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The Parliament of the Commonwealth of Australia

# Australia's relationship with Malaysia

Joint Standing Committee on Foreign Affairs, Defence and Trade  
Foreign Affairs Sub-Committee

March 2007  
Canberra

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## Foreword

It is fitting that this report into Australia's relationship with Malaysia is tabled in the year which marks 50 years since Malaysia achieved independence. The relationship, however, is older dating from at least the 19<sup>th</sup>-century when Malays participated in the pearling industry in Australia's northern waters.

Australians fought alongside Malaysians in the 1941-42 Malayan Campaign in World War II, and assisted the newly independent Malaysia in the 1960s during confrontation with Indonesia.

The current links between Australia and Malaysia are multifaceted and occur at many levels – from formal government and Parliamentary relations, through the interactions between organisations, to the informal interactions between individuals.

Australia-Malaysia relations received a significant boost when in April 2005 the Malaysian Prime Minister, Dato' Seri Abdullah Badawi visited Australia. Reciprocal visits by Australian and Malaysian Government Ministers are frequent and inter-government cooperation and consultation exist at many levels.

An important step in the development of the relationship was the creation in 2005 of the Australia-Malaysia Institute. Its aim includes increasing knowledge and promoting understanding between the people and institutions of Australia and Malaysia, and enhancing people-to-people links.

At the private sector level there is the Australia-Malaysia Business Council (AMBC) which was established in 1998. Besides promoting trade, investment, economic co-operation and tourism between the two countries, the AMBC aims to foster friendship and cultural understanding.

Australia's defence relationship with Malaysia is underpinned by the Five Power Defence Agreement which also includes New Zealand, Singapore and the United

Kingdom. The Australian Defence Force also has a continuing presence at Malaysia's Butterworth airbase.

The bilateral defence relationship is overwhelmingly positive and provides substantial benefits for Australia. Malaysia's strong military professionalism and capacity ensures it is able to respond effectively to military and humanitarian tasks and cooperate with the ADF to address security challenges.

Australia and Malaysia enjoy a significant trading relationship with total two-way trade amounting to \$11.35 billion in 2005–06. Malaysia has become Australia's second-largest trading partner in ASEAN and ninth largest trading partner over all.

Trade between Australia and Malaysia is complementary – Australia exports to Malaysia, natural resources, dairy products and sugar, whereas Australia imports from Malaysia crude petroleum, furniture, and electronic products. Malaysia, however, enjoys a significant balance of trade in its favour especially in the merchandise sector.

A growing niche market for Australian primary producers is Halal-certified products. The Committee has made two recommendations aimed at facilitating the process of Halal certification and export of Halal produce to Muslim countries.

The Committee has identified and discussed several challenges facing trade and investment with Malaysia. These include: competition for the investment dollar from China; intellectual property protection and the counterfeiting of goods; Malaysia's foreign equity rules; and the accreditation of educational courses and qualifications.

The Committee is aware that these issues form part of the current free trade agreement negotiations between the two countries. From the evidence provided, the Committee believes that both Australia and Malaysia are approaching these negotiations in good faith with real progress being achieved.

Census figures show that the Malaysian community is the 12<sup>th</sup> largest national group in Australia with Malaysian born people living mainly in Victoria, New South Wales, Western Australia, and Queensland. The Committee received evidence that Malaysian born people are one of the best groups in Australia for integrating into the community.

Malaysia is the seventh most important source country for visitors to Australia. A recent innovation for these visitors has been the introduction of an Electronic Travel Authority which can be obtained over the Internet. Of concern to the Committee, however, is an increase in the numbers of Malaysian passport holders



being denied entry, and the proportion of Malaysian visitors breaching their visa conditions.

The Committee has recommended that the Department of Immigration and Citizenship review the reasons for these increases and provide strategies to the Minister for addressing the problem.

Australia and Malaysia share a strong history of educational links, dating back to the 1950s and the Colombo Plan. Australia is the largest overseas provider of education services to Malaysia and Malaysia rates as Australia's fifth largest source for offshore student enrolments in 2005.

Education is clearly both a vital platform for the broader bilateral relationship and economically beneficial for Australia. It is estimated that there are some 250 000 Malaysians who are alumni of Australian educational institutes, who have helped develop strong ties between Australia and Malaysia across society, business and politics.

It is important that universities, business and government continue to encourage Australian students to study in Malaysia, and provide financial or professional support in doing so. Malaysia is a strategically important country for Australia and it is important that interest in and understanding of Malaysian cultures and religions be fostered amongst Australians.

Like other aspects of Australia's relationship with Malaysia, research and development collaboration has changed over the years. Initially it was developed towards building capacity in a newly independent nation, but now it is directed towards solving issues of mutual interest. There is potential for Australia to increase its contribution to Malaysian research and development efforts because Malaysia intends to increase research and development spending as a proportion of gross domestic product from the current 0.69 per cent to 1.5 per cent in 2010.

A theme pervading this report is that Australia's relationship with Malaysia is changing – from one of support in the early years, to the present collaboration of important trading nations. The relationship will continue to mature and change. Doubtless there will be challenges, but the Committee is confident the goodwill exists to overcome them.

Hon. David Jull, MP  
Chair, Foreign Affairs Sub-Committee





## Membership of the Committee

Chair Senator A B Ferguson

Deputy Chair Hon. G J Edwards, MP

Members Senator the Hon N Bolkus -  
from 01/12/04 to 30/06/05

Senator A Bartlett - from 9/12/05

Senator G Campbell -  
from 23/06/05 to 28/11/05

Senator P M Crossin -  
from 01/12/04 to 06/12/04  
and then from 28/11/05

Senator the Hon P Cook -  
from 06/12/04 to 30/06/05

Senator A Eggleston

Senator B Harradine -  
from 01/12/04 to 30/06/05

Senator S Hutchins

Senator D Johnston

Senator L J Kirk

Hon B G Baird, MP

Mr R C Baldwin, MP -  
from 01/12/04 to 26/05/05

Mr P A Barresi, MP

Hon K C Beazley, MP -  
from 01/12/04 to 08/02/05

Mr M Danby, MP

Mrs P Draper, MP

Mrs J Gash, MP

Mr S W Gibbons, MP

Mr B W Haase, MP

Mr M J Hatton, MP - from 08/02/05

Senator K Lundy - from 01/12/04 to 23/06/05	Hon D F Jull, MP
Senator the Hon. J A L Macdonald - from 01/12/04 to 23/06/05 and then from 08/02/07	Hon J E Moylan, MP
Senator C M Moore - from 23/06/05	Hon G D Prosser, MP
Senator M A Payne	Hon B C Scott, MP
Senator N Scullion - from 17/08/05 to 8/02/07	Mr R C G Sercombe, MP
Senator N J Stott Despoja	Hon W E Snowdon, MP
Senator R S Webber - from 23/06/05	Dr A J Southcott, MP - from 9/02/06
	Mr C P Thompson, MP - from 26/05/05
	Mr M B Turnbull, MP - from 01/12/04 to 09/02/06
	Ms M Vamvakinou, MP
	Mr B H Wakelin, MP
	Mr K W Wilkie, MP



## Membership of the Sub-Committee

Chair            Hon D F Jull, MP

Deputy Chair   Senator L Kirk

Members	Senator A Bartlett ( <i>from 8/2/06</i> )	Mr P A Barresi, MP
	Senator A Eggleston	Mr M Danby, MP
	Senator A B Ferguson ( <i>ex officio</i> )	Mrs T Draper, MP
	Senator S Hutchins	Hon G J Edwards, MP ( <i>ex officio</i> )
	Senator D Johnston	Mrs J Gash, MP
	Senator C M Moore ( <i>from 23/06/05</i> )	Mr M J Hatton MP ( <i>from 8/02/2005</i> )
	Senator M Payne ( <i>from 2/12/05</i> )	Mr R C G Sercombe, MP
	Senator N J Stott Despoja	Hon W E Snowdon, MP
	Senator R S Webber ( <i>from 17/08/05</i> )	Dr A J Southcott, MP ( <i>from 23/02/2006</i> )
		Mr C P Thompson, MP ( <i>from 26/05/2005</i> )
		Mr M Turnbull, MP ( <i>until 9/02/2006</i> )
		Ms M Vamvakinou, MP
		Mr B Wakelin, MP
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## Terms of reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall inquire into and report on Australia's relationship with Malaysia, with special emphasis on:

- bilateral relations at the parliamentary and government levels;
- economic issues, including trade and investment;
- cultural and scientific relations and exchanges; and
- defence cooperation and regional security.

The Committee will consider both the current situation and opportunities for the future.



## List of abbreviations

ADF	Australian Defence Force
ADIESA	Australian Defence Information and Electronic Systems Association
AEEMA	Australian Electrical and Electronic Manufacturers' Association
ALO	Airline Liaison Officers
AMBC	Australia-Malaysia Business Council
AMI	Australia-Malaysia Institute
AMIC	Australian Meat Industry Council
ANSTO	Australian Nuclear Science and Technology Organisation
AQIS	Australian Quarantine and Inspection Service
ARC	Australian Research Council
ASEAN	Association of South East Asian Nations
AVCC	Australian Vice-Chancellors' Committee
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAFF	Department of Agriculture, Fisheries and Forestry



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DCITA	Department of Communications, IT and the Arts
DEST	Department of Education, Science and Training
DFAT	Department of Foreign Affairs and Trade
DIMA	Department of Immigration and Multicultural Affairs
DITR	Department of Industry, Tourism and Resources
ETA	Electronic Travel Authority
EU	European Union
FDI	foreign direct investment
FMD	foot and mouth disease
FPDA	Five Power Defence Arrangements
FTA	free trade agreement
GRA	Global Research Alliance
ICT	information and communications technology
ITAR	international traffic in arms regulations
JPA	Malaysian Public Service Department
JSCFADT	Joint Standing Committee on Foreign Affairs, Defence and Trade
MAACWG	The Malaysia–Australia Agricultural Cooperation Working Group
MABC	Malaysia–Australia Business Council
MAF	Malaysian Armed Forces
MAJDP	Malaysia–Australia Joint Defence Programme
MEAA	Media, Entertainment and Arts Alliance
MoU	Memorandum of Understanding
NCGP	National Competitive Grants Program

NHMRC	National Health and Medical Research Council
R&D	research and development
RAAF	Royal Australian Air Force
RMAF	Royal Malaysian Air Force
RMN	Royal Malaysian Navy
SIRIM Berhad	Standards and Industrial Research Institute of Malaysia
SPS	Sanitary and Phytosanitary



## List of recommendations

### 4 The trading and investment relationship

#### Recommendation 1

The Department of Agriculture, Fisheries and Forestry promote in international fora the adoption of a transparent and efficient international Halal standard.

#### Recommendation 2

The Department of Agriculture, Fisheries and Forestry, in consultation with interested parties, provide options to the Minister for developing a single Halal certifying body within Australia. The operations of the certifying body should conform to the principles of transparency and accountability.

### 5 Migration and people movement

#### Recommendation 3

The Department of Immigration and Citizenship review:

- the reasons for the increase in Malaysian overstayers; and
- the reasons for the increase in the number of Malaysian passport holders being refused entry to Australia.

The Department should report to the Minister, providing strategies, with associated performance targets, for addressing the problem.



## Introduction

### **Background to the inquiry**

- 1.1 The Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) regularly reviews Australia's relationships. In recent times it has focused on Australia's near neighbours such as Papua New Guinea, Indonesia, and New Zealand. This is the first review undertaken by the Committee of Australia's relationship with Malaysia. For this reason the scope of the inquiry has been broadened to include areas such as intergovernmental relations, defence cooperation, and links between education and research institutions.

### **Importance of the Australia–Malaysia relationship**

- 1.2 Australia has a significant trading relationship with Malaysia. Malaysia is Australia's third largest trading partner in ASEAN and eleventh largest trading partner overall. Australia is Malaysia's eighth largest export market and twelfth largest import source. Trade between the two countries is complementary – Australian exports to Malaysia include raw materials, primary produce, and educational

services, while imports from Malaysia include crude petroleum, electronic equipment, and furniture.

- 1.3 Figures for 2005–06 show that Australia’s merchandise exports to Malaysia amounted to some \$2.5 billion, while imports from that country amounted to \$6.7 billion. Imports included over \$1.5 billion worth of computers, telecommunications equipment and integrated circuits.
- 1.4 Trade in services shows a slight balance in favour of Australia. Exports to Malaysia amounted to \$1.2 billion, principally education related travel and personal travel, while imports amounted to \$0.8 billion, principally transportation and personal travel.<sup>1</sup>
- 1.5 Australia has strong defence links with Malaysia through the Malaysia-Australia Joint Defence Programme, and the Five Power Defence Arrangements which involve the UK, New Zealand, Singapore, and Malaysia. The relationship includes the training of Malaysian military personnel in Australia, combined exercises, and an Australian presence at RMAF Butterworth in Malaysia. Australia and Malaysia also signed an agreement in 2002 to cooperate in combating international terrorism.<sup>2</sup>

## **A brief history of Australia's relationship with Malaysia**

- 1.6 Australia and Malaysia have had a long-standing relationship from at least the 19<sup>th</sup>-century when Malays participated in the pearling industry in Australia’s northern waters. Australians fought alongside Malaysians in the 1941–42 Malayan Campaign in World War II, and again in the 1950s when Australians contributed to the Commonwealth force which defeated the Malayan Communist insurgency. Australian troops also assisted during the period of confrontation with Indonesia in the 1960s.
- 1.7 Australia was also involved during the time of Malayan independence from Great Britain in 1957. A former Governor-General of Australia, Sir William McKell, helped draft the Malaysian Constitution and Australia also sponsored Malaysia subsequently

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1 DFAT, *Country Fact Sheet Malaysia*, <<http://www.dfat.gov.au/geo/fs/mlay.pdf>>, accessed January 2007.

2 DFAT, *Submission No. 11, Vol. 1*, p. 77.

joining the United Nations. Malaysian troops have also served alongside Australian Defence Force personnel in East Timor.<sup>3</sup>

- 1.8 Since that time, Australia and Malaysia have enjoyed an enduring and developing trading relationship, albeit sometimes enlivened by an occasional political difference.

## Conduct of the inquiry

- 1.9 On 31 May 2006, the Minister for Foreign Affairs, the Hon. Alexander Downer MP referred to the Committee, an inquiry into Australia's relationship with Malaysia. The Minister noted that the inquiry was timely and relevant for Australia's trading interests. He added that the inquiry would generate public interest in a region where Australia had an expanding market and commercial presence, and would also help to identify future market priorities and opportunities for Australian exporters and investors.
- 1.10 The Committee advertised the inquiry in *The Australian* on 28 June 2006. Letters inviting submissions were sent to relevant Ministers, Commonwealth agencies, State Premiers and a wide range of organisations with an expected interest in Australia's engagement with Malaysia. A press release was widely distributed.
- 1.11 The Committee received 36 submissions (listed at Appendix A), 7 exhibits (listed at Appendix B) and took evidence from 47 individuals and organisations during public hearings in Canberra, and Sydney (listed at Appendix C).

## Structure of the report

- 1.12 Chapter 2 discusses country-to-country links, from high level government-to-government interactions to those between local government and individuals.
- 1.13 Australia's defence relationship with Malaysia is covered in Chapter 3. Key to the relationship is the Five Power Defence Arrangement and Australia's presence at RMAF Butterworth.

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3 DFAT, *Submission No. 11, Vol. 1*, p. 75.

- 1.14 Chapter 4 includes a discussion of Australia's trading and investment relationship with Malaysia. Australia has a trading balance surplus in primary produce, but a deficit in manufactured goods. The chapter concludes with a discussion of the proposed free-trade agreement with Malaysia.
- 1.15 Immigration and people movement is discussed in Chapter 5. The chapter includes consideration of tourism issues and border security.
- 1.16 Chapter 6 concerns the provision of education services and linkages between education institutions of the two countries. The education sector is a vital platform for the bilateral relationship as many leaders in Malaysia are Australian alumni.
- 1.17 The report concludes in Chapter 7 with a discussion of research and development collaboration between Australia's premier research institutions and their counterparts in Malaysia. The collaboration has changed over the years as the Malaysian economy has matured and is now directed at solving practical problems of mutual benefit.



## Country-to-country links

### Introduction

- 2.1 The links between Australia and Malaysia are multifaceted and occur at many levels – from formal government and Parliamentary relations, through the interactions between organisations, to the informal interactions between individuals. This chapter discusses examples of those interactions which were presented to the Committee. While these examples are not definitive, they do provide a snapshot of the Australia–Malaysia relationship and some of the indicative trends in that relationship.

### Government-to-government interactions

#### Ministerial visits

- 2.2 Australia–Malaysia relations received a significant boost when in April 2005 the Malaysian Prime Minister, Dato' Seri Abdullah Badawi, accompanied by a large ministerial delegation, visited Australia. It was the first time in 21 years that a Malaysian Prime Minister had visited Australia and it led to a decision to proceed with negotiations to develop a free trade agreement (FTA).<sup>1</sup>

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1 DFAT, *Submission No. 11*, p. 76.

- 2.3 Other Malaysian ministers who undertook formal visits to Australia during 2005 and 2006 were:
- Minister of Human Resources, Datuk Dr Fong Chan Onn;
  - Minister of Higher Education, Datuk Dr Shafie Salleh;
  - Minister of Environment and Natural Resources, Dato' Adenan Satem;
  - Minister of Transport, Dato' Seri Chan Kong Choy;
  - Minister of Foreign Affairs, Datuk Seri Syed Hamid Albar; and
  - Minister of Agriculture and Agro-based Industries, Tan Sri Muhyiddin Yassin.
- 2.4 In addition, the Minister of International Trade and Industry, Dato' Seri Rafidah Aziz visited in August 2006 to attend the Australia-Malaysia Joint Trade Committee and to conduct a series of Malaysia trade promotion seminars.
- 2.5 Australian ministers who visited Malaysia in 2005 included:
- Attorney-General, Hon. Philip Ruddock MP;
  - Minister for Veterans' Affairs, Hon. De-Anne Kelly MP;
  - Minister for Education, Science and Training, Hon. Dr Brendan Nelson MP; and
  - Minister for Agriculture, Fisheries and Forestry, Hon. Warren Truss MP.<sup>2</sup>
- 2.6 An outcome of the bilateral visits of agriculture ministers during 2005 was the signing in March 2006 in Canberra of a Memorandum of Understanding (MoU) for the Enhancement of Agricultural Cooperation. This was followed by a further visit to Malaysia in August 2006 by the Minister for Agriculture, Fisheries and Forestry, the Hon. Peter McGauran MP.<sup>3</sup>
- 2.7 As well, the Prime Minister, Hon. John Howard MP and the Foreign Minister, Hon. Alexander Downer MP visited Malaysia in December 2005 to attend the East Asia Summit and East Asia Summit Foreign Ministers' meeting respectively.<sup>4</sup>

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2 DFAT, *Submission No. 11*, p. 76.

