

Issues in Australia's Foreign and Trade Relations

Introduction

- 2.1 The public hearing on 21 May 2002 examined a range of topical issues relevant to Australia's relations with selected countries and regions. Issues influencing Australia's foreign relations—including trade and investment, development assistance and human rights—were explored with senior officials from the Department of Foreign Affairs and Trade (DFAT), the Australian Trade Commission (Austrade) and the Australian Agency for International Development (AusAID).
- 2.2 Within the time and other constraints imposed by a single day's hearing involving only official representatives from the principal Foreign Affairs and Trade Portfolio agencies, we decided to focus our review on particular themes and geographical areas. As background material for the review, we drew upon the published annual reports of the three organisations.
- 2.3 The public hearing program comprised three sessions:
- Session 1 was designed to follow up the Committee's reports on the Middle East and South America;¹
 - Session 2 examined Australia's relations with North Asia and South Asia; and
 - Session 3 reviewed Australia's relations with many of our near neighbours.

¹ *Australia's relations with the Middle East*, tabled on 19 September 2001; *Building Australia's Trade and Investment Relationship with South America*, tabled on 4 September 2000.

- 2.4 A one-day hearing could not hope to present a full review of Australia's relations around the entire globe. Consequently, the time constraints required us to focus on countries and regions of particular interest. A further consideration militating against a full-scale report of proceedings was that evidence was requested solely from the principal agencies within the Foreign Affairs and Trade Portfolio.
- 2.5 Without attempting an in-depth analysis of the material derived from the hearing, some of the key issues discussed have been presented in this chapter. The Committee has published at its website the complete transcript record of proceedings, together with the supplementary information provided by the three agencies in response to a number of questions taken on notice.²
- 2.6 The comments which follow outline the main topics of discussion during each of the hearing's three sessions.

Committee Reports on the Middle East and South America

Australia and the Middle East

- 2.7 At the time of writing, the Government Response to the Committee's recommendations in the Middle East report had not been presented to Parliament. DFAT advised, however, that a draft had been prepared for consideration by the Government.³
- 2.8 Other discussion about the Middle East centred on the following key issues:
- continued escalation of violence in the Israeli-Palestinian conflict and the international response, including regional initiatives such as the proposal enunciated by Saudi Arabia and the concerted efforts of the United States, the European Union and Russia to bring about a lasting settlement;
 - Australia's aid contribution to the Palestinian territories through non-government organisations (NGOs) and the United Nations Relief and Works Agency;

2 JSCFADT, www.aph.gov.au/house/committee/jfadt

3 DFAT, Transcript, 21 May 2002, p. 7.

- the state of the Palestinian leadership and international pressure to reform the Palestinian Authority and to curb terrorist acts by extremist organisations supporting the Palestinian cause; and
 - trade opportunities and impediments, particularly in the Persian Gulf region.
- 2.9 Since the hearing in May, there has been greatly increased tension between the United States and Iraq over the issue of alleged development of weapons of mass destruction and the refusal of Iraq to allow UN inspectors to re-enter Iraq. The Bush administration has threatened military action to overthrow the Saddam regime if Iraq does not comply with UN weapons inspection resolutions. As a strong ally of the United States in the war on terrorism, Australia may be called upon to consider accepting a role in support of any action against Iraq.⁴

Australia and South America

- 2.10 One of the Committee's main recommendations in its report on building trade and investment with South America was the establishment of an Australia-South America foundation, to which the Australian Government agreed. Accordingly, the Council on Australia-Latin American Relations (COALAR) held its inaugural meeting in Canberra on 28 September 2001 with membership drawn from a cross-section of business, government, academia and civil society organisations.⁵
- 2.11 During COALAR's first year of operation, there have been some early dividends in the form of visits and delegations to South American countries. Given the Council's three-year funding arrangements, DFAT is confident that further outcomes can be expected in subsequent years—for example, lifting Australia's profile in the region and raising awareness of opportunities for Australian businesses.⁶
- 2.12 The other main topic addressed under the heading of South America was the political instability in Argentina and the collapse of its economy. In DFAT's view, the economic impact on Australian companies to date has been limited.⁷ Austrade confirmed, however, that Argentina's imports had declined by 50 per cent over the previous 12 months and it was

4 The Prime Minister stated publicly at a New South Wales Press Forum luncheon on 5 August 2002, that any Australian involvement would not occur without a thorough public debate, preferably in the Parliament—also reported by *The Australian*, 6 August 2002, p. 5.

5 Joint Media Release, Minister for Foreign Affairs and Minister for Trade, 5 October 2001.

6 DFAT, Transcript, p. 13.

7 Transcript, pp. 13-14.

anticipated that the level of Australia's exports would correspondingly decline due to devaluation of the Argentine peso.⁸

2.13 The role of the International Monetary Fund (IMF) in supporting Argentina's recovery was also discussed. One Committee member expressed surprise that there appeared to be no formal mechanism to ensure that advice and analysis prepared separately by Treasury (Australia's representative on the IMF) and DFAT seemed not to be coordinated effectively.⁹ The IMF announced on 28 June 2002 the resumption of negotiations for a loan package to Argentina, focussing on four areas:

- finalising the fiscal framework;
- addressing the critical problems within the banking sector;
- developing an effective monetary framework; and
- reinforcing the independence of the Central Bank.¹⁰

2.14 The broader issues of the relatively low recognition given by Australia to the potential of the Latin American markets and Austrade's representation in that region were also discussed. Austrade agreed that more should be done to promote a medium to long term approach towards those markets.¹¹

Relations with North Asia

2.15 In discussing the North Asia region, discussion concentrated on issues affecting Australia's foreign and trade relations with the People's Republic of China (PRC), Taiwan, Japan and the Korean Peninsula. Where relevant, aid and human rights aspects of those issues were also considered.

