



Options Paper

What does it look like for Australia to be a ...

Partner for Southeast Asian Recovery & Growth

SUPPORTED BY



Australian Government
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Why it Matters

Over the next 10-20 years Southeast Asia will significantly impact Australia's prosperity and security. Southeast Asia is a dynamic and high growth region that has significant opportunities for Australia. The economic outlook is positive, and there is an expected long period of sustained development in the region.¹ As Southeast Asia's closest neighbour, Australia has the opportunity to be strongly integrated with the region and benefit from its potential growth and dynamism.

However, Southeast Asia's growth is not guaranteed. Important regional challenges including the COVID-19 pandemic recovery, income inequality, regional instability and significant geopolitical shifts remain.² The 'middle-income-trap' continues to challenge some Southeast Asian nations.³ Australia could face a divided region, struggling to restore the development trajectory that rising middle classes have expected, and with increasingly weakened regional institutions. These risks require a broader and deeper engagement by Australia, focused on the most significant challenges, to support inclusive and sustainable growth.

Growth in all of its facets is one of the highest priorities of the region. Growth is a goal with diplomatic, defence and development cooperation implications and should not be understood as only about development cooperation. It is about Australia connecting with the region's most important priorities given the significant implications for Australia's national interest. This creates a strong incentive for Australia to use diplomacy, defence and development cooperation to be more engaged.

High stakes mean Australia needs to support Southeast Asia's growth. Whether Southeast Asia succeeds is crucial for Australia's security and prosperity and Australia should focus on how to contribute to Southeast Asia's success. What happens in Southeast Asia will have a material

impact on the welfare of Australians regarding growth, job creation and welfare.

There are trajectories in the region that would be an issue for Australia. A region that has inequitable growth, instability, and is pandemic-ridden will be detrimental to Australia's national security. For example, poor economic growth could create a breeding ground for fundamentalist movements and terrorism. The region may export that instability and that will be an issue for Australia. Australia has a stake in not only the economic development trajectory of the region, but ensuring that growth is sustainable and inclusive, to ensure its own security.

Southeast Asia's diplomatic heft is increasing and Australia must prepare for shifting regional dynamics. Diplomatically, Australia wants to be integrated with a part of the world that is growing in its diplomatic influence. Southeast Asian nations have been growing strongly for 50 years and, with the exception of Myanmar, will likely continue that trajectory. As they grow, they are becoming more consequential both economically and also in the institutions of regional and global power.⁴ As a result, even if Australia increases its influence, it will inevitably be relatively less as other nations become stronger.

Australia must work harder in the region to remain influential. Australia will be required to build trust and reliability as a development cooperation partner with contemporary thinking, and have enhanced diplomatic engagement to remain relevant and take advantage of Southeast Asia's opportunities. Australia must build confidence within the region that it views Southeast Asia as a priority.

A region that has national resilience is key to meeting emerging challenges. Increasing tension from humanitarian crises, authoritarianism, social unrest and ethnic tension may contribute to further regional instability. These are significant

¹ Asian Development Bank, *Asia's Journey to Prosperity*, February 2020

² AP4D Southeast Asian Voices Dialogue, 31 August 2021

³ Satoru Kumagai, "Can Multinationals save ASEAN from the middle-income trap?", *East Asia Forum*, October

2019: <https://www.eastasiaforum.org/2019/10/05/can-multinationals-save-asean-from-the-middle-income-trap/>

⁴ Asian Development Bank, *Asia's Journey to Prosperity*, February 2020

factors affecting nations' resilience to respond to challenges and resist coercion from others. Australia's ongoing engagement across defence, diplomacy and development builds national resilience, ensuring the region can meet complex challenges.

Development cooperation programs remain an important tool for Australia to engage with the region. While some have transitioned away from receiving foreign aid, there are still six Southeast Asian countries that receive significant development assistance. Although aid is shrinking as a percentage of GDP in the middle-income countries like Indonesia, this support continues to have an outsized impact because of its catalytic effects and its ability to influence strategic priorities and projects.

