl problem’ – for Australia’s economic ties with Asian economies.
- The Australian economy will benefit most from a regionally-focussed multilateral trade strategies. Trade multilateralism enable greater engagement and integration with the Asian economic region than bilateral agreements.
- The emergence of mega-regional FTAs such as the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) promised to ‘multilateralise’ the regional trade architecture. As a small open economy, Australia stood to gain significantly from this process.
- Of the two mega-regional agreements, the TPP’s emphasis on regulatory rule-making provided the best fit with Australian trade interests. However, the US withdrawal from the TPP has seriously compromised its prospects. RCEP is now the best vehicle for trade multilateralism in the region.
- The ongoing RCEP process offer Australia a critical opportunity to shape the newly-emerging trade architecture of Asia-Pacific. Market access, services and accession provisions should be a key focus for Australian trade diplomacy as RCEP moves towards completion in 2017.

### Introduction

Australia’s trade diplomacy is at a cross-roads. After a decade of pursuing bilateral free trade agreements (FTAs) with its major trade partners, in the 2010s Australia became involved in two ‘mega-regional’ FTAs in Asia: the US-led Trans-Pacific Partnership (TPP) and ASEAN-centre Regional Comprehensive Economic Partnership (RCEP). These trade agreements promised to transform both the Asia-Pacific trade system and Australia’s place within it. They aimed to ‘multilateralise the noodle bowl’ of over 100 bilateral FTAs that exist in the region, and placed Australia at the centre of a newly-emerging architecture for Asian economic integration.

With the election of Donald Trump to the US Presidency, regional trade diplomacy is now in flux. Having campaigned against the TPP during the Presidential election, the Trump Administration formally withdrew the US in January 2017. Given its current legal design, the TPP cannot enter into force without US ratification.

Australia had been one of the leading proponents of the TPP, and since negotiations began in 2010 the TPP had been a central pillar of Australian trade diplomacy. With the TPP now facing serious political headwinds, Australia needs to recalibrate its trade strategy to adjust to the new regional environment.

As a small open economy with deep trade and investment ties to Asia, Australia’s trade interests are best served by multilateral approaches to regional trade liberalisation. These avoid many of the challenges associated with bilateral FTAs – which trade economists collectively label the ‘noodle bowl problem’ – and provide an integrated institutional platform for Australia to deepen its linkages with the dynamic economies of Asia.

As the potential collapse of the TPP deprives Australia one vehicle for achieving a multilateral trade agreement in Asia, ongoing negotiations for the RCEP agreement have become increasingly important. Australia stands to gain considerably if RCEP is completed, as it provides an opportunity to more fully integrate with the economies of the Asia-Pacific region. Australia is well-positioned to contribute to the RCEP negotiations, and should actively work to shape its provisions in ways that maximise the benefits for the Australian economy.

## The fragmented trade architecture of the Asia-Pacific

In the early years of the 21st century, the trade architecture of the Asia-Pacific was dramatically transformed. Regional governments were previously committed multilateralists – pursuing trade liberalisation either through the WTO at the global level, or APEC and ASEAN at the regional level.

But during the 2000s, many Asian governments turned their attention toward bilateral FTAs. Simpler to negotiate than multilateral agreements, bilateral FTAs were considered a ‘quick and easy’ way to open new export markets. As the WTO’s Doha Round began to stall in the mid-2000s, they also presented a ‘second best’ trade strategy: to advance liberalisation on a bilateral basis while multilateral efforts were delayed<sup>25</sup>.

The Asia-Pacific quickly became the epicentre of a global move towards trade bilateralism. By the end of 2016, fifty-two bilateral FTAs had been signed by Asia-Pacific governments, and a further fifty-four were negotiated with extra-regional partners<sup>26</sup>. The Asia-Pacific is currently home to half of all bilateral FTAs in-force globally. This process dramatically restructured trade architecture of the region, from one based on regional multilateralism to one criss-crossed by numerous bilateral deals.