China and Taiwan

2.16 Alongside the enormous increase in trade and investment links between the PRC and Taiwan the political situation between them had remained fairly stable, according to DFAT.¹² Australia's trade with the PRC has been

8 Transcript, p. 14.

9 Senator the Hon C Schacht, Transcript, pp. 18-19.

10 IMF News Brief No. 02/56, 28 June 2002; *The Australian Financial Review*, 30 June 2002.

11 Transcript, p. 14.

12 However, in recent months there have been signs of increased tension reflected in the language used by both Taiwan and the PRC when referring to political and other non-economic issues.

growing quite dramatically in the last few years, making China Australia's third largest trading partner. Significant expansion has been recorded in the services sector, particularly education and tourism.¹³

2.17 The wide range of other topics discussed is shown in the following representative list:

- commencement of negotiations for a bilateral framework agreement to expand the economic and trade relationship between Australia and the PRC beyond the traditional commodities sector into new fields such as telecommunications, legal and financial services and the housing and construction sectors;¹⁴
- China's economic transformation and recent membership of the World Trade Organisation (WTO);¹⁵
- the size and locations of Austrade's resources in China and the legal and regulatory impediments restricting trade and investment by Australian companies;¹⁶
- dialogue with China on human rights issues and representations on behalf of individuals and ethnic or religious minorities;¹⁷
- the situation of the Uighurs in Xinjiang, western China;¹⁸
- opportunities to include Parliamentary representatives in the human rights dialogue process;¹⁹ and
- sensitivities of the visit to Australia by the Dalai Lama in May 2002, and the policy of the Australian Government on meetings between the Dalai Lama and Australian political leaders and officials.²⁰

13 DFAT, Transcript, p. 21. Trade Minister Vaile announced on 8 August 2002 Australia's largest-ever export contract in which North West Shelf Venture will supply three million tonnes of liquefied natural gas annually to Guandong, southern China—see also contemporary media reports, for example, *The Australian Financial Review*, 9 August 2002, p. 58.

14 DFAT, Transcript, p. 22.

15 DFAT, Transcript, pp. 24-26.

16 Austrade, Transcript, p. 24; DFAT, Transcript, pp. 24-25.

17 DFAT, *Annual Report 2000-01*, p. 30; Transcript, pp. 22-23 and pp. 30-31.

18 See DFAT's response to Question No. 3 (Submission No. 3), which indicated that since the terrorist attacks on 11 September 2001, Chinese authorities have been more open about their efforts to control what they perceive as separatist and religious extremist groups in the Xinjiang Uighur Autonomous Region. China has sought to identify certain groups in Xinjiang as having close ties with international terrorist organisations.

19 Hon B G Baird, MP, Transcript, p. 23.

20 There was considerable media interest in alleged Australian Government restrictions on meetings with the Tibetan spiritual leader, for example, 'ABC Online', 21 May 2002 and *The Canberra Times*, 22 May 2002. DFAT clarified the Government's guidelines during evidence (Transcript, pp. 28-30 and p. 71 and Submission No. 3, response to Question No. 2).

Korean Peninsula

- 2.18 A number of topics relating to North and South Korea were discussed, including:
- the grim economic situation in North Korea, the outflow of refugees into China and Australia's security concerns about North Korea;²¹
 - Australian food aid to North Korea (which is delivered mainly through the World Food Program) and the effectiveness of the distribution and monitoring mechanisms;²² and
 - relations between North and South Korea and the stalled reconciliation process, notwithstanding some indications of progress in the north-south dialogue.²³

Japan

- 2.19 For the most part, trade and security issues provided the main focus of the discussions relating to Japan, including:
- Japan's dominant position as Australia's main trading partner in North Asia;
 - prospects for negotiation with Japan of a new bilateral 'trade and economic agreement', notwithstanding Japan's strongly protectionist agricultural lobby;²⁴ and
 - Prime Minister Koizumi's recent visit to Australia and Japan's preliminary suggestions for a new East Asia trade and regional security grouping—ASEAN, Japan, China, South Korea, Australia and New Zealand (ASEAN plus 3 plus 2).²⁵
- 2.20 The issue of Australia's objections to Japan's strategies for garnering support among small developing nations for its whaling interests at the

21 DFAT, Transcript, p. 32.

22 AusAID gave evidence that the projected shortfall in food supplies this year is in the order of 1.5 million tonnes and described the monitoring processes used by the World Food Program in North Korea as 'less than ideal'. However, access to target populations is improving: AusAID, Transcript, pp. 33-34.

23 DFAT, Transcript, p. 33. In August, North and South Korea agreed to resume high-level dialogue in Seoul, relieving two months of heightened tensions following a naval incident on 29 June 2002 which resulted in the deaths of four South Korean service personnel.

24 DFAT, Transcript, p. 35. DFAT also responded to questions concerning the length of time taken to complete a Free Trade Agreement with Singapore: Transcript, pp. 37-38.

25 Transcript, pp. 35-36. In his first official visit to the region, Prime Minister Koizumi visited Australia from 30 April to 2 May 2002 after official engagements in Vietnam and East Timor. After leaving Australia, Mr Koizumi visited New Zealand.