3 DAFF, *Submission No. 23*, p. 202.

4 DFAT, *Submission No. 11*, p. 76.

- 2.8 The increased emphasis on trade with Malaysia has been reflected by increasing interactions between Australian State and Territory governments with Malaysian State governments.
- 2.9 The Northern Territory Government advised the Committee that its Chief Minister, Hon. Claire Martin MLA, had led a delegation to the Malaysian State of Sabah. A MoU with Sabah facilitated the placement of Malaysians in Northern Territory training and development programmes. The aim of the MoU was to sustain Northern Territory livestock exports to the region, 'through the provision of expert advice and training in tropical beef production.'<sup>5</sup>
- 2.10 There is also a MoU between the governments of Malaysia and Western Australia on livestock development cooperation which was signed in December 2005. This aimed 'to encourage and promote trade and bilateral cooperation in the field of livestock development on the basis of equality and mutual benefit.'<sup>6</sup>
- 2.11 The South Australian Government too is actively engaging with Malaysia. A submission detailed the visit of a South Australian Trade mission to Malaysia in April 2006, during which the South Australian Minister for Industry and Trade met with his counterpart, Malaysia's Minister for International Trade and Industry. The visit was reciprocated when the Malaysian minister visited South Australia in August 2006.<sup>7</sup>
- 2.12 Advice from the South Australian branch of the Australia-Malaysia Business Council (AMBC) indicated that trade missions to Malaysia were estimated to have brought export sales and inbound investment returns in excess of \$25 million.<sup>8</sup>

## Parliamentary delegations

- 2.13 There have been six Parliamentary exchanges between Australia and Malaysia since 2001:
- July 2002 – visit by the Australian Parliament Speaker to China, Malaysia and Singapore;

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5 Northern Territory Government, *Submission No. 20*, pp. 176-7.

6 DAFF, *Exhibit No. 6, Memorandum of Understanding between the Government of Malaysia and the Government of Western Australia on Livestock Development Co-operation*.

7 South Australian Government, *Submission No. 24*, p. 220.

8 AMBC (SA) Inc, *Submission No. 4*, p. 18.

- September 2002 – visit to Australia by the Public Accounts Committee of the State Parliament of Perak, Malaysia;
- January 2003 – Australian Parliamentary Delegation visit to the 11th Asia Pacific Parliamentary Forum in Malaysia;
- March 2005 – visit to Australia by the Special Select Committee of the Parliament of Malaysia;
- April 2006 – Australian Parliamentary Delegation visit to Malaysia and Japan; and
- June 2006 – Malaysian Parliamentary Delegation visit to Australia.<sup>9</sup>

## Ministerial forums, officials working groups and MoUs

2.14 A key ministerial forum is the Australia–Malaysia Joint Trade Committee. The Department of Foreign Affairs and Trade (DFAT) noted that this committee was the longest running bilateral trade dialogue mechanism which Malaysia had with any country. The committee meets annually, alternately in Malaysia and Australia, and is co-chaired by the Australian Minister for Trade and the Malaysian Minister of International Trade and Industry. The 13th meeting was held in Adelaide in August 2006 during which the Ministers confirmed the commitment to develop a bilateral FTA agreement, and examined potential new areas of cooperation such as groundwater management.<sup>10</sup>

2.15 Reflecting Australia’s strong agricultural trading interest with Malaysia, a working group of agriculture portfolio officials was established in December 2000. The Malaysia–Australia Agricultural Cooperation Working Group (MAACWG):

... oversees and facilitates regular and comprehensive consultation and cooperation of agriculture, fisheries, agri-food, Sanitary and Phytosanitary (SPS) and operational quarantine matters.<sup>11</sup>

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9 House of Representatives Parliamentary Relations Office, *Exhibit No. 5, Table of Outgoing Delegations to Malaysia, and Incoming Delegations from Malaysia*.

10 DFAT, *Submission No. 11*, pp. 79–80.

11 DAFF, *Submission No. 23*, p. 203.

- 2.16 MAACWG meets annually and has created sub-working groups on livestock, crops and fisheries. While forestry issues lay outside the portfolio responsibility of the Malaysian agriculture department, the Commonwealth Department of Agriculture, Fisheries and Forestry (DAFF) advised the Committee that Malaysia had agreed in-principle to discuss forestry issues and cooperation at MAACWG meetings.<sup>12</sup>
- 2.17 Australian and Malaysian officials also engage in annual technical discussions concerning plant quarantine and market access issues. Senior officials from Biosecurity Australia and the Crop Protection and Plant Quarantine Division of the Malaysian Department of Agriculture were involved.<sup>13</sup>
- 2.18 Besides the two MoUs noted above – for the Enhancement of Agricultural Cooperation; and between the Northern Territory Government and the Malaysian State of Sabah – the Committee was advised of three other government level MoUs between Australia and Malaysia:
- *MoU on Cooperation in the Field of Education.* This underpins and formalises Australia’s education relationship with Malaysia. While the MoU expired in January 2006, the Department of Education, Science and Training (DEST) advised the Committee that it was negotiating to renew the MoU with the Malaysian Ministries of Education and Higher Education.<sup>14</sup>
  - *MoU on Scientific and Technological Cooperation.* The MoU was signed in 1985 but the last government-to-government meeting was held in 1999. DEST told the Committee that government intervention was considered unnecessary because of ongoing interaction between universities, the CSIRO and through the Australian Centre for International Agricultural Research. Meetings under the MoU were seen as only being valuable ‘in removing an impediment to collaboration or enhancing the collaboration in some way.’<sup>15</sup>
  - A ‘Statement of Intent’ to conclude a MoU on cooperation in information and communications technology (ICT) was signed in April 2005 by the Commonwealth Minister for Communications, Information Technology and the Arts and the Malaysian Minister

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12 DAFF, *Submission No. 23*, p. 203.

13 DAFF, *Submission No. 23*, p. 203.

14 DEST, *Submission No. 14*, p. 107.

15 Ms Sara Cowan, *Transcript 4 December 2006*, p. 23.

of Science, Technology and Innovation. The object of the MoU was to complement FTA negotiations by 'advancing the growth of investment, joint ventures, joint initiatives in research and technology development in the ICT sector.'<sup>16</sup>

## Australia–Malaysia Institute

2.19 The visit of the Malaysian Prime Minister in April 2005 saw the announcement of the establishment of the Australia–Malaysia Institute (AMI). The AMI comprises an Executive Committee of eight prominent Australians plus an ex-officio senior DFAT officer. Its chairman is Mr Michael Abbott QC, and it is supported by a small secretariat within DFAT.<sup>17</sup>

2.20 The key objectives of the AMI are to:

- Increase knowledge and promote understanding between the people and institutions of Australia and Malaysia
- Further enhance people-to-people links
- Support Australia's broader diplomatic objectives in Malaysia.<sup>18</sup>

2.21 The AMI's starting annual budget was \$300 000 in 2005–06 rising to \$400 000 in 2006–07. There are six programmes:

- Young Leaders Exchange Programme;
- Media Programme;
- Muslim Exchange Programme;
- Education and Science Programme;
- Cultural Understanding Programme; and
- Public Relations Programme.<sup>19</sup>

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16 DCITA, *Submission No. 7*, p. 52.

17 DFAT, *Submission No. 11*, p. 81.; Mr Paul Grigson, *Transcript 9 October 2006*, p. 7.

18 DFAT, <[http://www.dfat.gov.au/ami/about\\_ami.html](http://www.dfat.gov.au/ami/about_ami.html)>, accessed January 2007.

19 DFAT, <[http://www.dfat.gov.au/ami/programs\\_ami.html](http://www.dfat.gov.au/ami/programs_ami.html)>, accessed January 2007.

- 2.22 In 2005–06 the AMI:
- organised three visits of members of the Malaysian media to Australia – a tour of the CSIRO laboratories in Sydney and Canberra resulted in positive publicity in Malaysia;<sup>20</sup>
  - co-sponsored, with the Asia-Pacific Journalism Centre, the visit of eight Australian journalists to Malaysia;
  - created a series of scholarships related to bilateral relations;
  - co-sponsored an Australia–Malaysia Forum, organised by Monash University and the Asian Strategy and Leadership Institute (Malaysia); and
  - sponsored Malaysia-related aspects of the *Crescent Moon Exhibition of Islamic Art and Civilisation of South-East Asia*, held in Adelaide and Canberra from November 2005 to May 2006.<sup>21</sup>

## Private sector interactions

- 2.23 As with many international trading markets, private-sector businesses with an interest in exporting have established business councils to facilitate international trade and assist their members. The Malaysian market is no exception.

## Australia–Malaysia Business Council

- 2.24 The AMBC was established in 1988 and in 2006 comprises 136 organisations. Of these, 15 are large enterprises with more than 200 employees and/or an annual turnover in excess of \$10 million. The Malaysian counterpart, the Malaysia–Australia Business Council (MABC), was also established in the late 1980s.
- 2.25 AMBC has chapters in New South Wales, South Australia, Victoria, and Western Australia with each nominating a representative to a national executive. A National President and Deputy National President are elected annually.

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20 CSIRO, *Submission No. 2*, p. 11.

21 DFAT, *Submission No. 11*, p. 81.

- 2.26 The objectives of the AMBC are to:
- represent the interests of members in commercial trade matters between Malaysia and Australia;
  - provide services for members in relation to Malaysia;
  - foster friendship and cultural understanding between the business communities especially and the peoples of Australia and Malaysia;
  - promote trade, investment, technical co-operation, economic co-operation and tourism between Australia and Malaysia;
  - assist Malaysian trade or commercial activities in Australia;
  - establish and foster links with the counterpart MABC in Malaysia.<sup>22</sup>
- 2.27 Trade aspects of the Australia–Malaysia relationship are discussed further in Chapter 4.

## Organisations and individual interactions

### Research and education links

- 2.28 The Australian Research Council (ARC) has a mission to advance Australia’s research excellence and does this by supporting research which is likely to contribute innovation; brokering partnerships among researchers; and providing policy advice to government on investment in the national research effort.<sup>23</sup>
- 2.29 The ARC advised the Committee that while it had no formal research cooperation agreement with any Malaysian research agency, its members had attended the following meetings in Malaysia:
- June 1999, a meeting in Kuala Lumpur of senior Australian and Malaysian officials concerning science and technology cooperation; and
  - October 2001, a delegation attended the Science and Technology Policy Forum in Penang.<sup>24</sup>

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22 AMBC, *Submission No. 1*, p. 2.

23 ARC, *Submission No. 5*, p. 23.

24 ARC, *Submission No. 5*, pp. 24–5.



- 2.30 The ARC had also met with delegations from Malaysia:
- April 2005, a meeting arranged by DEST with a Malaysian delegation studying benchmarking and best practice with an emphasis on higher education research; and
  - August 2005, a meeting with a delegation from the Universiti Putra Malaysia to discuss the evaluation of research funding and industry links.
- 2.31 Other institutional links and interactions were noted in DEST's submission:
- a joint MoU between the Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering with the Academy of Sciences Malaysia; and
  - discussions initiated by the Malaysian Institute for Nuclear Technology Research with the Australian Nuclear Science and Technology Organisation.<sup>25</sup>
- 2.32 DEST also advised the Committee that in May 2003 there were some 127 formal linkages between Australian universities and Malaysian institutes of higher learning.<sup>26</sup>
- 2.33 Interactions at the university level appear to be gaining momentum. Under DEST's Regional Links Programme, the Australian Vice-Chancellors Committee (AVCC) coordinated the Malaysia Australia Vice-Chancellors Meeting 2006. The meeting involved 14 Malaysian university delegates and 13 Australian Vice-Chancellors or their representatives. Issues discussed were future collaboration and cooperation including 'staff and student mobility, credit transfer and the recognition of qualifications.' A further meeting was scheduled for Kuala Lumpur in 2007 to sign a MoU.<sup>27</sup>
- 2.34 The States too are engaged with Malaysia in the education area. For example, in April 2005 the South Australian Children, Youth and Women's Health Services signed a letter of intent with the Malaysian Government to facilitate the further training and collaboration of health and medical specialists in both countries.<sup>28</sup>

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25 DEST, *Submission No. 14*, pp. 116–17.

26 DEST, *Submission No. 14*, p. 107.

27 AVCC, *Submission No. 12*, p. 86.

28 Government of South Australia, *Submission No. 24*, p. 220.

- 2.35 Education linkages are discussed in greater detail in Chapter 6 and specific examples of science and research collaboration with Malaysia are provided in Chapter 7.

## Cultural and personal links

- 2.36 Cultural understanding can be enhanced through a variety of means. There follows some of the examples provided to the Committee.
- 2.37 At the Commonwealth level, the Department of Communications, IT and the Arts (DCITA) told the Committee about the following recent cultural activities:
- the *Crescent Moon* exhibition, subtitled *Islamic Art and Civilisation in South East Asia* involved borrowing works from five Malaysian institutions and the attendance of National Gallery of Australia curatorial staff at development courses in Malaysia;
  - the Asialink programme funded two artists in 2005–06 to work in residencies with Malaysian art galleries;
  - a partnership is planned in 2007 between the Canberra Contemporary Art Space and the Valentine Willie Gallery in Kuala Lumpur;
  - a joint performance of the Australian Chamber Orchestra and the Malaysian Philharmonic in March and April 2006;
  - a Musica Viva contract with DFAT for cultural activity in Malaysia; and
  - ongoing annual visits to Malaysia by a group called, *The Song Company*.<sup>29</sup>
- 2.38 Some state-based institutions have long-standing cultural links with Malaysia. For example, the Western Australian Museum has cultural relations with counterparts in Malaysia in the field of maritime archaeology. Activities have included:
- assistance in surveying the wreck of the VOC ship *Risdam*;
  - hosting a number of South-East Asian maritime archaeological seminars; and
  - working with Malaysia to establish training programmes and providing internships for Malaysian maritime archaeologists.<sup>30</sup>

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29 Mr Mark Taylor, *Transcript 16 October 2006*, pp. 5, 7.

- 2.39 Malaysia has had a major impact on the sporting life of the Northern Territory. The Northern Territory Government advised the Committee that the National Sports Council of Malaysia was instrumental in establishing the Arafura Games. Malaysian teams had regularly participated in the games and were often the biggest participating delegation. The Northern Territory also participated in the Sukan Malaysia Games in 2002, with likely subsequent participation in 2008.<sup>31</sup>
- 2.40 At the local government level, since February 1973 the Adelaide City Council has had a sister city relationship with the city of Georgetown, Penang. Achievements identified on the Adelaide City web site include:
- the establishment and increase of direct Malaysian Airlines flights between Malaysia and Adelaide – this has generated increased people movement and trade;
  - participation of Penang Dragon boat crews in the 1996 Dragon Boat Championships; and
  - the running of an annual Penang Cup by the South Australian Jockey Club.<sup>32</sup>
- 2.41 At the personal level, Australians visiting Malaysia and Malaysians visiting Australia may through their experiences gain an understanding of the culture of the host country. Many Malaysians visiting Australia do so for educational purposes or as tourists. While education and tourism are the subject of later chapters, the Committee received comments on cultural interaction from Malaysian students studying in Sydney.
- 2.42 A representative from the Malaysian Students Organisation of the University of New South Wales commented that he appreciated the multicultural base within the university and the activities which provided opportunities for interaction with other international students.<sup>33</sup> The Vice Chairperson, Malaysian Students Council of Australia, reported that some international students were not as open-minded as Australian students because they tended to stick together

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30 Western Australian Minister for Indigenous Affairs; Tourism; Culture and the Arts, *Submission No. 19*, p. 174.

31 Northern Territory Government, *Submission No. 20*, p. 176.

32 <[http://www.adelaidecitycouncil.com/scripts/nc.dll?ADCC:STANDARD::pc=PC\\_12,svTextVers=N](http://www.adelaidecitycouncil.com/scripts/nc.dll?ADCC:STANDARD::pc=PC_12,svTextVers=N)>, accessed January 2007.

33 Mr Danny Tze San Tan, *Transcript 21 November 2006*, p. 2.

more. Australian students, however, were 'pretty open towards international students.'<sup>34</sup>

2.43 It was also noted, however, that some Australians were not aware of the diversity of Malaysian society.<sup>35</sup>

2.44 The witness commented that the reluctance to interact shown by many Malaysian students was a cultural characteristic which could be countered if the 'Malaysian seniors who are studying here show a good example by mixing with everyone else'.<sup>36</sup>

2.45 Interestingly, one of the students commented that he chose Sydney which had far fewer Malaysian students than in Melbourne because of the risk in Melbourne of being 'sucked into a comfort zone and [wasting] your experience here.' He added that, anecdotally, 'many Malaysians in Sydney want to stay on in Sydney, whereas many Malaysians in Melbourne just finish and go back home'.<sup>37</sup>

## **Committee comment**

2.46 The Committee considers that the level of interaction between Australia and Malaysia underpins a sound relationship between the two countries. Further links, no doubt, will be generated as the two countries move towards the establishment of an FTA.

2.47 The Committee suggests that developing city-to-city links is a valuable way to promote the Australia-Malaysia relationship. Cities establishing a link must, like Adelaide, be prepared to devote the necessary resources to developing the relationship.