Australia has been an active participant in the turn towards trade bilateralism (Table 1). Nine bilateral FTAs have been signed, which now cover all but two of Australia’s top ten trading partners. In 2009, Australia and New Zealand jointly secured a trilateral FTA with the ASEAN bloc. Negotiations are underway with India and Indonesia, the two main Asian economies without a current FTA. Australia is also an active participant in two the mega-regional FTA processes in Asia: the multilateral Trans-Pacific Partnership (TPP) completed in 2015; and negotiations for the Regional Comprehensive Economic Partnership (RCEP) ongoing since 2013.

**Table 1 Australia’s free trade agreements, February 2017**

AGREEMENT	TYPE	CURRENT STATUS
Australia-New Zealand (CER)	Bilateral	In-force (1980)
Australia-Singapore	Bilateral	In-force (2003)
Australia-Thailand	Bilateral	In-force (2004)
Australia-US	Bilateral	In-force (2005)
Australia-Chile	Bilateral	In-force (2008)
Australia-NZ-ASEAN	Trilateral	In-force (2009)
Australia-Malaysia	Bilateral	In-force (2013)
Australia-Korea	Bilateral	In-force (2014)
Australia-Japan	Bilateral	In-force (2015)
Australia-China	Bilateral	In-force (2015)
Trans-Pacific Partnership	Regional multilateral	Signed, awaiting ratification (2015)
PACER Plus	Regional multilateral	Under negotiation (2009)
Australia-Indonesia	Bilateral	Under negotiation (2010)
Australia-India	Bilateral	Under negotiation (2011)
Trade in Services Agreement	Global multilateral	Under negotiation (2012)
Regional Comprehensive Economic Partnership	Regional multilateral	Under negotiation (2013)
Environmental Goods Agreement (WTO)	Global multilateral	Under negotiation (2014)
European Union	Bilateral	Under study (2015)

Source: DFAT, Australia’s Free Trade Agreements, available at <http://dfat.gov.au/trade/agreements/Pages/trade-agreements.aspx>

25. Christopher Dent (2010), ‘Free trade agreements in the Asia-Pacific a decade on: evaluating the past, looking to the future’. *International Relations of the Asia-Pacific*, 10(2): 201-45; Barry Desker (2004), ‘In Defence of FTAs: From Purity to Pragmatism in East Asia’, *The Pacific Review*, 17(1): 3–26.

26. Author’s calculations, from World Trade Organization, Regional Trade Agreements Database, available at <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

## Trade bilateralism and the noodle bowl problem

The proliferation of bilateral FTAs in the Asia-Pacific has led to a phenomenon trade economists call the “noodle bowl problem”<sup>27</sup>. Rather than having a single, integrated set of trade rules that apply equally to all parties, the region is now criss-crossed by over a hundred bilateral deals. These bilateral FTAs are often wildly inconsistent. Each contains its own rules for tariff reduction, non-tariff trade policy reforms, and standards for administrative procedures. Some include rigorous implementation of rules for ‘WTO-Plus’ issues – such as investment, services, and intellectual property – while others include these issues in either a piecemeal fashion or not at all<sup>28</sup>.

Trade economists argue that the noodle bowl problem is bad for the global and regional trade systems. Rather than delivering genuinely ‘free’ trade, bilateral FTAs only preferentially remove trade barriers between select countries. Some of the difficulties posed by the noodle bowl problem includes:

- Undermining the GATT/WTO’s most-favoured-nation (MFN) principle. By preferentially lowering trade barriers only between certain countries, bilateral FTAs breach the MFN principle that a country should give equally good trade treatment to all WTO members. While bilateral FTAs are legally allowed under GATT Article XXIV if they liberalise “substantially all trade”, many have extensive carve-outs and sectoral exclusions<sup>29</sup>.
- Trade diversion rather than trade creation. Trade flows are distorted by bilateral FTAs, where economies gain (and lose) market share due to the preferential effect of the FTAs rather than underlying patterns of competitiveness. They often simply ‘redistribute’ trade between countries, rather than creating new trade flows<sup>30</sup>. An example is Australia’s dairy trade with China, where Australian exporters faced discrimination due preferences given to NZ competitors in the China-NZ FTA of 2008.
- Imposing transaction costs on businesses. Bilateral FTAs pose transaction costs for businesses, which must maintain compliance with different rules for all key markets rather than meet a single set of WTO provisions. The cost of securing multiple Rule-of-Origin (ROO) certificates is a key example<sup>31</sup>. These costs are especially prohibitive for small- and medium-enterprises (SMEs), who lack the scale to secure commercial and legal advice.
- Failure to supporting regional and global value chains. Many contemporary industries are organised as complex ‘value chains’, where the various stages of production are in different countries. The electronics, automobile, machinery and agro-food sectors are all examples where production is spread across many economies in Asia. As bilateral FTAs only liberalise trade between two nodes, they do little to facilitate the complex trade and investment flows needed for network growth. DFAT has recently identified the importance of multilateral liberalisation for Australia’s participation in regional value chains<sup>32</sup>.
- Power asymmetries and disadvantaging of small economies. Ensuring robust outcomes from bilateral FTAs depends on the bargaining power of the involved parties. Small economies typically fare worse, as the small size of their home market limits their ‘negotiating coin’ during FTA talks. When negotiating with larger economies (such as the US, China or Japan), power asymmetries often mean small economies cannot obtain as good a result as they would have through multilateral approaches where they could pool negotiating resources<sup>33</sup>.

These problems especially afflict countries like Australia. As a small and open economy, Australia has less capacity than larger economic powers to secure robust FTAs that ensure major market access gains in key sectors such as agriculture and services<sup>34</sup>. The transaction costs associated with bilateral FTAs are also highly prohibitive for Australian SMEs, who have struggled to make full use of the agreements<sup>35</sup>.

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27. Richard E. Baldwin (2007), ‘Managing the Noodle Bowl: The Fragility of East Asian Regionalism’, ADB Working Paper Series on Regional Economic Integration (No. 7), Manila: Asian Development Bank.

28. Jeffrey D. Wilson (2015), ‘Mega-Regional Trade Deals in the Asia-Pacific: Choosing Between the TPP and RCEP?’, *Journal of Contemporary Asia*, 45(2): 345–353.

29. Mark Manger (2012), ‘Preferential agreements and multilateralism’, in Ashgate Research Companion to International Trade Policy, K. Heydon and S. Woolcock (eds.), Farnham: Ashgate.

30. Mian Dai et al. (2014), ‘On the trade-diversion effects of free trade agreements’, *Economics Letters*, 122(2): 321-325.

31. Patricia Augier et al. (2005), ‘The impact of rules of origin on trade flows’, *Economic Policy*, 20(43): 568-624.

32. DFAT (2016), TPP Background papers: Global Value Chains and the TPP, available at <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/background-papers-global-value-chains-and-the-tpp.aspx>

33. Ann Capling and John Ravenhill (2015), ‘Australia’s flawed approach to trade negotiations: And where do we sign?’, *Australian Journal of International Affairs*, 69(5): 496-512.

34. Jeffrey D. Wilson (2015), ‘China-Australia trade agreement a compromised victory’, *The Conversation*, 18 June.

35. HSBC (2014), ‘Australian companies under-utilising Free Trade Agreements, HSBC research’, available at <http://www.about.hsbc.com.au/news-and-media/australian-companies-under-utilising-free-trade-agreements>

## Multilateralising the Asian noodle bowl? The TPP and RCEP agreements

Given the potential benefits of trade multilateralism for Australia, a positive development has been the recent emergence of two 'mega-regional' trade agreements in Asia-Pacific: The Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) agreements.

The TPP was launched in 2010, and by the completion of negotiations in October 2015 had grown to twelve member states drawn from the APEC group. RCEP negotiations commenced in 2013 between the ASEAN and its 'Plus Six' FTA partners, and at the time of writing an ongoing. While having different memberships, both are roughly equal in size in terms of their GDP, total trade and intra-regional trade (Table 2).