International Whaling Commission were touched upon during the hearing.²⁶

Relations with South Asia

2.21 The focus of the South Asia segment of the hearing was given to issues pertaining to India, Pakistan, Afghanistan and Bangladesh.

India, Pakistan and Bangladesh

2.22 The Committee expressed concern at the heightened state of tension between nuclear-capable neighbours, India and Pakistan over the issue of Kashmir and terrorist attacks by extremist groups linked to rebel movements in the disputed territory. The gravity of the crisis has been underlined by the urgency of efforts by leaders from the United States, Russia, the PRC and Britain in particular to defuse the extremely dangerous conflict between India and Pakistan.²⁷

2.23 Bilateral trade issues offered a more optimistic focus for discussion. The Committee discussed the enormous potential of emerging market sectors in India; for example, education exports, film production, information technology, 'biotechnical' and other service industries. Austrade acknowledged, however, the often difficult environment faced by Australian companies attempting to do business in India, explaining that trade promotion activities needed to be specific and well targeted.²⁸

2.24 Pakistan's journey from 'international pariah' after the 1999 coup to ally in the coalition against terrorism was discussed, as were human rights issues, particularly the treatment of ethnic and religious minorities in both Pakistan and Bangladesh. Continuing concerns were expressed about treatment of the Ahmadis in Pakistan, most recently in relation to their exclusion from electoral rolls.²⁹ In its subsequent submission, DFAT

26 Transcript, pp. 33-34. Australia and New Zealand's joint proposal to establish a South Pacific whale sanctuary was defeated for the third time in three years in May 2002. The proposal was strongly criticised by Japan and Iceland—see *The Australian*, 22 May 2002.

27 In May 2001, DFAT expressed 'deep concern' about the increased tension between India and Pakistan (Transcript, pp. 40-41). The US State Department has recently warned (12 August 2002) that although the high levels of tension between India and Pakistan had subsided, the risk of renewed tensions and further terrorist actions against American citizens in the region could not be dismissed. Of all the international 'flashpoints' at the present time, the confrontation between India and Pakistan has the lowest threshold for potential nuclear exchange anywhere in the world.

28 Transcript, pp. 42-43. See also Austrade's response to questions on notice (Submission No. 1).

29 Mr L D T Ferguson MP and the Hon B G Baird, Transcript, p. 45-46.

explained that Ahmadis can participate in the elections, both as voters and candidates on the same basis as other Pakistanis. However, as declared non-Muslims, Ahmadis—like Christians, Hindus, Parsees and other non-Muslims—are not eligible to become President of Pakistan.³⁰

- 2.25 In relation to Bangladesh, DFAT indicated that there had been no real evidence of systematic discrimination by the Bangladesh Government against religious minorities in that country. Rather, DFAT's sources of information suggested that reported allegations mainly involved localised incidents.³¹

Afghanistan

- 2.26 The task of rebuilding Afghanistan's political, social and economic infrastructure provided the main focus for discussions on the current situation in Afghanistan. Australian aid totalling \$41.3 million has been committed for a range of activities including emergency food supplies, removal of landmines, immunisation and nutrition programs, opium and other drugs control efforts, assistance to the UN Interim Authority and \$1.0 million in March 2002 through the International Red Cross and the World Food Program for emergency earthquake relief.³²
- 2.27 Destabilising influences such as emerging conflicts between opposing warlords, and their impact on the authority of the Karzai Government, were discussed. DFAT and AusAID indicated that there was no information to suggest that the activities of the warlords had caused interference with the delivery of international aid. DFAT assured the Committee that Australian forces fighting al-Qa'ida and the Taliban had not been inadvertently involved in disputes between the various warlord factions in Afghanistan.³³
- 2.28 With regard to measures taken to curtail the resumption of opium production in Afghanistan, DFAT cited the Afghan Interim Authority's decree on the eradication of narcotics production and trafficking. The Authority had pursued vigorously a strategy of eradication in conjunction with an appeal to the international community to support crop substitution programs for Afghan farmers who had returned to opium cultivation after the defeat of the Taliban.³⁴

30 Submission No. 3, response to Question No. 4.

31 DFAT, Transcript, pp. 45-46.

32 Further details were provided by AusAID (Transcript, p. 39 and Submission No. 2) and Austrade (Transcript, p. 44).

33 Transcript, p. 38.

34 DFAT, Transcript, p. 40.

- 2.29 As part of the 'watching brief' on the war on terrorism, a delegation of Committee members visited Australian troops deployed in the Persian Gulf, Kyrgyzstan and Afghanistan in July 2002. A report of that visit will be presented to the Parliament during the 2002 Spring sittings.
- 2.30 A large number of specific questions from Committee members in relation to South Asia and Afghanistan were taken 'on notice' by representatives of DFAT, AusAID and Austrade. In the interest of informing public debate, the Committee has published the detailed responses provided by those agencies as formal submissions.³⁵

Australia's Relations with the Immediate Region

- 2.31 The final session of the public hearing comprised discussion of Australia's relations with a range of countries in our more immediate region, namely: Indonesia; East Timor; Papua New Guinea (PNG); the developing nations of the South West Pacific; Burma; Cambodia and Vietnam.
- 2.32 A measure of the importance to Australia of the immediate region was provided by the Government's announcement in May 2002 of increased aid funding for developing countries in the Asia-Pacific region. The focus for 2002-03 will continue to be promoting growth and stability in the region, and will include:
- an increased commitment to the Solomon Islands;
 - resumption of a full bilateral aid program to Fiji;
 - substantial bilateral assistance to PNG and East Timor; and
 - continuing support to Indonesia.³⁶
- 2.33 In 2002-03, the second year of the Virtual Colombo Plan, Australia will provide \$31.0 million to promote access to education and information technology in developing countries of our region.³⁷