COVID-19 PANDEMIC RECOVERY

COVID-19 has brought on a comprehensive set of intersecting crises that will continue to negatively affect the region and Australia's place in it. Southeast Asia remains vulnerable to the medium and long-term impacts of the pandemic which will continue to exacerbate issues of poverty, climate resilience, and inequality. Pressure on healthcare systems, and basic public health services will continue and pandemic preparedness and response will remain a priority for the region.⁵

Australia, as part of the regional recovery process, has the opportunity to ensure inclusive and long-term sustainable growth. Health, education and economic cooperation underpin growth: education is vital in developing the knowledge and skills that drive economic competitiveness and productivity⁶ while health security remains imperative in overcoming the challenges of pandemics, health emergencies and weak health systems that impact on economic security.⁷ These are priority areas for

Southeast Asian partners where Australia has an established reputation and much value to add.⁸

Australia has demonstrated a renewed focus on Southeast Asia through a new package of economic, development and security measures to support the region's recovery from COVID-19.⁹ Australia's commitment includes a \$523 million regional vaccine initiative in Southeast Asia and the Pacific,¹⁰ including \$300 million to supply COVID-19 vaccines in Southeast Asia. In addition, a new ASEAN Centre for Public Health Emergencies and Emerging Diseases is being established with AU\$21 million from Australia adding to funding from Japan.¹¹

The pandemic has highlighted the need to strengthen regional economies against future economic shocks. The recent \$1.5-billion loan to Indonesia for budgetary support during the pandemic is an example of Australia as a stronger partner for recovery and growth in the Southeast Asian region.¹² This approach can be built on across the region.

⁵ Department of Foreign Affairs and Trade, *Partnership for Recovery: Australia's COVID-19 Development Response*:

<https://www.dfat.gov.au/publications/aid/partnerships-recovery-australias-covid-19-development-response>

⁶ OECD, "The Future of Education and Skills: Education 2030": <https://www.oecd.org>

⁷ World Health Organization, "Health security": <http://www.who.int>

⁸ Department of Foreign Affairs and Trade, *Partnership for Recovery: Australia's COVID-19 Development Response*:

<https://www.dfat.gov.au/publications/aid/partnerships-recovery-australias-covid-19-development-response>

⁹ Melissa Conley Tyler, "Can 2021 still be Australia's year of Southeast Asia?", *The Strategist*, February 2021: <https://www.aspistrategist.org.au/can-2021-still-be-australias-year-of-southeast-asia/>

¹⁰ Department of Foreign Affairs and Trade, "Australian support for COVID-19 vaccine access in the Pacific and Southeast Asia": <http://foreignminister.gov.au>

¹¹ ASEAN Centre for Public Health and Emergencies and Emerging Diseases (ACPHED), <https://jaif.asean.org>

¹² Australian Treasury, "Bilateral Loan to Indonesia": <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/bilateral-loan-indonesia>

“ASEAN members’ growth underpins regional stability, and Australia’s prosperity. Your stability is fundamental to our own. Our health security is inextricable tied to yours. And our enduring partnership supports an open, inclusive and resilient Indo-Pacific region. ASEAN is the centre of the Indo-Pacific. And we back this, both through our words and actions.”

Prime Minister Scott Morrison



“The emergence of COVID-19 has caused significant disruptions to people, to health systems, economies around the world. And what that has ultimately demanded is strong leadership, partnership and collaboration.”

Minister for Foreign Affairs Marise Payne



“Development challenges are what keep Southeast Asian policymakers awake at night.”

“As far as your neighbours are not doing well, your country and your security and your development is also at risk.”

AP4D Southeast Asian Voices Dialogue



“The biggest and most immediate factors in Australia’s Southeast Asia refocus have been the challenges posed by Covid-19 and China. The scale of damage across the region wrought by the pandemic has been profound and has made it impossible to argue that Southeast Asia somehow no longer needs Australia’s support...”