**Table 2 Key features of the TPP and RCEP agreements**

	TRANS-PACIFIC PARTNERSHIP	REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP
Negotiations commence	March 2010	May 2013
Negotiating process	Negotiations complete October 2015; awaiting ratification	Initial goal for late-2015 completion; now expected late-2017
Scope and coverage	WTO-Plus approach: Market access commitments alongside 24 additional trade-related measures	WTO-consistent approach: Focus on trade liberalisation and investment facilitation
Member states	Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam	ASEAN bloc, Australia, China, India, Japan, Korea, New Zealand
Membership model	Open to all APEC parties; includes accession mechanism	Only open to current ASEAN FTA partners during negotiation phase
Total GDP of members	USD 27.4 trillion (36.6% of global economy)	USD 22.7 trillion (30.4% of global economy)
Total two-way trade of members	USD 8.7 trillion (26.2% of world trade)	USD 9.5 trillion (28.8% of world trade)
Intra-regional trade of members	USD 3.7 trillion (43.2% members' total trade)	USD 4.3 trillion (44.6% members' total trade)
Source: Jeffrey D. Wilson (2017), 'The Regional Comprehensive Economic Partnership: An Indo-Pacific approach to the regional trade architecture?', Indo-Pacific Insights Series (Vol. 2), Perth: Perth USAsia Centre.		

The significance of the TPP and RCEP lies in their promise of inducing systemic change in the regional trade architecture: a return from a fractured bilateral to an integrated multilateral system. Indeed, they are the first multilateral trade initiatives to be launched in Asia since the ASEAN FTA of 1992. However, the TPP and RCEP also offer very different models for how Asian trade multilateralism should be achieved.

One difference is their type of trade reform. The TPP is described as a "21st century" trade agreement, which combined tariff reduction with regulatory rule-making in a range of 'WTO Plus' areas. Investment, services, intellectual property, Investor-State Dispute Settlement, e-commerce, finance, and labour and environmental standards were amongst those included. In comparison, RCEP has more modest reform ambitions. It aims only to be 'WTO consistent', and is focussed on the more traditional concern of market access for goods and services trade. RCEP lacks most of the regulatory provisions in the TPP, instead featuring mechanisms for technical and economic cooperation designed to close development gaps in the region.

A second is their membership. The TPP uses the long-standing Asia-Pacific model, and is open to all APEC member economies. Twelve ultimately took up membership, though an open accession clause allows new parties to join following ratification. RCEP instead uses an Indo-Pacific model based on the ASEAN+6 group, and at time of writing membership is closed to only these countries. As a result, neither have perfect coverage of all the major economies in the region. Australia, Japan, Singapore are parties to both. However, the US, Canada and Mexico are only in the TPP; while China, India and several ASEAN economies only feature in RCEP.

Australia was a founding member and active participant in of both mega-regional agreements. However, the TPP arguably provided the better fit with Australia's trade policy interests than RCEP:

- The TPP delivered a very high level of tariff elimination – 98 percent of tariffs within the bloc. Based on current trade flows alone, \$9 billion of previously dutiable Australian exports would enjoy duty-free access under the agreement<sup>36</sup>.
- Its inclusion of WTO-Plus regulatory provisions – particularly for investment, intellectual property and several services sectors – is of considerable value in opening new export opportunities for Australia's services-based economy<sup>37</sup>.
- Its market access provisions in agriculture would also offer many new opportunities for Australia, particularly in the (hitherto heavily protected) Japanese beef, dairy and horticulture sectors<sup>38</sup>.
- As a multilateral agreement, it would also provide a platform for Australian firms to increase participation in regional value chains in sectors as diverse as food processing, mining services and intermediate manufactures<sup>39</sup>.

Unfortunately, the TPP has struggled to achieve ratification due to political headwinds in the US. It became a key issue during the US Presidential election of 2016, which was characterised by unprecedented levels of populist attack upon free trade. Both parties' candidates campaigned on an anti-TPP platform, including Democratic nominee Hillary Clinton who had previously been the Secretary of State that launched the negotiations<sup>40</sup>. Republican nominee Donald Trump promised to withdraw the US from the TPP ratification entirely, and following the election victory did so with his first executive order upon taking office<sup>41</sup>.