35 The Committee has printed a volume of evidence, incorporating the transcript of proceedings and the consolidated submissions from the agencies represented at the public hearing and from the Department of Immigration and Ethnic and Indigenous Affairs. The documents are also available at the Committee's website: www.aph.gov.au/house/committee/jfadt

36 The Australian aid program is concentrated in East Asia, PNG and the Pacific Island countries, with selective engagement in South Asia, Africa and the Middle East: www.budget.gov.au/2002-03/budget_ministerial/ausaid

37 Hon Alexander Downer MP, Minister for Foreign Affairs, Media Release AA02 024 of 14 May 2002. The Virtual Colombo Plan is a joint initiative between the World Bank and the Australian Government that will address the causes of poverty by using information and communication technologies to provide 200 'electronic' distance education scholarships for

Indonesia

- 2.34 As Australia's largest and most populous neighbour, Indonesia's size and strategic location mean it will always play a leading role in the South East Asia region and continue to engage Australia's national interest. Yet, few adjacent countries in the world possess such enormous differences in history, culture and economic development as do Australia and Indonesia.
- 2.35 One of the effectiveness indicators published in DFAT's annual report was listed as the 'strengthening of democratic institutions in Indonesia and consolidation of the bilateral relationship, including through a successful Ministerial Forum'.³⁸ These themes emerged clearly during the very wide range of issues raised during the hearing.
- 2.36 Recent political and economic instability in Indonesia has highlighted the need for Australia to rebuild the bilateral relationship, which suffered significantly as a result of perceptions of a critical Australian attitude towards a number of sensitive issues, including:
- East Timor's struggle for independence;
 - separatist movements and communal violence in various parts of the Indonesian archipelago;
 - the difficult transition towards establishing effective democratic institutions post-Suharto; and
 - the role of the Indonesian Armed Forces (TNI) in civil government.³⁹
- 2.37 While acknowledging that elements of the Indonesian leadership are still not warmly disposed towards Australia, DFAT emphasised the positive influence generated by the Australia-Indonesia Ministerial Forum and the regular, less formal, Parliamentary contacts between Australian and Indonesian political leaders.⁴⁰
- 2.38 The constraints evident at times in Australia-Indonesia relations appear not to have impacted substantially on bilateral trade. Merchandise trade with Indonesia, for example, currently stands at \$7.1 billion annually and strong performance has been recorded in the education sector as well. Although Australia's overall trade with Indonesia is now at its highest

teachers, beginning with equipment for learning centres in eight PNG primary teachers' colleges in 2002: 'Bridging the Digital Divide', speech by Mr Downer, 2 August 2001.

38 DFAT, *Annual Report 2000-2001*, October 2001, p. 38.

39 Earlier tensions had emerged following the invasion and annexation of East Timor in 1975-76, the 1986 Australian press reports of corruption in high places and the Dili massacre in 1991. A major breach in relations occurred in 1999 after Australia led the international peacekeeping force in East Timor (INTERFET).

40 Transcript, p. 52.

recorded level, the challenges facing Indonesia's economic reform program include establishing certainties in the legal system and protection for foreign investment.⁴¹

2.39 On human rights issues arising from separatist movements and communal violence in several parts of Indonesia, the Committee obtained assurances that Australia monitors developments closely and regularly makes clear its concerns to the Indonesian authorities. In recent times, representations have been made following religious and communal violence in Maluku, Sulawesi and Kalimantan. Encouraging signs of progress have been observed in relation to autonomy agreements between the Indonesian Government and separatist movements in Aceh and the former Irian Jaya, notwithstanding tensions generated by serious criminal actions, the policy of transmigration and the growing influence of Laskar Jihad,⁴² a militant Muslim organisation which claims to have 15,000 members throughout Indonesia.⁴³

2.40 The Committee strongly supports regional cooperation initiatives against illegal migration and people-smuggling operations. A recent example was the joint Australia-Indonesia conference held in Bali during February 2002 on asylum-seekers, illegal entry and people-smuggling. It was the first conference of its type to bring together the relevant source, destination and transit countries. DFAT described the outcomes from the conference in the following terms:

- raising the political profile of people-smuggling in the region and persuading governments to focus on regional cooperation policies and strategies; and
- formation of working groups to pursue implementation through existing regional forums and to establish a framework of practical measures such as enhancement of border protection and legislation to criminalise people-smuggling operations.⁴⁴

41 DFAT, Transcript, p. 53. Indonesia provides the largest number of overseas students in Australia, with more than 17,000 currently studying in Australian educational institutions.

42 DFAT, Transcript, p. 60; *The Sydney Morning Herald*, 1 June 2002; *The Bulletin*, 2 July 2002, pp. 28-29.

43 DFAT, Transcript, pp. 54-56, 58. Estimates of deaths due to violence in the Maluku Islands, for example (up to approximately 5,000 in recent conflict) are difficult to verify due to problems gaining access in that region. The kidnapping and murder of West Papua independence leader, Theys Eluay, in November 2001 was a severe setback to relations with both the central government and the Indonesian military (TNI). In mid April 2002, three Kopassus soldiers were arrested in connection with the murder. From 1 January 2002, the province of Irian Jaya became known as Papua under the Indonesian Government's autonomy agreement.