At the same time, the rise of China and its influence in Southeast Asia have made clear that Australia can’t ignore its region in the face of intensifying great-power competition.

If Australia wants to have deep relationships in Southeast Asia, it has to invest.”

Melissa Conley Tyler, “Can 2021 still be Australia’s Year of South East Asia?”, The Strategist, February 2021



“Despite a shrinking aid budget, Australia can still make a valuable contribution if it invests smartly and generously in Southeast Asia’s future and focuses on areas in which it has expertise and experience. The best way to offset the asymmetry is for Australia to bet on digital and tech diplomacy.”

Huong Le Thu, “Australia Should Bet on Digital Engagement with Southeast Asia”, The Strategist, 2021



Aligning Views

SOUTHEAST ASIAN VIEWS

Southeast Asian countries view growth, in all of its facets, as one of the highest priorities of the region.

Southeast Asia requires a new approach to development cooperation, focused on strong partnerships and the transfer of knowledge and skills. The top-down, donor-recipient divide is no longer appropriate or productive. Australia has an opportunity to present itself as a development and diplomatic partner willing to roll-up its sleeves and be pragmatic. Southeast Asia will respond best where Australia is culturally sensitive and welcomes feedback from Southeast Asian partners.

Southeast Asia is open to a stronger relationship with Australia, as shown by the recent ASEAN Summit and agreement to establish a Comprehensive Strategic Partnership between ASEAN and Australia.

AUSTRALIAN VIEWS

Australia should challenge itself to see the diplomatic and defence implications of regional challenges, and the diplomatic and defence responses which can be brought into an integrated series of interventions.

For Australian diplomacy, emphasising shared values can make it difficult to have relationships with some countries in the region, and carries the risk that Australia may be perceived as a donor giving in order to buy influence. Australia should accept that it has relationships with countries that have different value systems and work to build genuine relationships. A stronger focus on problem-solving and partnering will produce stronger relationships built on trust.

OPPORTUNITIES FOR ALIGNMENT


There are opportunities for alignment in health, education and economic cooperation.

In their responses to the immediate and long-term impacts of the COVID-19 pandemic, both Southeast Asia and Australia are prioritising health security. This provides an opportunity for closer engagement, collaboration and investment towards strengthening health outcomes across the region.

Australia as a key education provider is an important player in building influence and strengthening regional linkages. Southeast Asian nations look to Australia as a pivotal education partner for the region, providing an opportunity for Australia not only as an education destination, but as a contributor to skills development across the region.

Australia would benefit from promoting business-to-business connectivity. While being mindful of maintaining a balanced approach between government and the business community, Australia needs to consider how to use public investment through development programming to leverage greater business-to-business and, by extension, people-to-people connectivity between Australia and the region.

Australia and Southeast Asian nations have a shared interest in combating corruption and improving transparency to strengthen institutions and build resilient nations. There is an opportunity for greater development cooperation in this area, and Australia should build on development cooperation programs that address institutional resilience through an anti-corruption prism.



“We are partners with a vital stake in a dynamic region undergoing major changes. We commit to intensify our shared work to shape a secure and prosperous region for our people.”

JOINT STATEMENT, ASEAN-
AUSTRALIA SPECIAL SUMMIT, 2018

Barriers

There are a range of reasons why it has been difficult for Australia to remain focused on Southeast Asia. As a result of its significant growth, the region is challenging in terms of its size, diversity and complexity. There is a cultural divide that means that Australia's broader population often lacks a deep understanding of Southeast Asia to facilitate closer engagement. These factors mean that at times, it is hard to pay close attention to the region.

The divergence of strategic outlooks between Australia and Southeast Asia challenges Australia's ability to be a strong regional partner. The harder Australia acts to balance regional geostrategic security concerns, the more uncomfortable it may be for Southeast Asian nations. Southeast Asian countries want Australia to engage with the region in its own right, not only because of geostrategic concerns.