2.48 The Committee believes the provision of educational services to Malaysian students is an excellent way for the creation of people-to-people links. From the evidence presented to it, the Committee believes Malaysian students studying in Australia are receiving a worthwhile experience. Many are prepared to contribute to the experience through willingness to interact with Australian and other

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34 Mr Mohd Saiful Tan, *Transcript 21 November 2006*, p. 5.

35 Mr Wai King Yong, *Transcript 21 November 2006*, p. 5.

36 Mr Danny Tze San Tan, *Transcript 21 November 2006*, p. 6.

37 Mr Danny Tze San Tan, *Transcript 21 November 2006*, p. 9.

international students. The Committee notes that many of Malaysia's leaders have studied in Australia.<sup>38</sup>

- 2.49 Both Australia and Malaysia are striving to increase tourism links, and this provides an excellent opportunity to further strengthen ties. Tourism is discussed in detail in Chapter 5.

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38 DFAT, *Submission No. 22*, p. 193.



## Security and defence ties

### **Background and strategic imperatives**

- 3.1 Malaysia's geo-strategic location makes it important to Australia's defence and security planning and to the region as a whole. Geographically, Malaysia is centrally positioned within Asia, and is strategically located on Australia's northern air and maritime approaches. It is also located astride the important sea lanes of the Malacca Straits and the Sulu and Celebes Seas.
- 3.2 Australia and Malaysia have historically enjoyed a strong defence relationship. Australian troops fought alongside Malaysians during the Malayan campaign of World War II, and as part of a Commonwealth force to defeat the Malayan Communist insurgency during the Malayan Emergency (1950-1960) and during the period of Confrontation (1963-66).

### **Malaysia-Australia Joint Defence Programme**

- 3.3 The Malaysia-Australia Joint Defence Programme (MAJDP) provides a framework for a broad range of bilateral defence interaction. The programme, formally commenced in 1992, includes annual combined field exercises, the training of Malaysian military personnel in Australia, and the attachment of Armed Forces personnel from each

country to the other.<sup>1</sup> According to Defence's submission, the MAJDP 'emphasises mutual benefit and reciprocity, and focuses on jointly identifying mutual priorities for the future.'<sup>2</sup>

## Five Power Defence Arrangements

- 3.4 The Five Power Defence Arrangements (FPDA) is another important plank of Australia's defence and security relationship with Malaysia. The FPDA was formally established in 1971 and commits Australia, along with New Zealand and the UK, to assist Malaysia and Singapore against external aggression. More recently, the focus of the FPDA has been expanded to address non-conventional threats facing the region such as terrorism and maritime piracy, and is an important stabilising force in the region.<sup>3</sup>
- 3.5 Defence explained to the Committee the value of the FPDA and importance of UK involvement:

FPDA exercises provide the five-member nations with valuable, realistic and professional training in war fighting; training which is difficult for our military forces to obtain elsewhere ... The valuable experience gained through simultaneous surface and air combat provides real benefits to all FPDA member nations and remains an important component of current and future FPDA engagement.

The UK will take the lead for the inaugural Exercise Suman Protector in 2007 ... [it] is a command post exercise and will exercise higher headquarters functions supporting a Combined Joint Task Force Commander in a multinational coalition environment.

... the United Kingdom will deploy a 620-strong contingent to Malaysia ... the large size of United Kingdom deployment is such that no other FPDA member nation could be capable of contributing to future iterations of the Exercise and is another indication of the high value the United Kingdom places on its participation in the Arrangements.<sup>4</sup>

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1 DFAT, *Submission No. 11*, p. 77.

2 Defence, *Submission No. 13*, p. 94.

3 DFAT, *Submission No. 11*, p. 77.

4 Defence, *Submission No. 26*, pp. 234-5.



## The Malacca Strait

- 3.6 Malaysia sits astride the Malacca Strait, through which 50 000 ships, half of the world's seaborne oil shipments and a quarter of its maritime trade pass every year. Piracy is a serious problem in the area, and recently concerns have been raised that terrorist activities might occur in the Strait.<sup>5</sup> Through both bilateral and multilateral channels, Australia has offered and given assistance to Malaysia, and to other littoral states Singapore and Indonesia, in enhancing the security of the Malacca Strait. FPDA exercises now include a maritime security scenario.<sup>6</sup>

## Strategic and officer-level dialogue

- 3.7 Australia and Malaysia share an active strategic dialogue, both bilaterally and multilaterally. The Defence Ministers of both countries meet formally at the triennial FPDA Defence Ministers' Meeting, and informally in other years. The Chiefs of Defence Forces meet annually at the FPDA Defence Chiefs' Conference, and inaugural Navy to Navy talks were held in 2005. In 2005 DFAT led, and the Department of Defence participated in, the Regional Security Dialogue with Malaysia.<sup>7</sup>
- 3.8 There is also an active senior officer visit programme between the two countries. In 2006, Malaysia's Chief of the Defence Force, Secretary, Chief of Navy and Chief of Army visited Australia, while Australia's Minister for defence, Chief of the defence Force and Secretary visited Malaysia. There are also frequent senior officer meetings at regional fora.<sup>8</sup>

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5 Damon Bristow, 'The Five Power Defence Arrangements', *Contemporary Southeast Asia* 27(1) 2005, p. 8.

6 Defence, *Submission No. 26*, p. 234.

7 Defence, *Submission No. 13*, p. 95.

8 Defence, *Submission No. 13*, p. 95.

## Training and educational exchanges

3.9 A large number of Australian Defence Force (ADF) and Malaysian Armed Forces (MAF) personnel are stationed in either Malaysia or Australia. There are 12 MAF officers on long term postings to various ADF sites around Australia, and six ADF officers on long term postings in Malaysia. According to the Department of Defence, the postings

... contribute to the close personal links between members of the ADF and MAF, and provide service personnel with insight into each other's practices and perspectives.<sup>9</sup>

3.10 There are also extensive bilateral educational exchanges, which help foster understanding of each nation's strategic concerns, develop closer personal ties and maintain regular contact that builds confidence for cooperation in other areas. In 2006, Malaysia was offered 99 positions for short term ADF training courses and 11 postgraduate scholarships for defence related study. The number of courses and scholarships offered was more than was offered to any other country.<sup>10</sup>

## Military bases

3.11 Australia is currently the only country with forces permanently based in Malaysia. In 1958 Air Base Butterworth, although owned by the RAF, was placed under Royal Australian Air Force (RAAF) control as part of the Commonwealth Strategic Reserve. Following this, the RAAF 78 Fighter Wing, comprising 3 and 77 Squadrons flying Sabre aircraft, and also 2 Squadron flying Canberra bombers, was established in Butterworth.<sup>11</sup>

3.12 In 1970, following the return of ownership of Butterworth to Malaysia, Australia was granted permission to continue using the base. Two RAAF Mirage fighter squadrons were deployed to Butterworth, and Mirage fighters remained at the base until 1988.

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9 Defence, *Submission No. 13*, p. 95.

10 Defence, *Submission No. 13*, p. 95.

11 Defence, *Submission No. 13*, p. 96.

Today, approximately 51 ADF personnel, supported by various aircraft, are stationed at Butterworth.<sup>12</sup>

- 3.13 The Australian military presence at Butterworth provides tangible benefits for Australia. It enhances Australia's ability to conduct maritime surveillance activities in the region, in particular through RAAF AP-3C surveillance flights under Operation Gateway.<sup>13</sup>
- 3.14 It also provides valuable experience for ADF personnel by allowing them to interact with the MDF, and developing understanding of Malaysian and regional culture. Rifle Company Butterworth is comprised of approximately 120 ADF personnel on a 13 week rotation at Butterworth, facilitating the development of proficiency in infantry tactics and exposing personnel to a foreign regional environment.<sup>14</sup>
- 3.15 The ADF's presence at RMAF Butterworth is also of substantial strategic value. It acted as a transit hub during the Vietnam War and played a key role in the evacuation of Australian nationals from Cambodia in 1997. In 2004, RMAF Butterworth operated as a forward logistics hub for ADF operations in Aceh, with the ADF's existing facilities, locally deployed civilians and deployed units facilitating and enhancing Australia's rapid and successful response to the 2004 tsunami.<sup>15</sup>

## Military exercises

- 3.16 Australia and Malaysia participate in a range of military exercises together, both bilaterally and multilaterally. The Army exercise Southern Tiger, Haringaroo, is held three times a year, while the bilateral Navy exercise Mastex is conducted annually. Regular special forces exercises are also conducted.<sup>16</sup>
- 3.17 Multilaterally, both countries participate in land and maritime exercises under the FPDA, and Malaysia has been invited to participate in the Australian-led multilateral air exercise Pitch Black. Naval engagement occurs during the RAN-led multilateral maritime exercise Kakadu, and the Royal Malaysian Navy (RMN) has been

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12 Defence, *Submission No. 13*, pp. 96-7.

13 Defence, *Submission No. 13*, p. 97.

14 Defence, *Submission No. 13*, p. 97.

15 Defence, *Submission No. 13*, p. 97.

16 Defence, *Submission No. 13*, p. 96.

invited to participate in the multilateral submarine exercise Pacific Reach which will be held in Australia in 2007.<sup>17</sup>

## Defence industry cooperation

### Nature and extent

- 3.18 As Malaysia's economy has grown, so too has interaction between Australian defence industry and the MAF. Recent examples of defence industry cooperation include the production of:
- aircraft and helicopter parts and support;
  - personnel protection equipment;
  - night vision devices; and
  - propellant for small arms ammunition.<sup>18</sup>
- 3.19 Malaysia is currently seeking to upgrade its maritime capability in defence and in the newly established Malaysian Maritime Enforcement Agency, and Australian companies are well placed to cooperate in areas including:
- shipbuilding;
  - design, repair and maintenance;
  - sub-sea communications technology;
  - surveillance and tactical data systems;
  - risk management and response systems and services; and
  - battery propulsion products.<sup>19</sup>
- 3.20 In August 2005, Western Australia's Department of Industry and Resources led a marine and defence trade mission to Kuala Lumpur, which identified up to \$1 billion worth of potential business.<sup>20</sup>

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17 Defence, *Submission No. 13*, p. 96.

18 Defence, *Submission No. 13*, p. 97.

19 Western Australian Department of Industry and Resources, *Media Release, 15/9/2005* <<http://doir.wa.gov.au/businessandindustry/6035CB077F3946D1967D281A6559DF2E.asp>> , accessed 9/10/2006

- 3.21 A supplementary submission from the Department of Industry, Tourism and Resources (DITR) advised the Committee that a number of potential shipbuilding contracts had resulted from the visit, some of which were 'currently under negotiations.'<sup>21</sup>
- 3.22 Defence noted that it provided encouragement and support for Australian defence industry participation in the Malaysian Multirole Support Ships acquisition programme. There have been a range of Ministerial communications with Malaysian counterparts supporting Australian company efforts, and on going consideration, at Malaysia's request, of a Government-to-Government arrangement covering the Malaysian acquisition.<sup>22</sup>
- 3.23 Defence continued that purchase of the multirole ships from an Australian company would be on a commercial basis, but that a Government-to-Government arrangement could potentially be undertaken under the existing MAJDP. This would cover such matters as research and development cooperation, joint training and doctrinal development, and technology transfers.<sup>23</sup>
- 3.24 Other States have been active in developing a defence industry relationship with Malaysia.
- 3.25 In April 2006, the Deputy Premier and Minister for Industry and Trade of the South Australian Government, accompanied a South Australian trade mission to Malaysia, which coincided with the Defence Services Asia Exhibition in Kuala Lumpur. During his visit he also met with Hon Rafidah Azaz, Malaysia's Minister for International Trade and Industry, who later paid a visit to South Australia in August 2006.<sup>24</sup>

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20 Western Australian Department of Industry and Resources, *Media Release, 15/9/2005* <<http://doir.wa.gov.au/businessandindustry/6035CB077F3946D1967D281A6559DF2E.asp>> , accessed 9/10/2006

21 DITR, *Submission No. 25*, p. 229.

22 Defence, *Submission No. 26*, p. 233.

23 Defence, *Submission No. 26*, p. 233.

24 Government of South Australia, *Submission No. 24*, p. 220.

3.26 The Northern Territory Government stated that the Northern Territory's developing defence industry is

... well placed to contribute to appropriate exports to Malaysia and provide support services in Australia to Malaysia's defence forces involved in joint exercises and undertaking defence-related activities in our region.<sup>25</sup>

## Challenges and successes

3.27 The Australian Defence Information and Electronic Systems Association (ADIESA), told the Committee that some members of ADIESA and other companies working in the same area report that dealings with the Malaysian Government and Malaysian companies have been positive. 'They are a joy to work with; they are welcomed into the country; they do exceptionally well.' The witness noted that, while the value of contracts is modest, Australian defence industry has 'some quite important influence in the development of Malaysia's own ICT and electronic infrastructure.'<sup>26</sup>

3.28 On the other hand, some companies had reported difficulties. The witness cited the problem of some companies disengaging when asked for various inducements 'to assist decision makers to facilitate a decision in favour of company X.'<sup>27</sup>

3.29 ADIESA also told the Committee that some of its members had complained about the slow nature of decision making; for instance, when a Malaysian company was reluctant to express concerns or to raise problems concerning the contract or with the engineering design. This was cited as an example of the importance of cultural understanding not only within business but more broadly within the bilateral relationship.<sup>28</sup>

3.30 The South Australian Government also expressed concern concerning the Malaysian requirement that all government agencies procure supplies and services from local sources. This was particularly detrimental to the South Australian defence industry, and the South Australian Government suggested that it be addressed in the proposed FTA.<sup>29</sup>

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25 Northern Territory Government, *Submission No. 20*, p. 177.

26 Mr Brett Biddington, *Transcript 16 October 2006*, p. 25.

27 Mr Brett Biddington, *Transcript 16 October 2006*, p. 25.

28 Mr Brett Biddington, *Transcript 16 October 2006*, p. 26.

29 Government of South Australia, *Submission No. 24*, p. 222.

## Committee comment

- 3.31 Evidence given at this inquiry has indicated that the bilateral defence relationship is overwhelmingly positive and provides substantial benefits for Australia. There is a strong foundation for this relationship to develop further.
- 3.32 The continued stationing of ADF personnel at RMAF Butterworth is of significant value to the Australia–Malaysia relationship. Not only does it provide useful mutual understanding at the military level, but also at the cultural level.
- 3.33 Malaysia’s strong military professionalism and capacity ensures it is able to respond effectively to military and humanitarian tasks and cooperate with the ADF to address security challenges. The benefits flowing from the close defence relationship were demonstrated in East Timor, with Malaysia willing and able to operate with the ADF under Australian command.





## The trading and investment relationship

### Introduction

- 4.1 Australia and Malaysia enjoy a significant trading relationship. With total two-way trade in 2005–06 of \$11.35 billion, Malaysia is Australia’s second-largest trading partner in ASEAN and ninth largest trading partner over all.
- 4.2 This chapter reviews the nature of that trading relationship and the opportunities and challenges faced by those wishing to engage in the market. A detailed consideration of the education and tourism markets, significant components of Australia’s trade with Malaysia, are considered in separate chapters.
- 4.3 The chapter concludes with the Committee’s review of evidence it has received concerning the proposed FTA between Australia and Malaysia.

## Malaysian economy

- 4.4 Since Malaysia achieved independence in 1957, its economy has been transformed from one based on commodities to one based on intermediate manufacturing. Malaysia is also the world's leading exporter of palm oil and a major regional oil and gas exporter.
- 4.5 Changes to the economy have been underpinned by the Malaysian Government's Vision 2020 policy launched in 1991. The policy's objective was for Malaysia to achieve a developed economy status by 2020. Privatisation was to be the basis of national development with an emphasis on foreign investment to promote industrialisation.
- 4.6 Within this overall vision, the current policy – National Mission (2006–2020) – has five main aims:
- to move the economy up the value chain;
  - to raise the country's capacity for knowledge, creativity and innovation and nurture 'first class mentality';
  - to address persistent socio-economic inequalities constructively and productively;
  - to improve the standard and sustainability of quality of life for Malaysians; and
  - to strengthen the institutional and implementation capacity of Malaysia.
- 4.7 The Malaysian economy has been growing steadily at over five per cent annually. The International Monetary Fund forecasts gross domestic product growth in 2007 to be 5.8 per cent based on 'sustained global economic growth and high prices for primary commodities'. The challenges Malaysia faces include 'increased competition from other emerging markets in the region and increasing global inflation pressures.'<sup>1</sup>

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1 DFAT, *Malaysia Country Brief – February 2007*, pp. 3–4, <[http://www.dfat.gov.au/geo/malaysia/malaysia\\_brief.html](http://www.dfat.gov.au/geo/malaysia/malaysia_brief.html)>, accessed February 2007.

## Balance of trade

- 4.8 Trade between Australia and Malaysia is complementary – Australia exports to Malaysia, natural resources (copper, aluminium, and coal), dairy products and sugar, whereas Australia imports from Malaysia crude petroleum, furniture, and electronic products (computers, telecommunications equipment, and integrated circuits).
- 4.9 Malaysia, however, enjoys a significant balance of trade in its favour. In 2005–06, merchandise imports from Malaysia amounted to \$6.75 billion. In contrast, merchandise exports from Australia to Malaysia amounted to \$2.54 billion. Trade in services, such as education, personal travel, and transportation is more balanced. In 2005–06, services imports from Malaysia amounted to \$0.82 billion, whereas services exports from Australia to Malaysia amounted to \$1.24 billion.<sup>2</sup>
- 4.10 With continued favourable global economic conditions, trade between Australia and Malaysia is increasing. In 2005–06, trade rose by 9.3 per cent to \$9.29 billion. The bulk of this increase, however, was due to a marked jump in merchandise imports from Malaysia.<sup>3,4</sup>

## Natural resources

### Minerals

- 4.11 Until recent times, Malaysia's economy was underpinned by tin mining and rubber production. The Malaysian Government's prioritisation of manufacturing has seen a decline in the contribution of mining to the Malaysian economy. In 2004, mined production, excluding oil and natural gas, amounted to just 0.9 per cent of gross domestic product.