44 DFAT, Transcript, pp. 55, 59-60 and Co-Chairs' Statement, Bali Ministerial Conference, 28 February 2002. The Bali conference attracted 38 ministers from 36 countries, including Pakistan and Afghanistan as well as countries in the immediate region.

East Timor

- 2.41 Estimates of the numbers of East Timorese refugees still in West Timor total around 40,000 to 55,000. In February 2002, the Minister for Foreign Affairs announced the commitment of \$6.6 million to assist repatriation to East Timor, mainly through voluntary return under the auspices of the UN High Commissioner for Refugees and the International Organisation for Migration. It also included special funding to meet some of the pension entitlements of public servants in an effort to encourage them to return.⁴⁵
- 2.42 In DFAT's view, there have been encouraging signs that the newly-independent East Timor is heading towards establishing democratic institutions such as a merit-based bureaucracy. For at least the next three years, however, the economic outlook will remain heavily dependent on external donor support to establish a framework of fiscal discipline for the public sector, good governance and key infrastructure regimes for health, education and poverty-alleviation. The Committee acknowledges the prime importance of the Timor Sea petroleum resources to East Timor's economic future.
- 2.43 Australia will continue to be a major aid donor to East Timor, pledging up to \$24.0 million during the first three years after independence. Australia's aid priorities in East Timor for the previous two and a half years have been to assist good governance, economic and financial management, institution-building and the delivery of basic services, including rural productivity improvement.⁴⁶ The Committee endorses these priorities and acknowledges the work of AusAID in assisting the East Timorese authorities to establish and maintain a donor coordination unit to assess project proposals and avoid duplication.
- 2.44 Opportunities for Australian companies to deliver aid projects in East Timor arise mainly from programs developed by the Asian Development Bank (ADB) and the World Bank. Austrade gave evidence to the effect that Australian tenderers had secured 29 per cent of the contracts let by the UN Transitional Administration in East Timor (UNTAET) in the

45 DFAT, Transcript, pp. 60-61. Security problems remain at some refugee camps in places such as Kupang, and residual militia intimidation may still be a factor influencing rates of return of East Timorese refugees in camps located away from the border.

46 DFAT, Transcript, p. 63-65. The financing 'gap' for the next three years will be in the order of \$US80 million to \$US90 million until petroleum revenues from the Timor Sea fields are realised. In addition to Australia, the major international donors providing support to East Timor are Japan, Portugal, the United States, the United Kingdom and the European Commission. The total commitment of Australia's total aid program for East Timor over four years to 2004-05 is \$150 million (see AusAID's East Asia website: www.ausaid.gov.au/country/).

12 months to June 2000, with the next highest proportion being achieved by East Timorese proposals.⁴⁷

- 2.45 Australia has taken a lead role in supporting the development of the East Timor Defence Force by providing specialist infantry training, military and general equipment, the development of purpose-built training facilities and communications infrastructure and Australian Defence Force (ADF) advisory and training personnel. A substantial ADF contribution will continue to be deployed for approximately two years in the post-independence mission—the UN Mission of Support in East Timor—in addition to the on-going Defence Cooperation Program with various countries in our region.⁴⁸

Solomon Islands

- 2.46 In providing an update on the Solomon Islands, DFAT indicated that, notwithstanding elections held in December 2001, Australia has continuing concerns in a number of areas. The Kemakeza Government faces enormous problems in extricating the country from systemic corruption, mismanagement and a state of near economic and political collapse in the wake of the civil war and continuing law and order problems. Australia and New Zealand have both attached conditions to grants of further aid, including:

- improved budget transparency and financial management;
- cessation of the discredited practice of granting tax remissions;
- anti-corruption reforms; and
- demonstrable action to establish law and order.⁴⁹

- 2.47 Australia's involvement in the international peace monitoring force established following the Townsville Peace Agreement of October 2000 has now been completed.⁵⁰ The Australian-led team was deployed to end the inter-ethnic conflict and to support the Solomon Islands people's

47 AusAID, Transcript, pp. 66-68; Austrade, Transcript, p. 68. ADB programs tend to comprise infrastructure projects, while the focus for World Bank projects is mainly in the field of social services. Transparency deficiencies in the tendering processes for ADB projects has been subject to some criticism in the past.

48 Senator the Hon Robert Hill, Minister for Defence, Media Release MIN 229/02, 20 May 2002; DFAT, Transcript, pp. 70-71.

49 DFAT, Transcript, pp. 78-80; AusAID, Transcript, p. 80. Financial instability, for example, was highlighted by the sudden devaluation of the Solomons dollar in March 2002, which was reversed two weeks later after the dismissal of the Finance Minister, Michael Maina and fears of a foreign exchange crisis (Mary-Louise O'Callaghan, *The Australian*, 8 April 2002, p. 6).