Changing regional dynamics have seen Australia need to balance a range of security risks — including terrorism and the movement of drugs and people — with an approach that primarily frames regional security risks in terms of geostrategic competition. Australia needs to ensure programs addressing a range of security risks are sustained, even as major power competition becomes the primary driver of Australian security policy.

The current focus on China has made it difficult for other priorities. There has often been a lack of political priority on Southeast Asia. While Australia's economic relationship with Southeast Asia has expanded as a whole, Australia's relationship with China continues to dominate. Australia is missing a significant opportunity to benefit from the rise of the Southeast Asian middle class. A broader and deeper economic relationship could be achieved through setting ambitious but achievable goals: for example, doubling the proportion of total goods and services exported to ASEAN countries to ensure

Australia is less vulnerable to regional economic shocks.

Emerging security issues including cyber warfare, misinformation and an increasing digital divide have a direct impact on Australia's critical infrastructure and digital economy and require an increasingly coordinated response. Australia has an important role to play in supporting cyber infrastructure and development. It recently announced \$104 million for a security package to extend defence cooperation, including military health collaboration, cyber resilience and defence attaché postings across ASEAN countries.¹³

New approaches based on strong partnerships are required to ensure development cooperation continues to be valuable. An approach is needed that focuses on technology transfer in areas such as transport, power, water, civil construction and social infrastructure in the form of training semi-skilled and highly-skilled professionals. An example already in action in the health sector is the Australian Therapeutic Goods Administration, which provides advice and support to countries in the region on regulations and quality control in relation to vaccines, diagnostics and therapeutics as they grapple with the pandemic. A future initiative could be to collaborate with countries in the region to explore the possibility of a regional regulatory authority, drawing on the experience of the EU European Medicines Agency (EMA).

Climate change is a crisis that threatens sustainable growth and stability across the region. Australia can provide leadership based on experience, expertise and funding to address the impact of global warming. Australia is already working with regional partners on transitioning to clean energy, recently establishing the Indonesian-Australia Cooperation on the Green Economy. This is an example of what can be achieved when Australia partners with the region for sustainable growth.

¹³ Minister for Defence, "Australia and ASEAN-tenth anniversary a milestone for regional security cooperation", Media Release, 10 December 2020:

<https://www.minister.defence.gov.au/minister/lreynolds/media-releases/australia-and-asean-tenth-anniversary-milestone-regional-security>

The Vision in Practice

What does it look like for Australia to be a partner for Southeast Asian recovery and growth?

Australia is an active and engaged partner, deeply integrated with a growing and dynamic part of the world. Australia recognises the necessity of applying all arms of statecraft in engaging with the region, ensuring sufficient investment across defence, diplomacy and development.

Australia's economic diplomacy will promote openness to ideas, technology and the free flow of knowledge and services to support resilience and equitable growth. Australian development cooperation will work in partnership with Southeast Asia to create growth and human capital through building sophisticated social protection, health and education systems, good governance and hard infrastructure. Australia's expertise will make a valuable impact building systems in areas that support equitable and sustainable growth.

Australia will use its positions as an education provider to strengthen linkages to enable policy and knowledge exchange in priority areas including health, education and technology. Linkages will be strengthened by promoting opportunities for networking, professional development and alumni support.

Australian agencies will cooperate on non-traditional security threats and Australia will continue to engage actively to promote a secure, stable and prosperous region. Australia will adopt a balanced approach to risks, focusing both on non-traditional security including terrorism and transnational crime as well as emerging geostrategic challenges. Australia will support inclusive and sustainable development to avoid a region riven by inequality, which produces instability counter to Australia's national interest.

Australia's approach to the region will synchronise with regional initiatives and emphasise interventions that align with other actors in the region. Australia can capitalise on its development cooperation by focusing on key interventions in support of regional policy and initiatives, becoming a strong multilateral partner.