The US withdrawal terminally compromises the TPP as presently articulated. According to Article 30.5, at least six members – accounting for 85 percent of the GDP of the bloc – must ratify before the agreement enters into force. As the US accounts for 65 percent of the TPP's economic size, its withdrawal means it is numerically impossible to meet this requirement. Any attempt to reconstitute the TPP without the US will at minimum require a renegotiation of entry into force provisions.

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Many Asian governments have begun reappraising their regional trade strategies. With the TPP no longer viable in its present form, ambitions to multilateralise the regional trade system have begun to shifted to ongoing RCEP negotiations. These moves took centre stage during the Lima APEC Summit of November 2016, where discussion was dominated by the issue of trade policy and RCEP's potential role therein. The Chinese government – which has been the primary driver behind RCEP – used the Summit to pledge its commitment to economic openness, and push for a speedy completion of RCEP negotiations<sup>44</sup>. In a frank assessment, Japanese Prime Minister Abe Shinzo recently remarked "It's safe to say that we will shift focus to RCEP if TPP is disbanded"<sup>45</sup>.

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36. DFAT (2016), TPP Outcomes: Goods Market Access, available at <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx>

37. DFAT (2016), TPP Outcomes At A Glance, available at <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-at-a-glance.aspx>

38. DFAT (2016), TPP Outcomes: Goods Market Access, available at <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx>

39. DFAT (2016), TPP Background papers: Global Value Chains and the TPP, available at <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/background-papers-global-value-chains-and-the-tpp.aspx>

40. Bloomberg (2016), 'Hillary Clinton: I Oppose TPP Now, I'll Oppose It as President', 12 August.

41. CNN Politics, "Trump signs order withdrawing from TPP", 24 January 2017.

42. Per Article 30.5 of the Trans-Pacific Partnership Agreement (2015), available at <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

43. Authors' calculations, from UNCTADStat Database, available at <http://unctadstat.unctad.org/>

44. ABC News (2016), 'APEC Summit: Xi Jinping pledges economic openness as leaders seek free trade options', 20 November; Reuters (2016), APEC leaders vow to fight protectionism, look to China on trade, 21 November.

45. Jakarta Post (2016), 'RCEP negotiators conclude 2nd chapter', 10 December

## New options for Australian trade diplomacy: Regional-focussed multilateralism

Australia now finds itself in need of a new trade strategy. The collapse of the TPP denies Australia its number one trade policy priority – an open, multilateral and ambitious reinvigoration of the regional trade architecture. New approaches and institutions for strengthening integration with Asia are necessary to maximise trade and investment opportunities for the Australian economy. The defining principle which should inform this strategy is an active commitment to regional multilateralism in Australia's trade diplomacy.

Some analysts have suggested that pursuing a new set of bilateral FTA negotiations is Australia's best response to the collapse of the TPP<sup>46</sup>. However, this is unlikely to deliver major gains for exporters, nor do much to improve economic integration with the Asian region. This is because bilateral FTAs are already in place with most key trade partners:

- Of Australia's top ten two-way trade partners, only two economies – India and Germany – are not currently FTA partners (Table 3).
- FTA negotiations with India (8th) and Indonesia (13th) are already underway, and an agreement with the EU is currently under study.
- The 'FTA coverage ratio' for Australian exports is already high, at 74.6 percent<sup>47</sup>.

Negotiating more bilateral FTAs will therefore produce steadily diminishing returns. For example, a bilateral FTA with the UK – which has been suggested as a possibility once the Brexit process is complete<sup>48</sup>– would only fractionally increase the FTA coverage ratio from 74.6 to 76.1 percent<sup>49</sup>. Indeed, even the herculean task of securing FTAs with all Top-20 trade partners would only raise the ratio to 87.6 percent. Given their complexity, these agreements also have long lead-times: JAEPA took eight years from the start of negotiations to entry-into-force, while ChAFTA took ten years. Such long negotiation periods would delay the benefits of any new bilateral FTAs to the mid-2020s at best.