50 Joint statement by the Australian and New Zealand Ministers for Foreign Affairs, FA94, 25 June 2002.

efforts in confidence-building and weapons collection. Although the confidence-building task has largely been completed, there has been only mixed success in collection and storage of illegal weapons and there are serious concerns about the professionalism and integrity of many in the police force.⁵¹

- 2.48 The Committee would be very concerned if the departure of the international monitoring team represented any lessening of Australia's on-going support for resolution of the serious problems facing the Solomon Islands. We will continue to monitor the next phases of Australia's development assistance, which were foreshadowed in a joint statement issued by the Foreign Ministers of Australia and New Zealand in June 2002:

A key focus of Australia and New Zealand assistance will now be to provide increased support to strengthen Solomon Islands' capacity to deal with the major law and order and economic challenges it faces.⁵²

Papua New Guinea

- 2.49 DFAT provided an update on the Bougainville peace process and the formal transition to an autonomous provincial government. The extent of weapons disposal remains the most critical factor in achieving certification by the UN mission of compliance with the terms of the peace agreement and hence establishment of autonomous administrative arrangements for Bougainville.⁵³
- 2.50 National elections in Papua New Guinea (PNG) were held from mid June 2002, in the wake of serious concerns about the state of the electoral rolls and consistent reports of electoral corruption, intimidation and violence both before and during the voting period. Counting of the votes and declaration of the polls was a chaotic process, and there were fears at the time that all the results would not be known in time for the new Parliament to meet as planned in early August 2002.⁵⁴ DFAT informed the Committee that the next election would be held on the basis of a

51 DFAT, Transcript, p. 79.

52 Joint statement, op. cit. and DFAT, Transcript, p. 80. See also media reports such as *The Age*, 26 June 2002, p. 2 which highlighted the problem of unrecovered weapons and fears of renewed criminal activity and violence.

53 DFAT, Transcript, p. 72.

54 Widely reported in the Australian and PNG media, for example: *The Australian*, 28 June 2002; Reuters newswire [3797] 24 June 2002; *The Age*, 21 June 2002; *The National* [PNG], 20 June 2002; *The Australian Financial Review*, 4 and 5 June 2002 and AAP newswire 22 July 2002. The voting period was extended from 15 June to 29 July in almost half the electorates as a result of deaths and serious irregularities, including destruction of ballot papers and intimidation of voters.

preferential voting system rather than the existing 'first-past-the-post' method.⁵⁵ Subsequent events have only served to reinforce our concerns about the conduct of the electoral process in PNG.

2.51 Other topics discussed included:

- potential for greater coordination between Australia and New Zealand in delivering aid to PNG and other countries in the region;⁵⁶
- prevalence of HIV/AIDS infection, the response of the PNG Government and aid donors;⁵⁷
- continuing law and order problems in PNG;
- Australian aid projects to assist development of the PNG police force and correctional services;⁵⁸
- reform of the PNG Defence Force (PNGDF), serious morale issues and budgetary constraints;⁵⁹ and
- impediments to bilateral trade and investment, principally due to uncertainties relating to the law and order situation and institutional protection for foreign investors.⁶⁰

Fiji and Nauru

2.52 Further to the problems in PNG already alluded to, the instability in Fiji and other Pacific island nations emerged as a major theme during the hearing. Media reports last year and in recent months have focussed attention on evidence of 'instability on our doorstep'. In relation to the prospects for Fiji, there is a consistent view that the signs of recovery are

55 Detailed information on the electoral system in PNG were provided in DFAT's submission (Submission No. 3, Response to Question No. 9).

56 AusAID, Transcript, p. 74. The Development Cooperation Program with PNG is by far the largest of any of Australia's bilateral aid programs, currently providing approximately \$300.0 million in aid to PNG each year—see AusAID's publication, *Papua New Guinea: Program profiles 2001-02* for an overview of the various projects.

57 AusAID, Transcript, pp. 75-76. Conservative estimates have been made that from 10,000 to 15,000 people are already infected with HIV and infection rates are increasing annually by 15 to 30 per cent. Australia has commenced a five-year AIDS project in PNG with a commitment of \$60.0 million—see 'PNG National HIV/AIDS Support Project', Submission No. 2.

58 DFAT and AusAID, Transcript, p. 75.

59 DFAT, Transcript, pp. 75-77. Australia has committed \$20.0 million to assist the first phase of the retrenchment program and improvement of facilities for the PNGDF.

60 Austrade and DFAT, Transcript, pp. 74-75. Australia accounts for 29 per cent of PNG's total exports and 21 per cent of total imports. Australia's merchandise exports to PNG in 2000-01 were worth \$1.05 billion, an increase of 13.2 per cent over the previous year. However, PNG enjoyed a trade surplus with Australia in 2000-01, with exports worth \$1.45 billion (DFAT, *Annual Report 2000-01*, p. 58).

mixed. Comments in *The Australian Financial Review* in June 2002 were typical:

Fiji may seem to be on the mend following the George Speight coup of two years ago. But its largest employing industry—sugar—is in irreversible decline, many of the country's brightest are emigrating, and the Government's answer is to subsidise ethnic Fijians into emulating Indians' business and professional success.⁶¹

- 2.53 We have monitored with some alarm the economic and political situation in Fiji two years after the coup. A major constitutional difficulty arose from Prime Minister Qarase's decision not to invite into government the Fiji Labour Party, even though the Labour Party obtained more than the required 10 per cent of the seats in the national elections held in August 2001.⁶²
- 2.54 The Australian Government expects that Fiji will abide by the decisions of the courts in such matters, notwithstanding the possible political turmoil that might be generated if the Supreme Court upholds the decision of the lower court.⁶³
- 2.55 A full bilateral aid program to Fiji will be resumed in 2002-03, with total aid expected to reach \$19.7 million. The program will promote stability by seeking to strengthen basic services and to increase confidence in the law and justice sector.⁶⁴ We welcome that announcement.
- 2.56 Australia's aid program to Nauru aims to ameliorate the economic impact of the complete decline in phosphate mining activity and revenues. Australia is providing technical assistance designed to:
- improve economic management;
 - address Nauru's chronic power and water shortages; and
 - improve the sustainability of service delivery in health and education.⁶⁵

61 'Instability on our Doorstep', *The Australian Financial Review*, 24 June 2002, p. 58.