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2 DFAT, *Malaysia Country Brief – February 2007*, pp. 9–10; DFAT, *Malaysia Fact Sheet*, <<http://www.dfat.gov.au/geo/fs/mly.pdf>>, accessed February 2007.

3 In 2003–04, merchandise imports were \$4.7 billion.

4 DFAT, *Malaysia Country Brief – February 2007*, p. 10.

- 4.12 Australia exports aluminium, copper, zinc, and tin to Malaysia. Although figures were unavailable for aluminium, DITR's submission noted that Australian exports of these minerals accounted for between 21 to 37 per cent of Malaysian imports. DITR also noted that while Malaysia is endowed with 16 per cent of world tin reserves, in 2005 it imported from Australia some 26 per cent of its needs.
- 4.13 DITR's figures show a wide fluctuation from year-to-year. For example, the figures for refined zinc fluctuated in 2003 to 2004 from 12 per cent to 72 per cent of Malaysia's imports of that metal – the latest available value, for 2005, stood at 25 per cent.<sup>5</sup>

## Coal

- 4.14 Malaysia has significant coal reserves, but these are unsuitable or not conveniently located for use in power generation. Consequently, Malaysia is a major importer of coal and demand is set to more than double from 2004 to 2007 as Malaysia reduces reliance on gas and petroleum.<sup>6</sup> The value of Australia's coal exports to Malaysia amounted to \$176 million in 2005–06.<sup>7</sup>

## Petroleum, natural gas, and biodiesel

- 4.15 While Australia exports a small quantity of crude petroleum to Malaysia, this is more than offset by the imports of crude and refined petroleum from Malaysia.<sup>8</sup> In 2005–06, Malaysia exported to Australia \$2.1 billion worth of crude petroleum – the largest component of merchandise imports from that country.<sup>9</sup>
- 4.16 Australia and Malaysia are competitors in the natural gas sector. Despite Malaysia's low employment cost and government support for the industry, Australia is able to maintain its competitive edge. As DITR noted in response to the Committee's questioning:

Australian LNG is competitively priced, as evidenced by the successful bid for the Guangdong LNG contract and the fact that the capacity of Australia's two operating LNG plants is fully contracted to customers in Japan, Korea and China.

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5 DITR, *Submission No. 21*, pp. 184–5.

6 DITR, *Submission No. 21*, p. 184.

7 DFAT, *Malaysia Fact Sheet*.

8 AMBC, *Submission No. 1*, p. 3.

9 DFAT, *Malaysia Fact Sheet*.

While Malaysia's LNG industry is partly government owned and has been able to make investment decisions quickly and ahead of obtaining sales contracts, Australia has two big advantages over Malaysia. Australia has an excellent reputation for reliability and has massive gas resources available for expansion. Malaysia's expansion capacity is limited and its reputation for reliability was dented by a major fire in 2003.<sup>10</sup>

- 4.17 Both Malaysia and Australia have the capacity to produce biodiesel. Malaysia's industry is based on palm oil which is more economic than the tallow feedstock used in Australia. DITR advised the Committee that Australia's 421 million litre biodiesel production capacity was underutilised,<sup>11</sup> but it was 'difficult to ascertain whether exports to Malaysia would be feasible' because of the higher costs of production in Australia.<sup>12</sup>
- 4.18 DFAT advised the Committee that Malaysia was developing a National Biofuel Policy which involved the formulation of legislation and incentives to encourage private sector involvement. There were five biodiesel companies with Australian equity involvement in Malaysia which had been granted manufacturing licences.<sup>13</sup> DITR noted that such plants were established with a view to exporting to the European Union.<sup>14</sup>

## Primary produce

- 4.19 Malaysia is in Australia's top five markets for dairy, horticultural produce, wheat, and sugar, with Australia enjoying a significant trade surplus in this sector. In 2005–06, the surplus amounted to some \$680 million. Major components in 2005–06 were:
- sugar (\$281 million) – Malaysia was Australia's principal market in 2003–04 and 2004–05;
  - dairy (\$210 million) – Malaysia was Australia's second most valuable export market in 2004–05. Milk powders comprise 80 per cent of dairy exports;

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10 DITR, *Submission No. 25*, p. 227.

11 In 2005–06, biodiesel production amounted to only 18 million litres.

12 DITR, *Submission No. 25*, p. 228.

13 DFAT, *Submission No. 22*, p. 194.

14 DITR, *Submission No. 25*, p. 228.

- grains (\$167 million) – Malaysia is Australia’s eighth largest market for wheat, consistently importing over 600 000 tonnes annually;
  - processed meat (\$46 million) – principal exports are sheep meat, beef, and veal. Malaysia is also Australia’s second-largest export market for live cattle after Indonesia;
  - horticultural products (\$59 million) – Malaysia is Australia’s sixth-largest market behind Japan, New Zealand, Hong Kong, USA, and Singapore; and
  - forest and paper products (\$46 million) – Malaysia is a net importer of paper and paperboard products.
- 4.20 Malaysia’s principal agriculture and food exports to Australia amounted to \$228 million in 2005–06, and included oil and fat, and seafood.
- 4.21 Malaysia is a major exporter of furniture, being one of the top 10 furniture exporters in the world, and second largest source of imports for the Australian market. In 2005, Australia imported \$171 million worth of wooden furniture from Malaysia.<sup>15</sup>
- 4.22 The Committee asked DAFF how serious was the use of illegally logged timber in furniture imported from Malaysia, and progress with any concerns raised by the Australian Government with Malaysian authorities.<sup>16</sup>
- 4.23 DAFF responded that the issue of illegal logging had been raised with Malaysia at Ministerial level and in international fora. DAFF advised the Committee that:

Australia supports Malaysia’s efforts to reduce illegal logging and improve sustainable forest management practices, including through implementation of its certification scheme under the Malaysian Timber Certification Council.

Malaysia is seeking international recognition of its scheme’s assurance for legal and sustainable timber production and, to this end, is formally seeking recognition by the Program for the Endorsement of Forest Certification Schemes.<sup>17,18</sup>

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15 DAFF, *Submission No. 23*, pp. 206–11; DAFF, *Submission No. 32*, p. 262.

16 *Transcript 4 December 2006*, p. 29.

17 DAFF, *Submission No. 32*, p. 262.

18 The Program is an international framework for independently assessing national certification schemes to ensure they meet agreed international requirements.

- 4.24 DAFF also advised that Malaysia was endeavouring to improve its forest certification system and prove the legality of forest products through developing a Voluntary Partnership Agreement with the European Union under the EU Forest Law Enforcement, Governance and Trade Action Plan.<sup>19</sup>

### Halal certification of Australian produce

- 4.25 Halal products are those that are permissible under Islamic law. Products such as meat and poultry products, dairy, pharmaceuticals, toiletries, cosmetics, and confectionery can be certified as Halal provided they meet 'a total quality health and sanitary system which involves adopting procedures for slaughtering, processing and other related operations'.<sup>20</sup>

### Malaysia's Halal standard

- 4.26 The AMBC told the Committee that in 2002 the Malaysian Government had indicated it wished Malaysia to become a Halal hub.<sup>21</sup> Subsequently, Malaysia issued a Halal standard which has to be met by those wishing to export meat to Malaysia.<sup>22</sup>
- 4.27 There has as yet, however, been no agreement in the Islamic world as to whether the Malaysian standard should be adopted as the international standard. For example, Saudi Arabia and Brunei do not recognise Malaysian Halal certification.<sup>23,24</sup>
- 4.28 In 2005, Malaysia audited 50 Australian meat establishments against its standard and subsequently delisted all Australian beef abattoirs. There were no issues relating to the slaughter of sheep or goats.<sup>25</sup>
- 4.29 There followed a series of negotiations between Australia and Malaysia which resulted in an agreed protocol for the processing of cattle.<sup>26</sup> A subsequent audit of five abattoirs in 2006 by a Malaysian delegation resulted in three of them gaining approval for exporting

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19 DAFF, *Submission No. 32*, p. 262.

20 Government of South Australia, *Submission No. 24*, p. 222.

21 Mr John Gallagher, *Transcript 21 November 2006*, p. 18.

22 Mr Garry Cullen, *Transcript 4 December 2006*, p. 26.

23 Mr John Gallagher, *Transcript 21 November 2006*, p. 18.

24 AMBC, *Exhibit No. 1, Framework for Malaysia Australia Halal Cooperation in Food Production and Marketing: A Business Perspective*, p. ii.

25 DAFF, *Submission No. 23*, p. 212.

26 Mr Garry Cullen, *Transcript 4 December 2006*, p. 26.

beef to Malaysia.<sup>27</sup> DAFF told the Committee that it had requested Malaysia to audit another eight establishments five of which processed beef.<sup>28</sup>

#### Concerns with Malaysia's Halal standard

- 4.30 The Australian Meat Industry Council (AMIC) expressed its disappointment to the Committee at the deregistering of beef exporters:

AMIC and its members are committed to meeting the Halal standard required. ... Australia exports to over 40 Islamic markets around the world because of that commitment.

We also understand the need for an appreciation of the cultural and religious sensitivities of delivering a truly 'Halal' product. We do that through the provision of the Australian Government Supervised Muslim Slaughter System ... It is a measure of the Australian commitment that we are the only non-Muslim country in the global red meat market to uphold the integrity of Islamic slaughter through Government legislation.

... [the] industry has had difficulty in understanding both the protocol agreed and the process by which only a limited number of plants have been accredited against the new protocol. By comparison exports of live beef cattle to Malaysia continue unencumbered.<sup>29</sup>

- 4.31 The Government of South Australia also expressed concern about the number of certifying bodies in Australia with its submission calling on the Federal Government:

... to work with the Malaysian Government and endorse one certifying body to simplify the process and build a brand for exporters to use as a marketing tool.<sup>30</sup>

- 4.32 The Committee notes in this regard that there are 17 meat establishments across Australia that are accredited to export Halal meat to Malaysia. They are accredited by six Islamic accrediting bodies. Three of these bodies are based in Western Australia, one each

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27 DAFF, *Submission No. 23*, p. 212.

28 Mr Gary Cullen, *Transcript 4 December 2006*, p. 26.

29 AMIC, *Submission No. 27*, p. 238.

30 Government of South Australia, *Submission No. 24*, p. 190.



in Victoria and South Australia, and one based in New South Wales and Queensland.<sup>31</sup>

4.33 The Australian Quarantine and Inspection Service (AQIS) has issued lists of Islamic bodies that are authorised to undertake Halal certification for each country to which Halal meat is exported. In total there are 26 accrediting bodies, but each country has a different list:

- Indonesia – 8 accrediting bodies;
- Malaysia – 13 accrediting bodies;
- Saudi Arabia – 5 accrediting bodies;
- Singapore – 17 accrediting bodies; and
- United Arab Emirates – 4 accrediting bodies.<sup>32</sup>

#### A framework for Halal cooperation

4.34 In July 2002, The Australian Minister of Trade and the Malaysian Minister of International Trade and Industry signed a *Statement of Cooperation in Halal Food Production and Marketing*. Officials were directed to:

- work closely with industry to agree on a set of mutually acceptable standards that guarantee the food is safe and Halal at every stage of the production line;
- work with the industry to develop and promote the products and their identifying logo/label; and
- work closely in information exchange and technology transfer for mutual benefit.<sup>33</sup>

4.35 Responding to this initiative, the AMBC had in November 2002 formulated a framework for Halal cooperation. The work programme included:

- Establishment of a *One-Stop Halal Shop* so that industry can find in one place all relevant information on Halal Food Production;
- Development of *Internationally Recognised Standards* to ensure food safety and Halal integrity are maintained throughout the process;
- Development of *Clear Halal Certification Requirements* acceptable to all Muslim Countries/Councils to ensure

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31 *Exhibit No. 4, Department of Veterinary Services, Malaysia, Approved Abattoirs & Plants.*

32 *AQIS, Notice Number 2003/10 Meat, Revised List of Recognised Islamic Bodies for Halal Certification.*

33 *AMBC, Exhibit No. 1, p. 1.*

market opportunities are not lost due to bureaucratic red tape;

- Development of an *Internationally Recognised Logo* to assist with the marketing of the product so consumers know they can trust the goods produced under this cooperation.<sup>34</sup>

4.36 The framework also called for the development of disease-free zones within Malaysia. This was because Malaysia is listed as having foot and mouth disease (FMD). As a result, Saudi Arabia prohibits the entry of beef products from Malaysia.

4.37 AMBC noted that Sarawak and Sabah were FMD-free, so if those States were able to be declared disease-free zones, processing facilities could be established immediately.<sup>35</sup> An alternative would be for the export of beef direct from Australia – the Committee notes advice from DAFF that a number of delegations from Malaysia had shown an interest in Australian abattoirs. The witness was unaware at the time that any deals had been signed.<sup>36,37</sup>

#### Committee comment

4.38 The Committee considers that the following issues need to be addressed:

- the need for an internationally recognised Halal standard;
- the process of certifying Halal products; and
- the potential for a lack of transparency in Halal certification.

4.39 The development of a single international Halal standard would remove the need for multiple accreditations for companies wishing to export to Muslim countries which currently recognise different standards. Moreover, it could potentially lead to the reduction of the number of accrediting bodies. Such an international standard would also facilitate the distribution of Halal products from hubs such as that proposed by the Malaysian Government.

4.40 As a major primary produce exporter, Australia has an interest in promoting an efficient Halal market. The Committee believes the Government should raise this issue in international fora when appropriate.

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34 AMBC, *Exhibit No. 1*, Executive Summary.

35 AMBC, *Exhibit No. 1*, p. v.

36 Mr Gary Cullen, *Transcript 4 December 2006*, p. 29.

37 At the time of tabling this report, the witness advised that the situation had not changed.

## Recommendation 1

- 4.41 **The Department of Agriculture, Fisheries and Forestry promote in international fora the adoption of a transparent and efficient international Halal standard.**
- 4.42 The Committee agrees with the Government of South Australia that the number of Halal certification bodies is an issue. The Committee accepts that having countries with different Halal certification requirements tends to increase the need for different certifying bodies. Unfortunately, different certifying organisations may have different interpretations of the standards, and their local circumstances may introduce pressures on the certification process.
- 4.43 An adequately funded single Halal certification body would assist the consistent application of a particular Halal standard across Australia. Such a body, if properly constituted, would be able to provide Halal certification for export destinations with differing Halal standards. Moreover, a single certifying body would be less vulnerable to local pressures on the certification process.
- 4.44 Evidence from the AMIC introduces concerns about the transparency of the recent Halal certification of Australian beef processing plants. AMIC reported that industry had ‘difficulty in understanding’ the agreed protocol and the process by which only a limited number of plants were accredited.<sup>38</sup>
- 4.45 The Committee does not come to an opinion as to whether or not the certification process was transparent. The Committee does consider, however, that **any body** certifying against a published standard should be transparent in its decision-making and accountable for its actions.

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38 AMIC, *Submission No. 27*, p. 238.

**Recommendation 2**

- 4.46 **The Department of Agriculture, Fisheries and Forestry, in consultation with interested parties, provide options to the Minister for developing a single Halal certifying body within Australia. The operations of the certifying body should conform to the principles of transparency and accountability.**

**Manufacturing**

- 4.47 As noted earlier, Malaysia enjoys a significant surplus in the balance of merchandise trade with Australia. Malaysia excels in the ICT sector of the global market and in 2002 was ranked fifth largest exporter of semiconductors.
- 4.48 Malaysia's exports of ICT to Australia in 2005–06 were valued at \$1.5 billion and comprised computers, laptops, telecommunications equipment, and electronic components. Australia's exports to Malaysia of similar goods is minuscule in comparison and amounted to \$45 million in 2003–04.<sup>39</sup>
- 4.49 DCITA noted that Malaysian information technology industries were largely reliant on foreign-based technologies which created opportunities for Australian companies providing service aspects of the ICT sector.<sup>40</sup> For example, ADIESA noted Australia was 'very good at complex system integration – taking bits and pieces of commercial off-the-shelf equipment and marrying it together to do something that it was never intended to do.'<sup>41</sup>
- 4.50 A note of caution, however, was introduced by ADIESA when it said:
- ... Malaysia is already ahead or certainly equal to Australia in some important high-tech domains. ... It has bought and operated its own satellites. It is designing and it has the capacity to build sensors that are flying on satellites. ... I find it difficult to know just what the differentiators between Australia and Malaysia will be in an industry and a business

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39 DCITA, *Submission No. 7*, p. 51.

40 DCITA, *Submission No. 7*, p. 51.

41 Mr Brett Biddington, *Transcript 16 October 2006*, p. 26.

sense in certainly 20 years time and perhaps in five. I think that, for us all, is a great challenge.<sup>42</sup>

## Challenges facing Australian exporters

4.51 The Australian Electrical and Electronic Manufacturers' Association (AEEMA) commented that global competition presented challenges as well as opportunities to Australia's manufacturing sector. Competitive pressures from low-cost countries such as China and India had caused manufacturers to adapt, but as these low-cost economies moved along the innovation path, there would be increased competition at the higher end of the market. Pressures eroding the ability to meet global competition included:

... the high exchange rate, high oil prices, the rise of China and India (and other vigorous Asian economies) and the everyday issues of market access, skills shortages, logistics, the need to innovate, and overall product trade promotion.<sup>43</sup>

4.52 Other challenges raised in evidence were:

- counterfeiting;
- intellectual property on components preventing sales; and
- non-tariff barriers.

4.53 The Committee was told by the Media, Entertainment and Arts Alliance (MEAA) that Malaysia was one of the centres for the pirating of DVDs and CDs.<sup>44</sup>

4.54 AEEMA, while only referring to anecdotal information, also noted that the country was a source of counterfeit electronic goods. The witness told the Committee that many of its members were facing counterfeit consumer electronics products, small home appliances, and lights. Not only were the items copied, but also all the branding and packaging.<sup>45</sup>

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42 Mr Brett Biddington, *Transcript 16 October 2006*, p. 27.