CASE STUDY: The Indo-Pacific Centre for Health Security

An example of supporting collaboration and institution-building in practice is the Indo-Pacific Centre for Health Security.

The Centre is the implementation body for the Australian Government's \$300 million Health Security Initiative, launched in 2017, and the \$623 million Vaccine Access and Health Security Initiative, announced last year in response to the COVID-19 pandemic. The Centre is located in the Department of Foreign Affairs and Trade, and brings together relevant Australian Government Agencies, advised by a distinguished Technical Reference Group. The Centre's mix of DFAT staff,

secondees from six Departments and specialist contractors provides in-house expertise in areas including the veterinary sciences, regulation, immunology, microbiology, epidemiology and anthropology.

The Centre for Health Security is uniquely placed to leverage the projects, partnerships and goodwill Australia has built to address the urgent need to mitigate growing health security threats to our country and our region. The Centre brings together global investments, collaboration with regional organisations (including ASEAN) and bilateral health cooperation to deliver both strategic direction and practical, timely assistance for regional government partners in the Indo-Pacific region.

This is an example of what can be built in other areas.

With a well-resourced diplomatic arm, Australia will establish stronger diplomatic engagement with ASEAN and individual countries through further comprehensive partnerships, adding to the Comprehensive Strategic Partnership between Australia and ASEAN and ASEAN members Singapore, Indonesia and Malaysia. The relative growth of most Southeast Asia countries affects Australia's role however, Australia still has an important contribution to make. By linking diplomacy and development cooperation together to build strong and effective relations, Australia will be the nation Southeast Asia looks to on priority development issues, moving from a prism of development cooperation to a genuine partnership of equals.

Australia's private sector will actively engage with opportunities in the region, supported by both government and business associations. An increasing number of Australian companies will have Southeast Asian strategies. There is an opportunity for development cooperation programs to support this.

Australia will create a deeper and more sophisticated relationship not only built on economic cooperation, but on stronger relationships through understanding the language and business culture, including people-to-people and institution-to-institution connectivity.

Research institutions across the region will be supported to put in place strategies to build deeper research and development partnerships that build enduring relationships, respect and trust. Institutions will build awareness and resilience to foreign interference.

Australia will invest in building better relationships with the people of Southeast Asia and support more resilient civil societies. This can be pursued creatively without stepping on the toes of local governments, including by supporting Australian civil society to boost its engagement with the region and by promoting more dialogue around shared social issues such as race, religious and gender-based discrimination.

CASE STUDY: IA-CEPA ECP Katalis

Katalis is a government-backed business development program designed to maximise benefits from the Indonesia-Australia Comprehensive Economic Cooperation Agreement (IA-CEPA). It is a business-first program aiming to build commercial partnerships between businesses in Australia and Indonesia. Mutual business interest is key to the delivery model.

The Katalis business engagement approach rests on four key elements for success:

- *Sectors with most mutual benefit:* Katalis works in sectors with the most potential for mutual economic benefit over the long term: agri-food, advanced manufacturing and selected services such as education, health, digital and professional services. Also included are other sectors or parts of value chains that offer substantial growth and development potential in the next 5-20 years.
- *High-profile business activities:* Katalis supports a step-up in mutually beneficial trade and investment, with activities that have a positive demonstration effect for the business community. It showcases these activities with impactful public communications to promote success, leverage more interest and crowd-in more business partnerships.
- *Large businesses with flow-on benefits to SMEs:* Katalis emphasises building relationships with large businesses in targeted sectors as the entry point to connect and engage with firms of all types and sizes involved in their value chain.
- *Ensure all activities catalyse trade and investment that is mutually beneficial, commercially meaningful and inclusive.* This entails a strong emphasis on working with businesses willing and able to co-invest, in cash or in kind, in activities to further develop the Indonesia-Australia economic relationship.

This approach would be worth exploring at the regional level.