62 DFAT informed the Committee that the Qarase Government had challenged in the Supreme Court a lower court decision to uphold an appeal by the Fiji Labour Party against non-inclusion in government of members of that Party as required under the terms of the 1997 Constitution. An interim Government under Laisenia Qarase was installed by the military after the coup in May 2000 overthrew the Government of Prime Minister Mahendra Chaudry.

63 DFAT, Transcript, p. 81.

64 Hon Alexander Downer, Media Release AA 02024, 14 May 2002.

65 <http://www.ausaid.gov.au/country/> (as at 4 July 2002).

- 2.57 Other challenges facing Nauru were discussed, in particular:
- the financial crisis following the OECD's refusal to accept as adequate Nauru's efforts to legislate against money laundering practices;⁶⁶ and
 - Nauru's involvement in the 'Pacific Solution' for offshore processing of asylum-seekers.⁶⁷

Vietnam, Cambodia and Burma

- 2.58 The final session of the hearing examined key aspects of Australia's relations with Cambodia, Burma and Vietnam.
- 2.59 For Vietnam, DFAT has identified a number of current political and social challenges, including:
- increasing unemployment;
 - growing income disparities between urban and rural areas;
 - social problems such as drug abuse, prostitution and increasing levels of HIV/AIDS infection;
 - pockets of provincial unrest;
 - corruption and mismanagement; and
 - declining membership of the ruling Communist Party.⁶⁸
- 2.60 The Vietnamese economy is currently in transition from a centrally-planned to a market-based economy, although state ownership is still predominant. DFAT described Vietnam as presenting similar challenges to other South East Asian markets, with particular reference to the lack of legal certainty, the difficulty of enforcing contracts and the lack of security

66 DFAT, Transcript, p. 82. The Organisation for Economic Cooperation and Development and the Financial Action Task Force on Money Laundering (of which Australia is a member) have listed Nauru as a country which still has financial and banking mechanisms in place which could allow money-laundering. See also 'Nowhere left to hide dirty money', *The Australian Financial Review*, 4 July 2002, p. 14.

67 President Rene Harris complained in June 2002 that Australia was not fulfilling its financial and 'sunset' obligations under the agreement with Nauru—reported by ABC TV and *The Sydney Morning Herald* on 10 June 2002 and *The Australian Financial Review* on 11 June 2002. According to DFAT, relations between Nauruans themselves and the asylum-seekers in the processing centres were cordial: (Transcript, p. 82; see also AAP newswire, 'Harris says asylum-seekers praise Nauru', 1 July 2002).

68 www.dfat.gov.au/geo/vietnam/ (as at 30 June 2002).

of investment. In DFAT's view, these elements are the key to economic reform in Vietnam.⁶⁹

2.61 Among the human rights issues raised were the following:

- the situation of minority groups such as the Montagnard people in refugee camps near the Thai border;⁷⁰
- individual cases of deprivation of human rights;
- freedom of religion issues; and
- treatment of political prisoners.⁷¹

2.62 In July 2002, the Foreign Minister announced a four-year Australian-funded program with a total cost of \$9.0 million to combat the spread of HIV/AIDS in South East Asia and southern China. Australian specialists commenced the program in Vietnam, with planned extension to Burma and southern China by August/September 2002.⁷² We welcome this initiative.

2.63 In response to questioning, DFAT provided statistical information on the size of Vietnam's armed forces. According to DFAT, the following figures represent a significant level of demobilisation:

Table 3.1 Vietnam's Armed Forces

Army	450,000
Navy	42,000 (includes 27,000 naval infantry)
Air Force	15,000
Reserve/Militia	3,000,000 (persons classed as able bodied but not necessarily armed)

Source DFAT, Submission, (Response to Question 15)

2.64 Burma is an impoverished country and its economy remains stagnant.⁷³ The release of opposition leader Aung San Suu Kyi from house detention in May 2002 was seen by the international community as the most

69 DFAT, Transcript, p. 84; AusAID gave evidence that progress had been made in achieving budgetary transparency, although a major exception continued to be the largest item of expenditure—defence spending: (Transcript, p. 86).

70 Information provided in DFAT's submission indicated that there are no Montagnard people from Vietnam in camps in Thailand (Response to Question No. 10).

71 Transcript, pp. 84-86. DFAT indicated in evidence that there are currently 10 individual human rights cases being pursued with Vietnamese authorities, including the case of Father Nguyen Van Ly. In Submission No. 3, Response to Question No. 12, DFAT indicated that ethnic minorities in Vietnam continue to experience discrimination and restrictions of their human rights from both central government policy and local authorities. Australia makes regular representations on the recognition of their rights through the Embassy in Hanoi, along with representations to the Vietnam Embassy in Canberra.