43 AEEMA, *Submission No. 18*, p. 169.

44 Ms Lynn Gailey, *Transcript 21 November 2006*, p. 28.

45 Ms Loretta Johnson, *Transcript 16 October 2006*, p. 29.

- 4.55 The problem also extended to large multinationals such as Cisco which produced routers and switches:
- Reputable companies like Cisco, IBM and so on are building equipment for markets knowing that there is the degree of dependence – of whole economies in the case of Cisco’s switches and routers. The last thing that we can afford to do is have an economy or telecommunications system collapse because a counterfeit product has been put into the heart of the system.<sup>46</sup>
- 4.56 This issue is discussed further when the Committee considers the proposed FTA with Malaysia.
- 4.57 ADIESA raised the issue of intellectual property on components used by the defence manufacturing industry. Increasingly, the intellectual property rights on components was held by US or European companies and permission from these companies was needed to sell items incorporating those components. The item had to clear the hurdle of the international traffic in arms regulations (ITAR). Unfortunately, ADIESA added, the US was interpreting ITAR:
- ... increasingly restrictively, even to countries such as Australia which are close and trusted allies. It becomes a real battle for us not only to get the stuff released to Australia in the first place but then to be able to onsell into the region. ... to finish on ITAR, it is not controlled by the US government or by the US executive. It is very much that responsibility and the preserve of the Congress.<sup>47</sup>
- 4.58 DITR told the Committee that the Malaysian automotive industry was one of the most protected in the region:
- Malaysia applies a tariff of 30 per cent to imported automotive vehicles from non-ASEAN countries and five per cent from ASEAN countries. It also levies excise tax calculated on engine capacity and vehicle type. Large-engine vehicles, such as those produced in Australia, incur substantially higher excise. We understand that the Malaysian national car manufacturers, Proton and Perodua, may receive a 50 per cent rebate on the value of excise paid. There is also a 10 per cent sales tax on all vehicles and all

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46 Mr Brett Biddington, *Transcript 16 October 2006*, p. 31.

47 Mr Brett Biddington, *Transcript 16 October 2006*, p. 27.

goods in general. Excise and sales taxes on imported vehicles are based on the import value including customs duty.<sup>48</sup>

- 4.59 Approval from the Malaysian Government had also to be sought for importing vehicles, which effectively acted as an import quota. Importers were thereby limited to a small share of the vehicle market. Malaysia, however, was committed to phasing out this permit system by the end of 2010.<sup>49</sup>
- 4.60 DITR further advised in a supplementary submission that three Australian automotive manufacturers had invested in Malaysia:
- Pacifica Group Ltd manufactured brake callipers and drums;
  - an Australian owned company was a small-volume sports car manufacturer; and
  - Australian investors had a stake in a manufacturer of specialist sports cars based on the MG design.<sup>50</sup>
- 4.61 Investment issues are discussed further in the following paragraphs.

## Investment flows

- 4.62 The disparity in trade between Malaysia and Australia is also reflected in investment flows between the two countries.

## Malaysian investment in Australia

- 4.63 In 2005, the total stock of Malaysian investment in Australia was \$5.8 billion of which \$3.3 billion was foreign direct investment (FDI). This represents 1.2 per cent of FDI stock in Australia.<sup>51</sup> The trend in investment between 2001 with 2005 shows that Malaysian stock in Australia as a proportion of total FDI has doubled. This has moved Malaysia from 12th to 10th most important FDI source for Australia.<sup>52</sup>

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48 Mr Ken Miley, *Transcript 16 October 2006*, p. 12.

49 Mr Ken Miley, *Transcript 16 October 2006*, p. 12.

50 DITR, *Submission No. 25*, p. 226.

51 DITR, *Submission No. 21*, p. 183.

52 Invest Australia, *Submission No. 30*, p. 250.

4.64 DITR noted that Malaysian investments in Australia were concentrated in 'energy, agribusiness, manufacturing, real estate, restaurants, travel agents and gaming.'<sup>53</sup> Invest Australia indicated, in addition, that there was a:

... developing interest in Australia's knowledge-based industries such as information technology, research and development and advanced manufacturing.<sup>54</sup>

4.65 The submission from Invest Australia also provided a list of Malaysian companies with interests in Australia.<sup>55</sup>

4.66 Invest Australia suggested that Malaysian investors were drawn to Australia because of historical ties:

For many years Malaysian people have been studying in Australia and travelling to Australia for holiday purposes. Moreover, there is a large Malaysian community in Australia which further nurtures the feeling of familiarity and understanding between the two countries. Furthermore, Australia and Malaysia share a very similar legal and financial framework ...<sup>56</sup>

4.67 The main impediments identified by Invest Australia were the Australian labour laws and relatively high cost of labour which was 'markedly more expensive' than in Malaysia, especially in the manufacturing sector.<sup>57</sup>

## Australian investment in Malaysia

4.68 In 2005, Australian FDI in Malaysia was \$371 million, representing 0.2 per cent of Australian FDI stock abroad.<sup>58</sup> The trend in investment in Malaysia between 2001 and 2005 has remained stationary. This has resulted in Malaysia moving from 12th to 16th most important destination for Australian FDI.<sup>59</sup>

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53 DITR, *Submission No. 21*, p. 183.

54 Invest Australia, *Submission No. 30*, p. 250.

55 Invest Australia, *Submission No. 30*, pp. 252-4.

56 Invest Australia, *Submission No. 30*, p. 250.

57 Invest Australia, *Submission No. 30*, p. 250.

58 DITR, *Submission No. 21*, p. 183.

59 Invest Australia, *Submission No. 30*, p. 250.



- 4.69 DFAT advised the committee that Austrade estimated there were 'about 400 Australian companies with offices or joint-venture arrangements in Malaysia.'<sup>60</sup> Major Australian companies operating in Malaysia include, Ansell, Bluescope Steel, Boral, CSR, and Leighton.<sup>61</sup>
- 4.70 The Committee has explored the reasons for the comparatively low level of Australian investment in Malaysia.
- 4.71 DFAT noted that investment was a very competitive sector and Australian companies looked at risk return. China was a major competitor for all Southeast Asian countries and it was proving to be more lucrative in the investment market.<sup>62</sup>
- 4.72 AEEMA agreed and noted that the Electronics Industry Action Agenda:
- ... does not necessarily regard Malaysia as a key commercial or economic strategic market within ASEAN economies. We actually view Taiwan, Thailand and Singapore, to a lesser extent, as offering better opportunities for Australia in this regard because there are linkages to the greater China region and you can leapfrog into mainland China from there.<sup>63</sup>
- 4.73 DFAT told the Committee that a factor quoted as an impediment to foreign investment in Malaysia was that country's foreign equity rules which required a 30 per cent Bumiputra equity participation in a foreign owned company. DFAT added that there were:
- ... uncertainties surrounding the application of the investment rules and what are being described as slow bureaucratic processes for approval. ... some industries are exempted on a case-by-case basis and ... it is not a very transparent or predictable process that industry has encountered.<sup>64</sup>
- 4.74 Telstra, commenting on this issue, acknowledged a country's sovereign right to have policies addressing historical disadvantage, but noted that it posed an additional cost. To seek an appropriate

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60 DFAT, *Submission No. 11*, p. 79.

61 DITR, *Submission No. 21*, p. 183.

62 Mr Paul Grigson, Mr Pat Stortz, *Transcript 9 October 2006*, p. 4.

63 Ms Loretta Johnson, *Transcript 16 October 2006*, p. 24.

64 Mr Michael Mugliston, *Transcript 9 October 2006*, p. 13.

local partner who was 'qualified in the eyes of the government to take that 30 per cent quota' was an additional administrative hurdle.<sup>65</sup>

- 4.75 The Committee, however, was advised that the '30 per cent' rule was not a blanket requirement. DFAT advised that Malaysia's approach was to look at the net economic benefit of an investment so had adopted a case-by-case examination. It was a very sector-specific type of approval process. DFAT added:

In the manufacturing sector, for example, Malaysia allows up to 100 per cent foreign equity by a company if it is going to export. ... Malaysia would see that as a major net benefit.<sup>66</sup>

- 4.76 AEEMA told the Committee that its members had not experienced problems with the Bumiputra investment rule:

Prima facie, it should be a disincentive, it seems to me, because it is a preferential policy. It is a protectionist policy. On paper, it should rule out effective investment by foreign companies. That appears not to have been the case with the members that have come back to us ... they have had very good experiences, with some of them opening up very large facilities in Penang. ... Increasingly they are saying that it has not been an issue.<sup>67</sup>

- 4.77 AMBC confirmed this view:

... any company sophisticated enough to contemplate offshore investments should be capable of identifying a Bumiputra equity partner who, rather than 'bringing nothing to the table', is a person capable of bringing some value – be it in the form of a network of high-level business and government contacts, or local industry experience and knowledge, or equity in the form of cash, or a combination of the above.<sup>68</sup>

- 4.78 AMBC added that when Bumiputra involvement had been required, its members had found pragmatic solutions to the issue. AMBC had not been approached by a member who had 'categorically stated that

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65 Mr Kavan Peries, *Transcript 21 November 2006*, p. 35.

66 Mr Michael Mugliston, *Transcript 9 October 2006*, p. 5.

67 Ms Loretta Johnson, *Transcript 16 October 2006*, p. 31.

68 AMBC, *Submission No. 28*, p. 243.

the Bumiputra requirement is something he cannot accept and that the AMBC should do something about it.’<sup>69</sup>

4.79 Indeed, AMBC stated there were good reasons to invest in Malaysia, but Australian businesses needed to be informed of these advantages.<sup>70</sup> Advantages identified by AMBC included:

- the Malaysian government had implemented many incentives designed to attract foreign investors;
- Malaysia was the ‘fourth most open economy in the world (behind Singapore, Hong Kong and Luxembourg)’;
- not all Australian businesses wishing to export were equipped to handle large markets such as India and China;
- Malaysia’s infrastructure enabled easy penetration of domestic and regional markets;
- Malaysia’s population was well-educated and the many alumni of Australian tertiary institutions were familiar with Australian culture;
- Malaysia offered ‘a comfortable and familiar social environment for Australians where language and cultural diversity is not a problem’;<sup>71</sup> and
- Malaysia’s legal and accounting systems have developed out of the western accounting and legal professions.<sup>72</sup>

## Free-trade agreement

4.80 In April 2005, the Prime Ministers of Australia and Malaysia agreed to commence FTA negotiations. A scoping study was conducted involving State and Territory governments, industry, and non-government groups. It concluded that ‘an FTA would deliver significant benefits to both countries.’ There have been several rounds of negotiations with the aim of finalising the FTA by ‘around mid-2007.’<sup>73</sup>

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69 AMBC, *Submission No. 28*, p. 243.

70 Mr Bill Wilkinson, *Transcript 21 November 2006*, p. 20.

71 AMBC, *Submission No. 28*, pp. 243–4.

72 Mr Bill Wilkinson, *Transcript 21 November 2006*, p. 19.

73 DFAT, *Submission No. 11*, p. 79.

- 4.81 There are two types of FTA – ‘positive listing’, or ‘negative listing’. A positive listing free-trade agreement is one whereby negotiating countries make voluntary commitments on specific items or services, thereby ensuring that the entire range of possible goods or services is not covered. A negative listing free-trade agreement covers all aspects of trade between negotiating countries except those that are not included through explicitly stated provisions.
- 4.82 The issues raised with the Committee included:
- the nature of the agreement;
  - the protection of intellectual property;
  - recognition of qualifications;
  - market access; and
  - tariffs.

## Type of free-trade agreement

- 4.83 MEAA advised the Committee that it favoured a positive listing FTA with no commitments made in respect of cultural industries. In the event that the Government proceeded with a negative FTA, however, MEAA suggested that the current FTA with Singapore be used as a model. This was because, unlike the FTA with the US, the reservations provided ‘appropriate protections for Australia’s cultural industries to the extent possible in negative listing agreements’.<sup>74</sup>

## Intellectual property

- 4.84 MEAA told the Committee that Malaysia was a major source of pirated DVDs and CDs:

Malaysia is considered to be one of the hubs of piracy and it provides a lot of pirated material out of South-East Asia and out of Asia more generally – although I understand that more recently there appears to have been a shift where Malaysia is now becoming not the huge producer but a kicking-off point. There is a lot of pirated material coming in from China to Malaysia and then being exported out of Malaysia to other parts of the world.<sup>75</sup>

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74 MEAA, *Submission No. 17*, p. 133.

75 Ms Lynn Gailey, *Transcript 21 November 2006*, p. 28.

- 4.85 MEAA noted that Malaysia was taking the issue seriously and strengthening copyright law. It advised that in 2003, enforcement officers had seized more than 2.8 million illegal disks.<sup>76</sup>
- 4.86 Support for MEAA was provided by AEEMA which said its members also suffered from counterfeiting (see above). Its witness was supportive of the cultural industries view that the issue be addressed 'in the preliminary discussions that lead up to the drafting of the first chapter in any FTA.' AEEMA added:
- ... it has been put to us by Foreign Affairs and Trade officials that there is a copying culture in Malaysia and some of the other Asian countries, and that it is a very difficult issue for Department of Foreign Affairs and Trade officials to deal with at the moment. But we're keeping it on the table, as is the entertainment industry, most strongly.<sup>77</sup>
- 4.87 DITR was noncommittal on the contents of the intellectual property chapter in the FTA, but observed that it didn't think Malaysia was not negotiating in good faith on the issue.<sup>78</sup>

## Accreditation of courses and recognition of qualifications

- 4.88 Several Australian education institutions have set up branch campuses in Malaysia, but have encountered two major problems with accreditation procedures:
- The Malaysian Government system to regulate awards was insufficiently adaptable to 'allow the awards delivered by foreign institutions to coexist with Malaysian ones.' Unfortunately, when Australian providers had attempted to meet Malaysian requirements the courses were found to be no longer compliant with Australian requirements.
  - Malaysia required a licence be obtained for each course of study, but did not allow any variations in the programme to cater for market changes or student interests.<sup>79</sup>

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76 MEAA, *Submission No. 17*, p. 147, quoting from Motion Picture Production Association of America, *Anti-piracy*, <[www.mppaa.org/anti-piracy](http://www.mppaa.org/anti-piracy)>.

77 Ms Loretta Johnson, *Transcript 16 October 2006*, p. 29.

78 Mr Ken Miley, *Transcript 16 October 2006*, p. 18.

79 DEST, *Submission No. 14*, pp. 114–15.

- 4.89 DEST advised there was a very high level of recognition of qualifications by the relevant Malaysian professional boards. There were problems, however, with recognition by the Malaysian Public Service Department (JPA). Such recognition was needed to allow graduates to apply for some jobs in the public service and, more importantly, to achieve comparable levels of pay to those with recognised qualifications.
- 4.90 Unfortunately, recognition by the JPA appeared to be based on the nomenclature of the degree awarded, rather than its quality and course content.<sup>80</sup>
- 4.91 The AVCC explained that the JPA:
- ... does not recognise several categories of our degrees appropriately. For example, they do not recognise every university law degree in Australia and they do not make a distinction between our Australian undergraduate degree with honours, which is a three [year] plus one degree, and the British degree with honours, which is a three [year] only degree.<sup>81</sup>
- 4.92 DEST added that Australia's three-year bachelor degrees were currently recognised as a pass degree, equivalent to a higher diploma or two-year course. The department noted that some Malaysian private sector bodies recognised the Australian three-year bachelor's degree as equivalent to the overseas three years honours degree. Consequently, DEST was trying to have the JPA harmonise its recognition regime with that of the Malaysian private sector.<sup>82</sup>

## Market access

### Foreign equity restrictions

- 4.93 ANZ and Telstra both raised the foreign equity restrictions imposed by the Malaysian government as issues to be addressed in an FTA.

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80 DEST, *Submission No. 14*, p. 114.

81 Professor Roger Dean, *Transcript 4 December 2006*, p. 11.

82 DEST, *Submission No. 14*, p. 116.

- 4.94 ANZ stated that in Malaysia there was a 30 per cent cap on foreign ownership of domestic banks with the need to seek central bank approval for holdings above five per cent and Prime Ministerial approval for holdings above 20 per cent.<sup>83</sup>
- 4.95 Telstra also raised the 30 per cent foreign ownership rule, but noted that ‘in certain circumstances foreigners are permitted to take up to 61% equity provided they sell down to 49% within five years.’<sup>84</sup> Telstra’s witness told the Committee that it was watching ‘with great interest’ the outcome of the Norwegian company Telenor’s requirements to sell down to 49 per cent its investment in DiGi.com.<sup>85</sup>
- 4.96 DEST too, advised of equity restrictions. Foreign education providers needed a local partner to supply education services in Malaysia – the local partner was required to be the legal entity. Foreign ownership was capped at 49 per cent and the joint education institution was required to have at least one Malaysian citizen on its board.<sup>86</sup>

### Granting of licences

- 4.97 Again ANZ and Telstra raised market access concerns in the services sector. ANZ complained that it was easier for a Malaysian bank to establish itself in Australia than it was for an Australian bank to establish and operate in Malaysia. This was because the central bank in Malaysia had ‘not issued a new banking licence for many years and the process for granting a licence [was] not transparent.’<sup>87</sup>
- 4.98 Telstra told the Committee there were restrictions on its building telecommunications infrastructure in Malaysia:

You are usually required to obtain a national facilities licence if you intend to lay fibre optic cable inside the country, set up a cable landing station, a satellite ground station or even a mobile network – a transceiver, transmitter: the usual mobile apparatus. No foreign operator has been allowed to acquire a significant shareholding in this type of licence other than the previous mentioned Telenor of Norway, and we reckon that

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83 ANZ, *Submission No. 8*, p. 59.