“Our efforts will focus sharply on where we can make the most difference. Our response will focus on three core action areas, which reflect our shared interests with partner governments: Health security. Stability. Economic recovery.”

Partnerships for Recovery: Australia’s COVID-19 Development Response, 29 May 2020.



“What ASEAN as a region requires is help from all the major powers. Surviving and recovering from the ravages of the Covid-19 pandemic will be the focus for Southeast Asia for the foreseeable future.”

Nurliana Kamaruddin, “US-China Rivalries: What matters for ASEAN,” The Interpreter, July 2021.



Pathways

Immediate

Focus Australia's development cooperation on priority areas that promote sustainable growth and development. Australia will specialise in areas where it can add value and have a comparative advantage. Priority areas of development that underpin sustainable growth and development will be health, education and economic cooperation.

Australia should build on existing initiatives that exemplify strong collaborative partnerships and transfer technology and know-how. The Indo-Pacific Centre for Health Security is an example already in place.

Australia should look to expand its technical assistance to Southeast Asia along the lines of the Prospera program in Indonesia, which sends experienced Australian public servants to Indonesian government departments. Great powers such as China and the US are too big and threatening to develop these kinds of relationships, which can only be sustained through a high degree of mutual trust. This approach capitalises on Australia's knowledge base to help partners meet their own diverse challenges, as well as building a wider regional network of officials and advisers who can better tackle shared future problems.

Australia will coordinate each arm of statecraft to maximise impact by emphasising that all agencies have a role to play. In practice, this means defence cooperation that supports stability, resilience and sovereignty in the region will significantly contribute to economic growth and development. It is important for Australia to advocate for defence to have a place at the table when it comes to recovery and growth in the region.

Australia will continue close collaboration across enforcement agencies to combat security risks. Australia recently announced \$65 million for regional maritime states for enhanced training, technical advice and cooperation that will significantly contribute to strengthening relationships across the region.¹⁴ Australia should continue to move beyond capacity-building and focus on enhanced partnering with Southeast Asian states to improve the quality and complexity of engagement.

Medium-term

Work with Southeast Asian states to strengthen cooperation on emerging challenges that will have a direct impact on Australia's critical infrastructure and digital economy. Digital development is one area that will benefit from closer collaboration.

Provide support to research institutions to build and strengthen partnerships in research and development across the region. Digital health is one example of a practical way of building deeper collaboration between Australia and the region in this area, bringing together infrastructure, research and technical cooperation. There are opportunities for collaboration on drug repurposing, where artificial intelligence shortlists drugs that can be used to intervene in earlier stages of disease. Likewise, applications of artificial intelligence to triage patients in isolation to determine if they require hospital care is another collaboration opportunity.

¹⁴ Prime Minister of Australia, "Investing in the Southeast Asian Partnerships", Media Release, 14 Nov 2020: <https://www.pm.gov.au/media/investing-our-southeast-asian-partnerships>

Ensure scholarship and Australia Awards short courses are aligned with regional development priorities. For example, the field of infectious disease research can boost infectious disease intelligence cooperation and support pandemic preparedness. These areas of cooperation also build stronger partnerships across research institutions and develop effective nodes of cooperation and networking.

Build on Australia's position as Southeast Asia's pivotal education provider and expand services offshore to increase access to technical and vocational education and training. Australia will be a strong partner for skills development and knowledge transfer and develop and implement systems to increase access to education in the region at an affordable scale.

Australian economic diplomacy should promote openness to global trade, investment, technology and the free flow of ideas. This should integrate diplomatic efforts with development cooperation to create sophisticated, modern and respectful partnerships that are genuinely collaborative. This framework will provide the basis for working together on significant projects.

Expand on initiatives that strengthen economic cooperation and improve development outcomes. The Indonesia-Australia Comprehensive Economic Cooperation Agreement (IA-CEPA) is an example already in place. While commercial engagement has proved elusive in the past, it remains an area of significant potential.

CONTRIBUTIONS

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