Nor will further bilateral agreements do much to address the noodle bowl problems facing Australian exporters. They will continue to impose new transaction costs on business, which are especially prohibitive for SMEs. They do little to enable Australian firms to participate in the regional value chains that are driving growth in Asia. As research by the Productivity Commission has recently concluded, "Multilateral trade reform offers potentially larger improvements in national and global welfare than a series of bilateral agreements"<sup>50</sup>.

The collapse of the TPP has complicated Australian efforts to trade multilateralism in the Asia-Pacific. Some commentators have suggested that the TPP could be salvaged in the absence of the US<sup>51</sup>. This could be achieved either by revising Article 30.5 to allow entry-into-force as an 11-party agreement; and/or through the inclusion of new countries (potentially China, Korea or Indonesia) via the Article 30.4 accession mechanism. Following official notification of the US withdrawal, the Australian government has indicated that it intends to explore such options<sup>52</sup>.

While legally feasible, these proposals are not politically realistic. Many of the governments in developing Asia – particularly Malaysia and Vietnam – were attracted to the TPP due to the 'pull' of access to large US consumer markets. In the absence of the US, these governments will seek a renegotiation of the TPP, particularly seeking amendments to its regulatory provisions for investment, labour standards and the environment. It remains to be seen whether such compromises could be settled without significantly diluting the agreement. Indeed, the Japanese government has recently indicated the TPP is "meaningless" without the US, and will not seek to revive the deal with a different membership or ratification requirements<sup>53</sup>.

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46. Giovanni de Lieto (2017), 'Brexit, Trump and the TPP mean Australia should pursue more bilateral trade agreements', *The Conversation*, 17 January.

47. Authors' calculations, from UNCTADStat Database, available at <http://unctadstat.unctad.org/>

48. ABC News (2016), 'Australia and UK take first step to post-Brexit free trade deal, but final agreement could take years', 7 September.

49. Authors' calculations, from UNCTADStat Database, available at <http://unctadstat.unctad.org/>

50. Productivity Commission (2016), *Trade and Assistance Review 2014-15*, Canberra: Productivity Commission, p. 48.

51. *The Australian* (2017), 'Leaders warn of trade war after Donald Trump pulls out of TPP', 25 January.

52. ABC News (2017), 'Trans-Pacific Partnership: Government 'flat out' to revise TPP deal without Donald Trump's support', 23 January 2017.

53. MarketWatch (2017), 'Japan says TPP 'meaningless' without US, but still hopes to save pact', 24 January.

**Table 3 Australia's Top-20 trade partners and FTA coverage, 2015**

	ECONOMY	SHARE TWO-WAY TRADE	SHARE EXPORTS	CURRENT FTAS	PROSPECTIVE FTAs
1	China	27.7%	32.5%	ChAFTA (2015)	RCEP
2	Japan	11.5%	15.9%	JAIPA (2015)	RCEP; TPP
3	United States	8.4%	5.3%	AUSFTA (2005)	TPP
4	Korea	6.2%	7.1%	KAFTA (2014)	RCEP
5	Thailand	3.5%	1.7%	TAFTA (2004); AANZFTA (2009)	RCEP
6	Singapore	3.1%	2.7%	SAFTA (2003); AANZFTA (2009)	RCEP; TPP
7	New Zealand	3.1%	3.3%	CER (1980); AANZFTA (2009)	RCEP; TPP
8	India	3.0%	4.2%		RCEP; AI-CECA
9	Malaysia	2.8%	1.8%	MAFTA (2013); AANZFTA (2009)	RCEP
10	Germany	2.7%	0.6%		
11	China, Taiwan	2.1%	2.5%		
12	United Kingdom	2.1%	1.5%		
13	Indonesia	2.0%	2.0%	AANZFTA (2009)	RCEP; IA-CEPA
14	Vietnam	1.5%	1.4%	AANZFTA (2009)	RCEP
15	Italy	1.3%	0.3%		
16	United Arab Emirates	1.1%	1.3%		
17	France	1.1%	0.5%		
18	Papua New Guinea	0.9%	0.7%		PACER Plus
19	China, Hong Kong SAR	0.9%	1.3%		
20	Netherlands	0.9%	0.9%		
	Memo: ASEAN	13.6%	10.4%	AANZFTA (2009)	RCEP
	<b>Total Top-20</b>	<b>85.8%</b>	<b>87.6%</b>		

Source: Author's calculations, from UNCTADStat Database and Table 1.