84 Telstra, *Submission No. 16*, p. 127.

85 Mr Kavan Peries, *Transcript 21 November 2006*, p. 35.

86 DEST, *Submission No. 14*, p. 116.

87 ANZ, *Submission No. 8*, p. 59.

this is a prohibitive market limitation attempt by the Malaysia authorities.<sup>88</sup>

- 4.99 DCITA's submission added that Malaysia's Foreign Investment Committee was required to approve acquisitions greater than A\$3.6 million 'where the foreign company holds over 15% of the voting share, or the total foreign investment is greater than 30%.'<sup>89</sup>
- 4.100 DAFF has also raised discretionary import licensing arrangements which affected sugar, rice and dairy products. Industry was concerned about the uncertainty such arrangements caused, and DAFF was seeking, through the FTA negotiations, to ensure import licensing was not acting as a barrier to Australia's exports.<sup>90</sup>

### Government procurement

- 4.101 Government procurement occupies a significant proportion of the economy. The Government of South Australia advised the Committee that the Malaysian Government intended to 'maintain the requirement that all government agencies procure supplies and services from local sources.' This requirement had limited the ability for South Australian industries, in particular the defence industry, to access the Malaysian market. The submission advocated the continued 'push for the inclusion of commitments on government procurement in the FTA.'<sup>91</sup>

### Tariffs

- 4.102 DAFF's submission advised that while most agricultural products faced a very low or zero applied tariffs:

... dairy products, some horticultural products, processed meat, some seafood, and a range of processed foods faced tariffs of between 5 and 30 per cent. ... alcoholic beverages, notably wine, also face specific rate tariffs.

Australian forest industries face ... import tariffs ranging from 0-300 per cent. The tariff level is generally lower on raw materials and increases for those with value-added content or which undergo further processing.

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88 Mr Kavan Peries, *Transcript 21 November 2006*, p. 35.

89 DCITA, *Submission No. 7*, p. 50.

90 DAFF, *Submission No. 23*, p. 213.

91 Government of South Australia, *Submission No. 24*, p. 222.



While Malaysia has no tariffs on imports of wool, it does maintain 15–20 per cent tariffs on certain woollen products (suits, trousers, jackets and jumpers).<sup>92</sup>

4.103 DAFF also noted that Malaysia had indicated it would impose tariff rate quotas on 21 agricultural product tariff lines. The Department was seeking, through the FTA negotiations, to have Australian exports exempt from these arrangements.<sup>93</sup>

4.104 As noted earlier, Malaysia's automotive industry is 'one of the most protected in the region.' Tariffs of 30 per cent are applied to vehicles from non-ASEAN regions and the requirement for import permits effectively acts as an import quota.<sup>94</sup>

### Non-tariff barriers

4.105 Import licensing and the requirement for Bumiputra equity in foreign investment in Malaysia has been discussed above. A further non-tariff barrier was raised by DAFF:

Australian wine exports entering Malaysia are required to include labelling which states the alcohol content in Bahasa Malaysia. ... a bottle from each case of imported wine [must] be taken for analysis, thereby increasing the landed cost of the product. Wines exported from Australia have already undergone analysis by accredited laboratories to ensure they comply with Australian laws.<sup>95</sup>

4.106 DAFF advised the Committee that it was attempting to address this issue through the FTA negotiations.<sup>96</sup>

### Committee comment

4.107 The issues on the table during FTA negotiations are many and complex. The Committee has been advised of extensive ongoing consultation with industry peak bodies, unions, and State and Territory governments, and that over 60 submissions have been

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92 DAFF, *Submission No. 23*, p. 212.

93 DAFF, *Submission No. 23*, p. 212.

94 DITR, *Submission No. 21*, p. 185.

95 DAFF, *Submission No. 23*, p. 213.

96 DAFF, *Submission No. 23*, p. 213.

received.<sup>97</sup> Consequently, the evidence provided to the Committee is but a snapshot of issues discussed during negotiations.

4.108 An issue of concern to the Committee is the need for Malaysian authorities to test Australia wine imports. The Committee is disappointed that wine already tested by accredited laboratories in Australia needs to be retested in Malaysia, thereby significantly increasing landed costs. The Committee supports DAFF's efforts in attempting to address the issue through the FTA negotiations.

4.109 From comments made at public hearings, however, the Committee feels both Australia and Malaysia are approaching the negotiations in good faith and real progress is being achieved. The comments from a DAFF witness are typical:

The negotiations from our point of view are going quite well. It is a hard slog, as FTAs always are, as you are aware. ... From our point of view things are on track. We have not had any significant issues or disagreements with the Malaysians, other than the standard toing and froing of negotiations. ... with each new FTA we learn lessons from the previous one. What our negotiators tell me informally is, again, that those lessons are being built on and we are progressing quite well.<sup>98</sup>

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97 DITR, *Submission No. 21*, p. 183.

98 Mr David Williamson, *Transcript 4 December 2006*, pp. 25-6.

## Migration and people movement

### Introduction

- 5.1 Migration and the movement of people for purposes such as business, tourism, and education are intertwined. Many migrants to Australia have previously visited on business, as tourists, or as international students. Indeed, some overseas students have remained in Australia after completing their studies or training to become permanent residents.<sup>1</sup> On the other hand, many tourists visiting Australia do so because of contacts with Australian residents, such as Australians visiting their country, migrants to Australia from their country, or through business contacts.

### Malaysian community in Australia

- 5.2 The history of contact between Australia and Malaysia dates back to the 19<sup>th</sup>-century when Malays were involved in the pearling industry and trepang collection in northern Australia. The introduction of the Colombo Plan in 1950 brought some 17 000 international students to Australia, the majority being Malaysians. Many of these students

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1 Mr James Fox, *Transcript 9 October 2006*, p. 23.

married Australians and later sponsored the immigration of family members.<sup>2</sup>

5.3 The 2001 Census figures show that the Malaysian community is the 12<sup>th</sup> largest national group in Australia.<sup>3</sup> The then Department of Immigration and Multicultural Affairs (DIMA)<sup>4</sup> advised that the 78 850 Malaysian born people in Australia lived mainly in Victoria, New South Wales, Western Australia, and Queensland, and were mainly 'employed in skills and professional fields such as finance, property, business, community services, education and medicine.'<sup>5</sup>

5.4 DIMA also told the Committee that its network of community liaison officers which was in contact with some 8000 individuals and organisations in the Malaysian community had reported that:

... Malaysian born people are one of the best communities we have in Australia for integrating into the Australian community. ... the majority of the Malaysian born people in Australia are ethnic Chinese. They are generally very well educated. They speak good English and they have jobs. It is a good news story.

They also have one of the highest rates of intermarriage with Australians, which is another good indicator of integration within the community. ... We almost see them as invisible within Australia because they are such a well-integrated community.<sup>6</sup>

## Migration to Australia

5.5 An increasing proportion of Australia's migrant intake comes from Malaysia. In 1996-97, the proportion was 1.8 per cent of all migrants – this has risen to 3.7 per cent in 2004-05. Within the skilled migrant category, Malaysia was the fourth largest source country

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2 Department of Immigration and Citizenship, *Exhibit No. 7, Community Information Summary, the Malaysian-born Community*

3 *2001 Census of Population and Housing Australia, Country of Birth by Year of Arrival in Australia*, Australian Bureau of Statistics web site.

4 In January 2007, the department was renamed Department of Immigration and Citizenship.

5 DIMA, *Submission No. 6*, p. 36.

6 Mr James Fox, *Transcript 9 October 2006*, pp. 21-2.

(4.9 per cent of all skilled migrants) after India, United Kingdom, and China.<sup>7</sup>

5.6 There was a sharp increase in skilled migration from Malaysia from 2002–03 onwards. DIMA advised this was due to a change in policy which allowed overseas students with Australian skills qualifications to apply for migration while still in Australia.<sup>8</sup>

5.7 DIMA provided information on the skills brought to Australia by Malaysian migrants:

There are quite a few from the medical side. There are a smaller number of engineers, but there are large numbers of doctors and medical practitioners in training. A number of Malaysians are coming here to do their training and ending up staying here, as well.<sup>9</sup>

5.8 Regarding citizenship, DIMA told the Committee that about 59 per cent of Malaysian born migrants were considering Australian citizenship. This compared to about 75 per cent for all overseas born migrants. DIMA's witness expressed 'surprise' by this statistic.<sup>10</sup>

5.9 The Committee notes that Malaysia does not allow dual citizenship,<sup>11</sup> which may explain the lower proportion of Malaysian born who were considering Australian citizenship.

## The Australia–Malaysia travel market

5.10 Qantas has advised the Committee that Malaysia is Australia's ninth largest market in terms of origin/destination traffic flows. During 2005–06 more than 6000 passengers travelled each way each week. About half were travelling for holiday purposes.

5.11 Currently Malaysia Airlines is the major operator with 69 per cent of the traffic. Most of the passenger traffic flows to and from points beyond Malaysia.<sup>12</sup>

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7 DIMA, *Submission No. 6*, p. 36.

8 DIMA, *Submission No. 6*, p. 36.

9 Mr James Fox, *Transcript 9 October 2006*, p. 23.

10 Mr James Fox, *Transcript 9 October 2006*, p. 24.

11 Parliamentary Library, *Current Issues Brief 5, 2000–01, Dual Citizenship in Australia*, 28 November 2000, p. 5.

12 Qantas, *Submission No. 10*, p. 68.

- 5.12 During the 1990s Qantas operated a Sydney–Singapore–Kuala Lumpur service, but this was discontinued in 2000. Qantas re-entered the market in 2003 in the guise of its single class and leisure subsidiary Australian Airlines. The service, however, did not cover variable operating costs and was withdrawn in 2005.<sup>13</sup>
- 5.13 It appears that Qantas is set to re-enter the market in 2007. In January 2007, Qantas applied to the International Air Services Commission for an allocation of 909 seats per week on the Malaysia Route. In its letter of application, Qantas advised the Commission that its subsidiary company, Jetstar, proposed to commence operation in September 2007 of thrice weekly Sydney–Kuala Lumpur–Sydney flights using its two-class A300–200 aircraft.<sup>14</sup>

## Visitors to Australia

- 5.14 In 2004–05, Malaysia was the seventh most important source country for visitors to Australia.<sup>15</sup> DITR estimated that in 2005 the value to the Australian economy was \$600 million and forecasted this would increase to \$1.1 billion by 2015.<sup>16</sup>
- 5.15 Almost all Malaysian visitors use an Electronic Travel Authority (ETA) obtained over the Internet. There are two categories of ETAs— for visits and for business. Both enable stays of up to three months during a period of a year and are valid for multiple entries.<sup>17</sup> In addition, longer stay visas are available for Malaysian tourists as well as for students studying in Australia.<sup>18</sup>
- 5.16 Australia’s education market for international students is the subject of Chapter 6.

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13 Qantas, *Submission No. 10*, p. 69.

14 <<http://www.iasc.gov.au/pubs/iascpp4190.pdf>>, accessed February 2007.

15 DIMA, *Submission No. 6*, p. 33.

16 DITR, *Submission No. 21*, p. 186.

17 Internet Visa Services Australia, *Australian Electronic Travel Authority*, <<http://www.eta.immi.gov.au/ETAAus3En.html>>, accessed February 2007.

18 DIMA, *Submission No. 6*, pp. 33–4.

## Decline in visitor numbers

- 5.17 Figures provided by DIMA show that between 2003–04 and 2005–06 there has been a decline in **all categories** of Malaysian visitor visa approvals of around 17.7 per cent. Over the same time period, however, Malaysian Short Stay Business Visas approvals rose by around 28.9 per cent. This was reflected in an increase from 5.0 per cent to 7.8 per cent in the proportion of Malaysian visitors who arrived for business purposes.<sup>19</sup>
- 5.18 DITR told the Committee that the reduction in visitor numbers from Malaysia was attributed to a decline in travel spending by Malaysians due to the availability of alternative short-haul, low-cost destinations.<sup>20</sup> The phenomenon had affected the whole of South East Asia and extended into East Asia:
- ... where the low-cost airline explosion over the last three or four years has been offering impossibly tempting deals to consumers in those countries. We are seeing a pattern of people taking up those options rather than proceeding to countries like Australia. The low-cost model in the world generally is limited to a certain number of hours flying because people are pretty well packed in and it is not in all respects a very comfortable flight. Four or five hours is the ceiling that people apply to low-cost airlines generally.<sup>21</sup>
- 5.19 DITR added that Kuala Lumpur was almost at the centre of the low-cost airline network, and that the ‘penetration of low-cost airlines in Asia is only about one-third of the penetration in Europe’, so it would be some time before the impact peaked.<sup>22</sup>
- 5.20 In response to such competition, DITR noted that Jetstar, an Australian low-cost airline, had ‘adopted quite a creative model with the two class fares.’ The premium service was similar to a full economy fare, but with ‘some aspects of business class travel.’ DITR concluded:

One can see Jetstar trying to find that medium, to find a flight that people will endure for six or seven hours but that is

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19 DIMA, *Submission No. 35*, p. 274.

20 Mr Ken Miley, *Transcript 16 October 2006*, p. 13.

21 Mr Philip Noonan, *Transcript 16 October 2006*, p. 13.

22 Mr Philip Noonan, *Transcript 16 October 2006*, pp. 15, 17.

nevertheless on a low-cost model so that [it] can be competitive.<sup>23</sup>

- 5.21 DITR told the Committee about other developments designed to address the decline in visitor numbers:
- Tourism Australia had recently released a *Muslim Visitors Guide to Australia*. The guide contains lists of recommended Halal restaurants and locations of mosques in the States and Territories.<sup>24</sup>
  - The *My Australian Adventure* promotion in 2006 was a multimedia campaign featuring leading Malaysian celebrities experiencing Australia. It comprised a seven episode travelogue screened on Malaysian television.
  - A 10-day event in April 2006 at the Hilton Kuala Lumpur focused on Australian chefs and winemakers.
  - Cooperative print campaigns had been conducted with State tourism offices. Tourism Australia provided a national flavour with each State office highlighting the unique attractions of the State.
  - Seven Malaysian journalists had been brought to Australia under the Visiting Journalists Programme to see and report on the main attractions of Australia.
  - The Aussie Specialist Programme had selected Malaysian travel agents with a particular interest or expertise in Australia. Tourism Australia provided them with extra support and materials for their clients.<sup>25</sup>
- 5.22 Regarding the 'Where the bloody hell are you?' campaign, DITR told the Committee that the campaign had yet to be launched in Malaysia. The intention was to launch the campaign during 2006–07 with Tourism Australia working 'with local authorities and the local market to try to present it in a way that is culturally acceptable.'<sup>26</sup>

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23 Mr Philip Noonan, *Transcript 16 October 2006*, p. 13.

24 Tourism Australia, *Exhibit No. 3, Muslim Visitors Guide to Australia*.

25 Mr Philip Noonan, *Transcript 16 October 2006*, p. 16.

26 Mr Philip Noonan, *Transcript 16 October 2006*, p. 15.



## Visitors to Malaysia

- 5.23 Although estimates vary, the numbers of Australians travelling to Malaysia is increasing.
- 5.24 DFAT advised in an early submission that in 2005 there were almost 16 000 Australian visitors to Malaysia, an increase from 2004 of 11 per cent.<sup>27</sup> A supplementary submission provided figures from the Malaysian Tourist Board indicating some 265 000 Australian visits to Malaysia in 2005, an annual increase of 30 per cent.<sup>28</sup>
- 5.25 The Committee believes that the reason for the discrepancy may be due to the fact that most travellers carried on the Malaysia route by the principal carrier, Malaysia Airlines, have a destination beyond Malaysia.<sup>29</sup>
- 5.26 Currently, Malaysia is engaged in a major tourist promotion which commenced with the launch in January 2007 of the *Visit Malaysia Year 2007* campaign. Previous campaigns were held in 1990 and 1994.<sup>30</sup>

## Border security

### Breaches of visa conditions

- 5.27 As noted above, the majority of Malaysians entering Australia for short-term visits use an ETA. DIMA's submission stated that there were instances where the ETA service had been abused and noted that it estimated that 8 per cent of overstayers in 2005–06 were Malaysians.<sup>31</sup>
- 5.28 DIMA explained to the Committee it was primarily visitor visa holders that were at fault, although there were some students.<sup>32</sup> DIMA commented that the actual number was 'not that high', but that

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27 DFAT, *Submission No. 11*, p. 80.

28 DFAT, *Submission No. 22*, p. 192.

29 Qantas, *Submission No. 10*, p. 68.

30 Tourism Malaysia, *News Release, Visit Malaysia Year 2007 Grand Launch*, 6 January 2007.

31 DIMA, *Submission No. 6*, p. 33.

32 Mr James Fox, *Transcript 9 October 2006*, p. 18.

the percentage was significant.<sup>33</sup> DIMA, however, did 'not regard the Malaysian overstayer rate as alarming'.<sup>34</sup>

- 5.29 Figures subsequently provided by DIMA show the situation to have declined since DIMA appeared before the Committee. In 2005–06 the percentage of over stayers who were Malaysian had risen to 12 per cent.
- 5.30 Comparisons with the number of Malaysians arriving in Australia – the estimated overstayers rate<sup>35</sup> – show a relative deterioration from 2003–04 to 2005–06. The rate for Malaysians had **increased** from 0.55 per cent (807 individuals) in 2003–04, to 0.93 per cent (1345 individuals) in 2005–06. This compared with a corresponding **decrease** in the estimated overstayers rate for all visitors from 0.42 per cent (14 323 individuals) in 2003–04, to 0.30 per cent (11 141 individuals) in 2005–06.<sup>36</sup>
- 5.31 DIMA's submission advised that:
- A consequence of this abuse has been increased scrutiny of Malaysian nationals on arrival in Australia. DIMA is working with the tourism industry to address the problem, including developing better profiles of genuine visitors.<sup>37</sup>
- 5.32 DIMA also told the Committee that increased scrutiny took the form of working with 'the Malaysian government at the law enforcement end of the spectrum',<sup>38</sup> and greater questioning of Malaysian visitors upon arrival at the border.<sup>39</sup>
- 5.33 In addition, two Airline Liaison Officers (ALOs) were stationed at Kuala Lumpur International Airport. These officers:
- ... work closely with Malaysian Airlines security staff and provide an advisory service to airlines with direct flights to Australia. In particular, the ALOs provide training on

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33 Mr James Fox, *Transcript 9 October 2006*, p. 20.

34 Mr James Fox, *Transcript 9 October 2006*, p. 18.

35 The estimated overstayer rate is calculated by dividing the estimated number of overstayers by the number of visitor arrivals whose visas had ceased in the reporting period. DIMA, *Submission No. 33*, p. 264.