72 Hon Alexander Downer MP, Media Release AA 02 042, 22 July 2002.

73 DFAT and Austrade, Transcript, p. 88.

significant of the positive developments that have occurred in the past year in that country, although the overall prospects for democratic reform are less certain. Private dialogue in the previous 18 months between Ms Suu Kyi and the military junta, the State Peace and Development Council (SPDC), had produced some tangible results, for example the release of approximately 250 political prisoners, but little else.⁷⁴

- 2.65 Australia's government-to-government aid to Burma was suspended in September 1988 following the military's violent suppression of pro-democracy demonstrations. Australia's small bilateral aid program to Burma will increase in 2002-03, to bring total aid flows to \$6.2 million. The initial priority is improvement of basic health services, poverty alleviation, community nutrition programs and anti-HIV/AIDS measures, in addition to improvement of the human rights situation in that country.⁷⁵
- 2.66 Australia's human rights training initiative, which has in the past drawn ambivalent comment from Ms Suu Kyi, will continue this year with two further workshops for mid-level officials on international human rights principles and practice. DFAT saw the workshops as a means of providing 'some incremental benefit to the process of change over a long period'.⁷⁶
- 2.67 The situation of refugees, both Burmese and members of ethnic minorities, in camps along the border between Thailand and Burma was raised in the context of Australia's humanitarian aid programs. There are approximately 133,000 refugees in the 12 border camps, for which Australia provides health support, shelter, food and distance education services. DFAT confirmed that the SPDC still claims that the camps are used as bases for subversive activities and military attacks against Burma.⁷⁷

74 Australia's Ambassador met with Ms Suu Kyi on 10 May 2002, shortly after her release. On 22 June 2002, Ms Suu Kyi began a well-publicised visit to Burma's second city, Mandalay, which is the headquarters of her NLD party. There was widely reported media criticism and guarded optimism between April and June 2002 about outcomes from the dialogue and compromises on democratic reform—for example, *The Australian*, 25 April 2002, p. 8; AFP newswire 3644, 30 April 2002; *The Economist*, 11 May 2002, pp. 29-30; *The Australian*, 28 June 2002, p. 7.

75 AusAID website: www.aisaid.gov.au/country (as at 3 July 2002) and Media Release AA 02024 (Downer), op. cit. In 2002-03, Australia will provide specific human rights training to Burmese officials, including training on the Convention of the Rights of the Child. Australia also provides health support, shelter, food and distance education to approximately 133,000 refugees in 12 camps on the Thailand/Burma border.

76 AusAID, Transcript, p. 89; DFAT, Transcript, pp. 91-92. See also *Annual Report 2000-2001*, op. cit., pp. 45-46.

77 Transcript, p. 93.

- 2.68 Cambodia is one of the world's most heavily landmined countries, as well as one of the world's least developed—its estimated GDP is only US\$300 per capita per year. Although casualty rates appear to be decreasing, landmines and other unexploded ordnance continue to kill or injure around 100 victims per month and the task of demining agricultural and other productive land is enormous. Australia is the third largest bilateral aid donor to Cambodia after Japan and France. In 2001-02 Australia provided \$23.8 million for bilaterally-agreed activities.⁷⁸
- 2.69 The Royal Cambodian Government established the Cambodian Mine Action Centre (CMAC) in 1992 to continue demining work begun by the UN Transitional Authority in Cambodia. Australia makes a substantial aid contribution to landmine clearance in Cambodia, committing a total of approximately \$33.0 million from January 1996 to June 2002. AusAID provided statistical data on the extent of land reclamation, clearance forecasts for the next 12 months and casualty rates for the previous 12 months. AusAID estimates that it will be decades before all or most of the mines are removed.⁷⁹
- 2.70 Apart from discussion of the landmines issue, and Australia's concerns in the recent past about administration problems within CMAC, the continuing problem of political and other violence in Cambodia was also raised. The level of political support for the Khmer Rouge is now almost negligible, having deteriorated into 'remnants of banditry'.⁸⁰

Foreign Policy White Paper

- 2.71 We welcome the commissioning by the Government of a new White Paper to be entitled *Advancing the National Interest*. The task force established within DFAT to undertake the work of developing the framework for Australia's future foreign and trade policy directions is currently engaged in the public consultation stage of its work. Written submissions were due to be lodged by the extended deadline of 15 August 2002.
- 2.72 Release of the White Paper will stimulate public debate on the key themes and developments identified as being important to Australia's foreign and trade relations with the rest of the world. These themes should include consideration of the policies and priorities driving Australia's

78 AusAID, 'Country Information' at: www.ausaid.gov.au/ (13 May 2002).

79 AusAID, Transcript, p. 93 and Submission No. 2. Australia plans to provide 20 per cent of CMAC's budget in 2002.

80 DFAT, Transcript, p. 94.

development cooperation programs and our performance on the promotion and protection of international human rights.⁸¹

In Conclusion

- 2.73 The vehicle of an annual reports review has enabled the Committee to obtain up to date information on many aspects of Australia's relations with significant parts of the world. This information has been placed on the public record as a contribution to community debate on, and Parliamentary scrutiny of, recent developments affecting Australia's relations with selected countries and regions.
- 2.74 In the current review process, we have emphasised examination of topical foreign relations and trade issues rather than the technical aspects of the annual reports themselves.⁸² One outcome of this approach has been consideration of several major topics for a full-scale public inquiry early in the life of the present Parliament.
- 2.75 The first topic the Committee has decided to address by conducting a public inquiry is the relationship between Australia and Indonesia. The inquiry was announced in August 2002 and the Committee expects to present its report to Parliament in the 2003 Spring Sittings.

81 Media reports in July 2002 speculated that the most significant emphasis would be placed on Australia's relationship with the United States of America. However, Foreign Minister Downer's speech at the National Press Club in Canberra on 7 May 2002 indicated that Asia and the Pacific remain the primary focus of Australia's foreign policy, notwithstanding a reassessment of international alignments after the terrorist attacks on 11 September 2001 and the pre-eminence of the United States in world affairs.

82 Technical issues did emerge occasionally, however; for example, perceptions of the use of 'meaningless effectiveness indicators' throughout the DFAT and AusAID reports: (Transcript, pp. 11-12).