For these reasons, active participation in ongoing RCEP negotiations provide the best fit for Australia's trade policy interests. In 2015, RCEP members accounted for 65.0 percent of Australia's two-way trade, and 73.4 percent of exports<sup>54</sup>. While RCEP has lower reform ambition than the TPP, it nonetheless offers major benefits for Australia:

- It promises a genuinely multilateral trade architecture for the region, which avoids the various noodle bowl problems and enables participation in regional value chains.
- It offers an opportunity to build on Australia's existing FTAs in the region, capturing additional market access gains in areas such as agriculture and services.
- It will also be Australia's first trade agreement with India, an important emerging market in the region.
- RCEP negotiations are already well-advanced, reducing the lead time before the agreement is concluded, ratified and enters into force.

54. Author's calculations, from Table 3.



At the time of writing, RCEP negotiations are ongoing. Following the US election in late 2016, many Asian governments have signalled a renewed commitment to advancing RCEP talks, including China<sup>55</sup>, Japan<sup>56</sup>, Korea<sup>57</sup>, Indonesia<sup>58</sup>, Malaysia<sup>59</sup>, Thailand<sup>60</sup>, the Philippines<sup>61</sup> and India<sup>62</sup>. During the Sixteenth round of RCEP negotiations in December 2016, parties committed to the aspirational goal of completing the agreement by the end of 2017. Much remains to be settled, including the scope of the agreement itself, the design of regulatory provisions for investment and services, as well as the all-important market access commitments<sup>63</sup>. However, renewed commitment from many governments augurs well for increased productivity during – and results from – future negotiating rounds.

### Shaping the future of Asian economic regionalism through RCEP

As RCEP negotiations enters a critical stage in 2017, Australia is presented with a unique opportunity to shape the future of the regional trade architecture. It is imperative that trade negotiators play an active role in ongoing talks, to ensure the final RCEP agreement provides the best fit with Australian trade interests. Three areas are of particular importance:

- Australia should work towards securing the strongest market access deal possible. While the presence of ‘sensitive’ sectors may mean achieving the level of tariff elimination in the TPP (98 percent) is not possible, a figure in the high-90s would still offer major gains for exporters. Minimising the number of agricultural ‘carve-outs’ will be essential to ensuring a positive result for the Australian farm sector.
- Service sector liberalisation will be critical in supporting Australia’s emerging trade interests in Asia. This will be achieved both through the service market access commitments, as well as the regulatory provisions governing certain sub-sectors (such as e-commerce, education, and financial and other professional services). Australia’s service-based economy will stand to gain considerably if a robust and region-wide set of regulatory provisions are embedded in the RCEP text.
- Ensuring an open accession mechanism will help ‘future-proof’ RCEP. While the negotiation phase is only open to the ASEAN+6 governments, parties have agreed to include an accession clause which will enable more countries to join in the future<sup>64</sup>. The design of this mechanism, and the requirements which would be imposed on accession parties, has yet to be decided. Australia should press for the most open mechanism possible, to ensure RCEP will be able to grow in future years.

As a small, open economy with deep trade and investment links to Asia, Australia’s economic prospects are greatly influenced by the shape of the regional trade architecture. The proliferation of bilateral FTAs during the 2000s has delivered mixed results for Australia: offering some market access gains while posing several noodle bowl problems. A regionally-focussed multilateral trade strategy – as embodied in the mega-regional TPP and RCEP proposals – will offer the greatest benefits for Australia in the future. With the future of the TPP now uncertain, active involvement in ongoing RCEP negotiations will allow Australia to shape the future of the regional trade system in ways that best reflect and advance its unique economic interests.

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