36 DIMA, *Submission No. 33*, p. 264.

37 DIMA, *Submission No. 6*, p. 33.

38 Mr James Fox, *Transcript 9 October 2006*, p. 18.

39 Mr James Fox, *Transcript 9 October 2006*, p. 24.

Australian entry requirements and on the security features of Australian passports and Australian visas.<sup>40</sup>

- 5.34 Figures provided by DIMA show that in 2004–05 the number of the Malaysian passport holders that were refused entry totalled 541. This increased in 2005–06 to 599. In the first half of 2006–07 the number of refusals was 250.<sup>41</sup>

## People smuggling

- 5.35 In 2002, Ministers and law-enforcement agencies from 42 countries launched an initiative on people smuggling – the Bali Process. The objective was to combat people smuggling, trafficking and related transnational crime in the Middle East, Asia, and Pacific regions.<sup>42</sup>
- 5.36 DIMA told the Committee that Malaysia had ‘been a very good ally in efforts to stop people smuggling’ and was a ‘very active participant in the Bali Process’.<sup>43</sup> Further, the Australian agencies represented in the Kuala Lumpur High Commission, such as the Australian Federal Police and immigration officials, had a very effective relationship with their Malaysian counterparts.<sup>44</sup> DIMA added:

They have taken strong action against people who are forging documents within their country, and we have helped them with that through the provision of document examination experts to Malaysia. ... They have tightened up their visa-free arrangements and they also now record biometric details of foreign workers and any of those found to be illegal. ... They have also included biometric chips in their passports since 1998. That certainly helps them to deal with their own border control, but it also helps us to deal with ETA abuse ...<sup>45</sup>

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40 DIMA, *Submission No. 6*, p. 38.

41 DIMA, *Submission No. 33*, p. 264.

42 DIC, *Australian Immigration Fact Sheet 73, People Smuggling*, p. 2, <<http://www.immi.gov.au/media/fact-sheets/73smuggling.htm>> accessed February 2007.

43 Mr James Fox, *Transcript 9 October 2006*, p. 19.

44 Mr Peter McColl, *Transcript 9 October 2006*, p. 26.

45 Mr James Fox, *Transcript 9 October 2006*, p. 26.

## Committee comment

- 5.37 The Committee acknowledges the achievements of Malaysians residing in Australia in integrating into the community. The Committee is confident that they are making a significant contribution to Australia's way of life.
- 5.38 The lower than average adoption of Australian citizenship by Malaysian born residents is disappointing. Malaysia's policy, like many other countries, of not allowing dual citizenship may be a contributing factor in discouraging Malaysian migrants to fully commit to Australia.
- 5.39 The Committee acknowledges the efforts of DITR to promote the Australian tourism market in Malaysia, and that a new Australia-Malaysia service is being introduced by Qantas.
- 5.40 The Committee considers that Tourism Australia's recent 'Where the Bloody Hell are You' campaign is not appropriate for all cultures. The Committee expects Tourism Australia to mount any tourism promotion in Asian countries in an appropriate manner. The content and presentation of the *Malaysian Visitors Guide to Australia* shows that Tourism Australia is sensitive to the culture of its target audience.
- 5.41 Regarding border security and people smuggling, the Committee acknowledges the contribution of the Malaysian Government to addressing the problem in the region.
- 5.42 Closer to home, the Committee does not share DIMA's apparent complacency concerning the estimated overstayers rate for Malaysians.
- 5.43 From 2003-04 to 2005-06, the proportion of Malaysian overstayers more than doubled, and the estimated overstayers rate for Malaysians in 2005-06 is triple that for all visitors to Australia. While the number of Malaysian passport holders being refused entry has risen, it is unclear whether this will be sustained in 2006-07.

**Recommendation 3**

5.44 The Department of Immigration and Citizenship review:

- the reasons for the increase in Malaysian overstayers; and
- the reasons for the increase in the number of Malaysian passport holders being refused entry to Australia.

**The Department should report to the Minister, providing strategies, with associated performance targets, for addressing the problem.**



# 6

## Education

### Introduction

- 6.1 Australia and Malaysia share a strong history of educational links, dating back to the 1950s and the Colombo Plan. These links are a fundamental element of the broader bilateral relationship. The Department of Education, Science and Training has estimated that there are 250 000 Malaysians who are alumni of Australian educational institutes, who have helped develop strong ties between Australia and Malaysia across society, business and politics.<sup>1</sup>
- 6.2 Australia is the largest overseas provider of education services to Malaysia and Malaysia rates as Australia's fifth largest source for offshore student enrolments in 2005. Education provisions to Malaysians include scholarship-based or full fee-paying university degrees, short courses, vocational and technical education, twinning programmes and various forms of offshore provision.

### Government-to-government linkages

- 6.3 The Malaysian and Australian Governments are currently negotiating to renew the *Memorandum of Understanding on Cooperation in the Field of Education (MoU)*, which formally expired in January 2006. The MoU

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1 DEST, *Submission No. 14*, p. 106.

underpins and formalises Australia's education relationship with Malaysia.<sup>2</sup>

- 6.4 In July 2005 the Hon. Brendan Nelson MP, the then Minister for Education, Science and Training visited Malaysia. Dr Nelson met with Malaysia's Deputy Prime Minister, Dato' Seri Najib, and the Ministers for Education and Higher Education, Dato' Hishamuddin and Dato' Dr Shafie. Dr Nelson also visited the International Islamic University of Malaysia, where he announced the creation of ten new scholarships for Malaysia, under the Endeavour Programme, for the two-way exchange of students.<sup>3</sup>

## **Institution-to-institution linkages**

- 6.5 Australian educational institutions play an important role in providing offshore education services to Malaysian students, and contribute to capacity building in Malaysia. Though Malaysian students have traditionally travelled to Australia to study, university twinning arrangements and Australian university campuses in Malaysia now allow Australian students to undertake Australian courses in Malaysia.<sup>4</sup>
- 6.6 In 2004, there were 16 432 Malaysian students enrolled in Australian higher education institutions onshore and 12 539 offshore. Of these students approximately 90 per cent were enrolled at the undergraduate level.<sup>5</sup> The most popular fields of higher education study are business administration and management (33 per cent) and engineering (15.3 per cent).<sup>6</sup>
- 6.7 Malaysians have traditionally favoured Victoria as a destination for study (39.6 per cent in 2005). Recently, however, there has been diversification with Western Australia and NSW growing in popularity, with 19.4 per cent and 14.6 per cent of Malaysian students in 2005 respectively.<sup>7</sup>

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2 DEST, *Submission No. 14*, p. 107.

3 DEST, *Submission No. 14*, p. 107.

4 AVCC, *Submission No. 12*, p. 85.

5 AVCC, *Submission No. 12*, p. 84.

6 DEST, *Submission No. 14*, p. 108.

7 DEST, *Submission No. 14*, p. 109.



- 6.8 Three Australian universities now have branch campuses in Malaysia. In February 1998, Monash University was invited by the Malaysian Government to establish a campus in Malaysia, the first international institution to receive such an invitation. Monash University Malaysia received its first intake of students in July 1998 and by 2005 the campus had expanded to 2450 students. Curtin University and the Swinburne University of Technology have also established branch campuses in Malaysia.<sup>8</sup>
- 6.9 Many Australian universities have been involved in the growth of private educational facilities in Malaysia, through twinning arrangements, advance standing schemes and programmes to upgrade the qualifications of Malaysian academics. Students are able to undertake the early years of their courses in Malaysia and to complete the latter part of their studies at an Australian campus. Additionally, at least 14 Australian universities have approval to provide full in-country degree programmes with Malaysian partners.<sup>9</sup>
- 6.10 Australian and Malaysian universities also have a large number of university to university links. These links encourage joint research and exchange and facilitate the building of relationships and cultural understanding between students and academics from both countries.<sup>10</sup>

### Australian Vice-Chancellors' Committee

- 6.11 The AVCC plays a role in Malaysian educational capacity building. Recently, the AVCC and the Malaysian Vice-Chancellor's Committee (MVCC) undertook to strengthen Australia-Malaysian links through its Malaysian University Lecturer Upgrade Programme. According to the AVCC, the project aimed to strengthen university to university links; enhance perceptions of Australian universities; and foster research networks and cooperation and encourage bilateral exchange of academic and cultural perspective.<sup>11</sup>
- 6.12 In July 2006, the AVCC hosted a two day Australia-Malaysia Vice-Chancellors' meeting in Sydney. This meeting was part of the DEST operated Regional Links Programme which aims to maintain and extend Australia's bilateral, regional and multilateral education and

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8 DFAT, *Submission No. 11*, p. 80.

9 AVCC, *Submission No. 12*, p. 85.

10 AVCC, *Submission No. 12*, p. 85.

11 AVCC, *Submission No. 12*, p. 86.

training activities, and further develop the international dimension of Australia's education and training industry.<sup>12</sup>

- 6.13 The meeting involved 10 Malaysian universities and 14 Malaysian delegates, and 13 Australian Vice-Chancellors or their representatives. The AVCC's submission stated that:

... the representation from both Australia and Malaysia at the meeting is an indication of the importance of these meetings and the enthusiasm for collaboration and communication in and between universities in both countries.<sup>13</sup>

- 6.14 Issues discussed at the meeting included staff and student mobility, credit transfer and the recognition of qualifications. Delegates resolved to meet again in Kuala Lumpur to sign an MoU aimed at establishing and supporting research collaboration and opportunities for staff and student mobility between universities in both countries.

- 6.15 The AVCC and the MVCC resolved to lobby government through their respective Minister for Education to establish a fund similar to those established with China and India to facilitate research collaboration and postgraduate exchange.<sup>14</sup>

## Scholarships

- 6.16 The *Endeavour Programme* is a scholarship programme which forms part of the Australian Government's \$1.4 billion *Australia Scholarships* initiative. It aims to bring high achieving students, researchers and professionals from the Asia-pacific region, to Australia to undertake short or long term study, research and professional development in a range of disciplines. The *Endeavour Programme* includes postgraduate scholarships, research fellowships, student exchanges and scholarships aimed at professionals working in academia, government, business and in the community.<sup>15</sup>

- 6.17 Malaysians are eligible for the following awards:

- *Endeavour Asia Awards* (postgraduate research and study)
  - *Endeavour Malaysia Awards* (postgraduate research and study)
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12 AVCC, *Submission No. 12*, p. 86.

13 AVCC, *Submission No. 12*, p. 86.

14 AVCC, *Submission No. 12*, p. 86.

15 DEST, *Submission No. 14*, p. 110.

- *Endeavour Malaysia Research Fellowships* (postgraduate and postdoctoral research)
  - *Endeavour Australia Cheung Kong Awards* (postgraduate and postdoctoral research)
  - *Endeavour Postgraduate Awards* (postgraduate study)
  - *Endeavour Research Fellowships* (postgraduate and postdoctoral research)
  - *Endeavour Executive Awards* (professional development)
  - *Endeavour International Postgraduate Research Scholarships* (postgraduate research)
  - *Endeavour Vocational and Technical Education Awards* (diploma and advanced diploma)
- 6.18 In 2006, 45 Malaysians were allocated *Endeavour Malaysia Awards* for postgraduate research and study, and four Australians received *Endeavour Malaysia Awards* to undertake research and study in Malaysia.<sup>16</sup>
- 6.19 In July 2005, while visiting the International Islamic University Malaysia, Australia's Minister for Foreign Affairs, the Hon. Alexander Downer MP, announced the creation of six new *Endeavour Malaysia Awards* for postgraduate studies and four new *Endeavour Malaysia Research Fellowships* for the two-way exchange of students. According to DEST, these scholarships will be offered to scholars of the highest academic standing whose study and research projects will enhance relationships between Australia and Malaysia, and encourage understanding amongst Australians of Islamic culture.<sup>17</sup>
- 6.20 DEST told the Committee that many Australian universities provided funding for exchange scholarships at both undergraduate and postgraduate level, in some cases partnering with industry. The Australian Government also undertook partnership with industry, such as the *Endeavour Australia Cheung Kong Awards*.<sup>18</sup>
- 6.21 The Awards commenced in 2004/2005 and involved the provision of A\$3.75 million by both the Australian Government and Cheung Kong Group of companies. The awards are split evenly with half being

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16 DEST, *Submission No. 14*, p. 110.

17 DEST, *Submission No. 14*, p. 110.

18 Ms Fiona Buffinton, *Transcript 4 December 2006*, p. 21.

available to Australians proceeding to study in Asia and half to Asian scholars studying in Australia. The A\$7.5 million in funding supports the participation of up to 856 undergraduate students in institution-to-institution student exchanges and funds up to 132 postgraduate/post doctoral fellowships.<sup>19</sup>

- 6.22 Despite the growth of scholarship support, it still appears that Australian students are reluctant to study abroad in Malaysia. DEST told the Committee that:

People still think of Europe or America when they are going abroad, as opposed to engaging with our near neighbours. Looking at what we can see in terms of our trade relationships and our strategic engagement within the region, I think it is really important to get more Australians to study abroad.<sup>20</sup>

## Malaysia's demand for international education

- 6.23 In 2006, around 40 000 Malaysian students were accepted into public universities, while 37 8000 students failed to secure a position. This shortfall has led to an increase in the demand for private education, in which Australia participates through 'twinning' partnerships for the delivering of qualifications.<sup>21</sup>
- 6.24 The Malaysian Government's *Vision 2020* plan, designed to elevate Malaysia to developed country status by 2020, calls for 40 per cent of the Malaysian population to have tertiary education qualifications by 2020. Given Malaysia's growing population, this will require a dramatic expansion of the public university, private college and vocational sectors in Malaysia.<sup>22</sup>
- 6.25 The Ninth Malaysia Plan (Malaysia's five year development plan), released in March 2006, recognised that the majority of public institutions must focus on expanding places and on teaching and learning. Malaysia also wished to develop and recognise outstanding research. Accordingly, the Plan announced that funding would only

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19 <[http://www.endeavour.dest.gov.au/for\\_asia\\_pacific\\_applicants/endeavour\\_australia\\_cheung\\_kong\\_awards.htm](http://www.endeavour.dest.gov.au/for_asia_pacific_applicants/endeavour_australia_cheung_kong_awards.htm)>, accessed 13 January 2007.

20 Ms Fiona Buffinton, *Transcript 4 December 2006*, p. 17.

21 DEST, *Submission No. 14*, p. 112.

22 DEST, *Submission No. 14*, p. 112.

be given to four institutions for research, and that the number of academics with PhDs would be increased from 38 per cent to 60 per cent across all universities within 5 years. DEST's submission suggested that with only four universities engaging in research, demand may rise for international PhD education, and Australia may benefit from this demand.<sup>23</sup>

## Barriers to provision of international education

### Recognition of qualifications

- 6.26 Both the DEST and AVCC submissions focus on the issue of the recognition of Australian qualifications within Malaysia. There are two processes involved:
- the relevant professional board in Malaysia must recognise the qualification, as without appropriate recognition, students are prevented from working in Malaysia.
  - the Malaysian Public Service Department (JPA) must recognise the qualification. Without this, a student may be unsuitable to apply for some jobs in the public service, but more importantly, they will not be paid at an equivalent level as a person with a recognised qualification.<sup>24</sup>
- 6.27 Malaysia's recognition of higher education qualifications occurs on a degree-by-degree and institution-by-institution basis. This assessment method reduces the range of degrees that Malaysian students are prepared to take in Australia and results in compliance costs for Australian universities. The AVCC's submission cites Australia's 20 Bachelor of Law degrees, of which the JPA only recognises 14.<sup>25</sup>
- 6.28 As noted in Chapter 4, the JPA also does not distinguish between Australian Honours Bachelor degrees and the three year bachelor Degree with Honours offered by other foreign universities. The AVCC hoped Malaysia would alter its recognition process to

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23 DEST, *Submission No. 14*, p. 112.

24 DEST, *Submission No. 14*, p. 114.

25 AVCC, *Submission No. 12*, p. 87.

recognise the extra effort and higher academic results required for an Honours degree in Australia.<sup>26</sup>

- 6.29 Some progress has recently been made. For instance, Malaysian recognition of Australian universities has been raised to 100 per cent. The process of gaining recognition for individual degrees has been shortened from averaging around two years to six-eight months, and there is now automatic recognition for the Commonwealth Register for Institutions and Courses for Overseas Study list of Australia's social science, humanities and science degrees. Australian Education International is seeking to extend the number of areas for automatic recognition.<sup>27</sup>
- 6.30 On the other hand, recognition for non-university higher education providers remains unresolved.<sup>28</sup>

### Foreign ownership restrictions

- 6.31 While Australian institutions are among the most active in the development of Malaysian-foreign cooperation education programmes in Malaysia, there are a number of restrictions on their presence in Malaysia.
- 6.32 Foreign providers must have a local partner in order to supply education services in Malaysia, with the local partner being the legal entity. Total foreign ownership of an educational enterprise is currently capped at 49 per cent, and the joint education institution must have at least one Malaysian citizen on its board.<sup>29</sup>
- 6.33 In Chapter 4, the Committee has identified that the recognition of Australian qualifications and the issue of foreign ownership as being issues for discussion in FTA negotiations.

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26 AVCC, *Submission No. 12*, p. 87.

27 DEST, *Submission No. 14*, p. 114.

28 DEST, *Submission No. 14*, p. 114.

29 DEST, *Submission No. 14*, p. 115.

## Advertising and perceptions of Australian education

- 6.34 The Malaysian Students Council of Australia told the Committee that in Malaysia, 'Australia is not very well established in marketing its education' and that 'Australia is not as established as the UK and the US.'<sup>30</sup>
- 6.35 The AVCC agreed that Australia's education marketing in Malaysia was deficient when compared with the UK and US. The witness commented that the British Council had a massive budget for marketing on behalf of British universities and Australia could not compete on economic marketing terms, but did so in marketing quality.<sup>31</sup>
- 6.36 The Malaysian Students Organisation of the University of New South Wales suggested that 'most people would prefer the UK over Australia' and that 'Australia is generally seen as a poor man's choice for foreign education.'<sup>32</sup>
- 6.37 The AVCC witness disagreed that Australia was seen as a 'poor man's choice', suggesting that, in his experience, Malaysian students viewed study in Australia as 'an opportunity with a very high cost-to-benefit ratio.' He concluded that:
- I would totally disagree with any implication that the quality is lower than that in Britain or in the US—quite the contrary, I would say.<sup>33</sup>
- 6.38 DEST refuted the Malaysian Student Organisation's claims by noting that Australia had significantly greater numbers of Malaysian students than either the US or UK, and that the decline in student numbers had been greater for those countries relative to Australia. Regarding Australian education generally, DEST stated that it was Australia's fourth largest export because:
- ... we are perceived as a quality service provider certainly in our medium-to high-end brand of education.<sup>34</sup>

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30 Mr Mohd Saiful Tan, *Transcript 21 November 2006*, p. 4.

31 Professor Roger Dean, *Transcript 4 December 2006*, p. 11.

32 Mr Wai King Yong, *Transcript 21 November 2006*, p. 3.

33 Professor Roger Dean, *Transcript 4 December 2006*, p. 11.

34 Ms Fiona Buffinton, *Transcript 4 December 2006*, pp. 18-19.

## Alumni

- 6.39 Dating back to the Colombo Plan, many Malaysian alumni of Australian educational institutions have held influential positions across all levels of Malaysian society. DFAT provided a list of eleven Malaysian Ministers and State Chief Ministers who received their education in Australia. Notable figures included:
- YB Dato' Seri Syed Hamid Bin Syed Jaafar Albar, *Minister of Foreign Affairs*;
  - YB Dato' Mustapa bin Mohamed, *Minister of Higher Education*;
  - YB Dato' Sri Mohd Effendi Norwawi, *Minister in the Prime Minister's Department*; and
  - YB Datuk Dr. Maximus Johnity Ongkili, *Minister in the Prime Minister's Department*.<sup>35</sup>
- 6.40 DCITA stated that alumni tend to 'have positive views about Australia and Australians' and that 'the personal relationships are a great advantage.' Negotiating with alumni was easier because they 'understand Australian points of view' and tend to speak English well.<sup>36</sup>
- 6.41 DEST advised the Committee that there had been a 'getting of wisdom' with regards to looking after Malaysian alumni and utilising them as a form of promotion. Whereas previously the importance of alumni networks was downplayed and tools for post-graduation communication, such as the internet, were limited, the value of strong networks was now recognised and efforts were being made to facilitate their formation.<sup>37</sup>

## Committee comment

- 6.42 Education is clearly both a vital platform for the broader bilateral relationship and economically beneficial for Australia. It is important that the education dimension continues to be maintained and reinvigorated. The Committee agrees with Mr Geoffrey Sauer's

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35 DFAT, *Submission No. 22*, p. 193.

36 Mr William Scott, *Transcript 16 October 2006*, p. 9.

37 Ms Fiona Buffinton, *Transcript 4 December 2006*, p. 19.



suggestion that the Australian Government, especially through the Australia Malaysia Institute, should support such activities as young leader's programmes, academic exchanges and study-abroad programmes, and that:

... over time, the number of Malaysians with an Australian education background will decline, and for the relationship to be nurtured and sustained, a strategic programme to bring people together from the two countries is required.<sup>38</sup>

- 6.43 It is also important that universities, business and government continue to encourage Australian students to study in Malaysia, and provide financial or professional support in doing so. Malaysia is a strategically important country for Australia and it is important that interest in and understanding of Malaysian cultures and religions be fostered amongst Australians.
- 6.44 It is important that Malaysian students are not forgotten when they return home, that alumni events are held in Malaysia and the potential marketing value of Malaysian alumni is recognised. In this respect, the Committee cites as an example the Australian National University's extensive alumni programme, which in 2005-06 included a series of alumni events held throughout the Asia Pacific.<sup>39</sup>

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38 Mr Geoffrey Sauer, *Submission No. 3*, p. 15.

39 <<http://info.anu.edu.au/mac/Alumni/Events/Past/index.asp>>, accessed 10 January 2007.



## Research and development

### Changing nature of the relationship

- 7.1 Australia has a long and evolving history of research and development collaboration with Malaysia. Initially the relationship was founded on developmental projects and provision of traineeships and advice through the Colombo Plan.<sup>1</sup>
- 7.2 DEST told the Committee:
- ... early interactions took place within the context of development projects funded through Australia's aid program. Australian scientists working in CSIRO and the Australian Centre for International Agricultural Research were providing technical assistance to their Malaysian counterparts primarily. ... That early period of technical aid has drawn to a close; and, for almost a decade, Australian and Malaysian scientists have been working collaboratively in areas such as agricultural research and transboundary infectious disease control.<sup>2</sup>
- 7.3 CSIRO noted that, in terms of number of its international interactions, Malaysia's ranking had varied from between 7th and 12th in 1997 to 2001, dropping to 18th in 2004, but returning to 12th 2005. Malaysia

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1 CSIRO, *Submission No. 2*, p. 8.

2 Ms Sarah Cowen, *Transcript 4 December 2006*, p. 18.

was, however, the second most important partner in ASEAN. CSIRO's submission added:

... part of Malaysia's ranking fluctuation can be attributed to the changing nature of CSIRO's relationship with Malaysia, mirroring to an extent Malaysia's transition from an Australian aid recipient to a partner country and a contractor or purchaser of research. This has been particularly evident in the Division of Petroleum Resources which saw a marked increase in contract research with Malaysia during 2005.<sup>3</sup>

- 7.4 Further, CSIRO told the Committee that the current relationship with Malaysia was 'one of partnership, working together collaboratively to solve issues of mutual interest rather than engagement tailored towards capacity building.'<sup>4</sup>

## Malaysia's new policies and directions

- 7.5 Malaysia's Second National Science and Technology Policy was announced in 2003. The policy aimed to increase research and development (R&D) spending as a proportion of gross domestic product to 1.5 per cent by 2010. Figures provided by DEST showed that, while there was an overall increase in R&D spending of 47 per cent between 2000 and 2002 (equivalent to \$857 million in 2002), R&D only amounts to some 0.69 per cent of Malaysia's GDP.<sup>5</sup>
- 7.6 DEST told the Committee that the Malaysian Government had announced funding for biotechnology development through a long-term national biotechnology policy, and the development of centres of excellence for agriculture, molecular and pharmaceutical biotechnology. Consequently, DEST foresaw that future collaboration in science and technology was promising.<sup>6</sup>
- 7.7 A substantial amount of research is carried out at the postgraduate PhD research level. The AVCC told the Committee that Malaysian universities wished to increase the proportion of their staff with PhDs from the current 30 per cent to about 60 per cent.<sup>7</sup>

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3 CSIRO, *Submission No. 2*, pp. 10-11.

4 Dr Kleanthees Yannakou, *Transcript 4 December 2006*, p. 2.

5 DEST, *Submission No. 14*, p. 116.

6 Ms Sarah Cowen, *Transcript 4 December 2006*, p. 18.

7 Professor Roger Dean, *Transcript 4 December 2006*, p. 10.

- 7.8 As noted in Chapter 6, these developments mean that there will be opportunities for Australia's universities and research institutions to increase their engagement with Malaysian researchers.

## Provision of research funding

- 7.9 Major sources of funding for Australian researchers include:
- the Australian Research Council (ARC) which administers the National Competitive Grants Program (NCGP);
  - the National Health and Medical Research Council (NHMRC) which provides funding for research relevant to human health and medical research;
  - DEST which administers the Endeavour Programme; and
  - AusAID which administers development assistance scholarships.
- 7.10 The NCGP which funds researcher-initiated projects contains various elements, including:
- Discovery Projects which enabled researchers to work with partner organisations worldwide;
  - Linkage Projects which enabled researchers to work with partner organisations in Australia and other countries;
  - Linkage International which enabled researchers to receive awards to travel to other countries and overseas researchers to travel to Australia; and
  - ARC Centres of Excellence, which were required to undertake highly innovative research in areas of national importance.<sup>8</sup>
- 7.11 The ARC told the Committee that between 2000 and 2007 it had funded 43 collaborative projects involving Malaysian researchers. Most were funded under the Discovery scheme (25 projects) and the Linkage schemes (11 projects) with a total allocation being just over \$9.25 million. In 2007, six projects with Malaysian collaboration were to be funded, valued at around \$1.3 million.<sup>9</sup>

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8 Professor Elim Papadakis, *Transcript 4 December 2006*, p. 3.

9 Professor Elim Papadakis, *Transcript 4 December 2006*, p. 4.

- 7.12 Statistics provided by the NHMRC indicated that between 2001 and 2005 three grants were provided to researchers for projects involving collaboration with Malaysia. The researchers were from the University of Western Australia and the grants totalled \$0.91 million.<sup>10</sup>
- 7.13 DEST advised the Committee that in 2006 there had been 46 Endeavour Postgraduate Research and Study Awards granted to Malaysians. Of these, 45 were awarded to Malaysians studying in Australia, with the remainder being for Australians to study in Malaysia. The submission noted that July 2005 saw the announcement of six new Endeavour Malaysia Awards for postgraduate studies, and four new Endeavour Malaysia Research Fellowships for student exchanges. Two awards were reserved for Malaysian students from the International Islamic University Malaysia to study in Australia, and two for Australian students to study at that university.<sup>11</sup>
- 7.14 DEST added that many Australian universities were also actively involved in providing exchange scholarships at either the PhD or undergraduate level, hence did not rely on government scholarships.<sup>12</sup>
- 7.15 Regarding the AusAID developmental scholarships, DEST commented that they would be 'almost down to a trickle' given the stage of economic development Malaysia enjoys.<sup>13</sup>

## **Collaboration between research institutions**

- 7.16 There are varying degrees of formality in the relationship between Australia's and Malaysia's premier research institutes.
- 7.17 For example, the Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering have a joint MoU with the Academy of Sciences Malaysia.<sup>14</sup> On the other hand, the Australian Nuclear Science and Technology Organisation (ANSTO) may be moving towards a MoU with its counterparts in Malaysia.

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10 NHMRC, *Submission No. 34*, p. 272.

11 DEST, *Submission No. 14*, p. 110.

12 Ms Fiona Buffinton, *Transcript 4 December 2006*, p. 21.

13 Ms Fiona Buffinton, *Transcript 4 December 2006*, p. 20.

14 DEST, *Submission No. 14*, p. 116.

- 7.18 ANSTO and Malaysian research institutions participate in the Regional Cooperative Agreement and the Forum for Nuclear Cooperation in Asia. Collaborative work includes radiologic safety and radioactive waste management. Malaysians also comprise some five per cent of placements in Australia under the International Atomic Energy Agency Scientific Visits and Fellowships program.
- 7.19 In May 2006, discussions were held between ANSTO and the Malaysian Institute of Nuclear Technology Research over potential areas for cooperation and collaboration.<sup>15</sup>
- 7.20 CSIRO has had a long history in joint research involving Malaysia and has a series of formal relationships:
- a MoU signed in May 2003 with Petronas Research and Services Sdn Bhd;
  - a Relationship Agreement signed in August 2001 with the Malaysian Palm Oil Board;
  - a Letter of Agreement signed in June 1998 between the Universiti Putra Malaysia to facilitate cooperation in the field of human nutrition;
  - a Scientific and Technological Cooperation Agreement signed in 1993 with the Council of the Standards and Industrial Research Institute of Malaysia (SIRIM Berhad), which resulted in the 'standardisation of the Malaysian building code and other metrology areas'; and
  - a Relationship Agreement signed in July 2000 with SCS Computer Systems Sdn Bhd.<sup>16</sup>
- 7.21 CSIRO advised the Committee that it, SIRIM Berhad (CSIRO's sister institute in Malaysia), and seven other international research organisations had established the Global Research Alliance (GRA). The GRA aimed to:
- ... facilitate international research and development cooperation in an effort to address the problems facing the world especially in areas of water, health, energy, transportation and digital divide. ... GRA has developed a water resources strategic plan of action for the ASEAN region that recognises drivers such as climate change, environmental

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15 DEST, *Submission No. 14*, p. 117.

16 CSIRO, *Submission No. 2*, p. 10.

risk, safe drinking water and sanitation, in-country capacities and future sectoral demand and at the same time delivers some real outcomes in terms of building capacity within ASEAN member nations.<sup>17</sup>

7.22 Other collaborative work with Malaysia being undertaken by CSIRO includes:

- Research with the Universiti Pertanian Malaysia on newly-emerging viruses with potential to infect humans. The Pulau virus, a new virus from bats, had been identified.
- Development of treatments for the Nipah and Hendra viruses.<sup>18</sup>
- Research on the termite genus *Coptotermes*. This genus includes some of the most invasive termite species known. Research includes examination of resistance of plastic materials to attack by the termites and experiments on wood consumption and survival, and inter-species colony interactions.
- Research with the Malaysian Palm Oil Board on novel products recovered from palm oil biowaste.<sup>19</sup>

7.23 The Committee was also advised by DEST that the Queensland Department of Primary Industries and Fisheries was leading a new collaborative project with Malaysia on improving screw-worm fly traps and detection systems. The project was funded by the animal industry and administered through Meat and Livestock Australia with collaborators from the Department of Veterinary Services Malaysia and researchers in Indonesia.<sup>20</sup>

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17 CSIRO, *Submission No. 2*, p. 10.

18 These closely related viruses are thought to be harboured by flying foxes. In 1994–95, the Hendra virus killed 2 people and 16 horses in Queensland. In 1999, the Nipah virus killed more than 100 people in Malaysia.  
CSIRO, Media Release 06/36, *Vaccine in sight for Hendra and Nipah virus*, 27 February 2006.

19 CSIRO, *Submission No. 2*, pp. 10–11.

20 DEST, *Submission No. 14*, p. 118.



## Committee comment

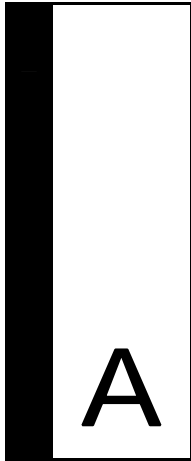
- 7.24 The Committee considers that Australia has a very productive R&D relationship with Malaysia. The research is directed at solving practical problems which will benefit both countries.

Senator Alan Ferguson

Chair

March 2007

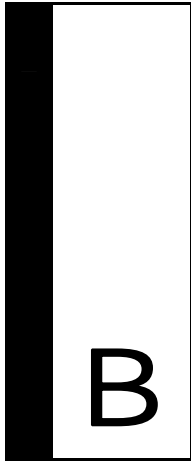




## Appendix A – List of Submissions

- 1 Australia Malaysia Business Council
- 2 CSIRO
- 3 Mr Geoffrey Sauer
- 4 Australia Malaysia Business Council
- 5 Australian Research Council
- 6 Department of Immigration and Multicultural Affairs
- 7 Department of Communications, Information Technology and the Arts
- 8 ANZ Bank
- 9 Baw Baw Shire Council
- 10 Qantas
- 11 Department of Foreign Affairs and Trade
- 12 Australian Vice Chancellors' Committee
- 13 Department of Defence
- 14 Department of Education, Science and Training
- 15 Malaysia and Singapore Society of Australia
- 16 Telstra
- 17 Media, Entertainment & Arts Alliance

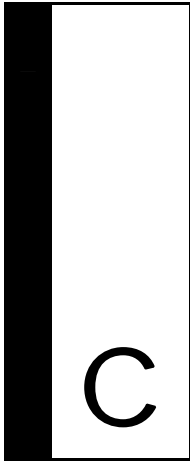
- 18 Australian Electrical and Electronic Manufacturers'  
Association Limited
- 19 Minister for Culture and the Arts, Western Australia  
Government
- 20 Chief Minister for the Northern Territory
- 21 Department of Industry, Tourism and Resources
- 22 Department of Foreign Affairs and Trade
- 23 Department of Agriculture, Fisheries and Forestry
- 24 South Australian Government
- 25 Department of Industry, Tourism and Resources
- 26 Department of Defence
- 27 Australian Meat Industry Council
- 28 Department of Agriculture, Fisheries and Forestry
- 29 Withdrawn
- 30 Invest Australia
- 31 Department of Education, Science and Training
- 32 Department of Agriculture, Fisheries and Forestry
- 33 Department of Immigration and Citizenship
- 34 National Health & Medical Research Council
- 35 Department of Immigration and Citizenship
- 36 CSIRO



## Appendix B – List of Exhibits

- 1      *Australia Malaysia Business Council – Framework for Malaysia Australia.  
Halal Cooperation in Food Production and Marketing – A Business Perspective.*
- 2      *Telstra – Submission to the Federal Government of Malaysia – Foreign equity restrictions in Malaysia’s telecommunications industry.*
- 3      *Department of Industry, Tourism and Resources – Muslim Visitors Guide to Australia*
- 4      *Department of Agriculture, Fisheries and Forestry – Malaysia Department of Veterinary Services, Approved Abattoirs & Plants*
- 5      *House of Representatives Parliamentary Relations Office – Table of Outgoing Delegations to Malaysia, and Incoming Delegations from Malaysia*
- 6      *Department of Agriculture, Fisheries and Forestry – MoU between governments of Western Australia and Malaysia*
- 7      *Department of Immigration and Citizenship – Community Information Summary, the Malaysian-born Community*





## Appendix C – Witnesses appearing at public hearings

### **Monday, 9 October 2006 - Canberra**

Austrade

Department of Defence

Department of Foreign Affairs and Trade

Department of Immigration and Multicultural Affairs

### **Monday, 16 October 2006 - Canberra**

Australian Defence Information and Electronic Systems Association

Australian Electrical and Electronic Manufacturers' Association Limited

Department of Communications, Information Technology and the Arts

Department of Industry, Tourism and Resources

### **Tuesday, 21 November 2006 - Sydney**

Australia Malaysia Business Council

Malaysian Students Council of Australia

Malaysian Students' Organisation, UNSW

Media, Entertainment & Arts Alliance

Qantas

Telstra

UNSW Malaysian Students Organisation

**Monday, 4 December 2006 - Canberra**

Australian Quarantine and Inspection Service

Australian Research Council

Australian Vice Chancellors' Committee

CSIRO

Department of Agriculture, Fisheries and Forestry

Department of Education, Science and Training