



Submission No 11

Inquiry into Australia's Relationship with Malaysia

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Australian Government

Department of Foreign Affairs and Trade

Submission by the

Department of Foreign Affairs and Trade

to the

**Joint Standing Committee on Foreign Affairs,
Defence and Trade**

Foreign Affairs Sub-Committee

**INQUIRY INTO AUSTRALIA'S RELATIONSHIP
WITH MALAYSIA**

Australia-Malaysia Bilateral Relations

Introduction

Malaysia's impressive economic development, location, active participation in our immediate region, and its long-standing relationship with Australia in many spheres makes Malaysia an important bilateral partner.

The bilateral relationship is diverse, with active and cooperative relations across a broad range of sectors. These include trade and investment, education, defence, counter-terrorism, law enforcement, people smuggling, tourism and aviation.

Historical Background

Given the proximity of our countries, links between Australia and Malaysia are long-standing and reach back to the 18th century. One of the most notable early indications of the presence of Malaysians in Australia was in the 19th century when Malays participated in the pearling industry off Australia's north coast. Today their descendants form an integral part of Darwin's multicultural society. William Light, the son of Francis Light (who acquired Penang on behalf of the British East India Company in 1786), planned the city of Adelaide in 1837. Today, Georgetown in Penang and Adelaide commemorate this early link with a formal sister city relationship.

Australian troops have fought on a number of occasions alongside Malaysians. This included during the Malayan Campaign of World War II, as part of a Commonwealth force to defeat the Malayan Communist insurgency during the Malayan Emergency (1950-60) and during the period of confrontation (1963-66).

Australia was closely associated with the establishment of the Federation of Malaya in 1957 and sponsored Malaya's application for membership of the United Nations. Australia also took a close and positive interest in the formation of Malaysia. Sir William McKell, a former Governor-General of Australia, together with four other Commonwealth jurists, helped draft the Malaysian Constitution.

Government Relations

Australia's formal relations with Malaysia date back to 1955 when our Commission (later High Commission) was established in Kuala Lumpur. Today our mission in Kuala Lumpur ranks among the larger of Australia's overseas posts. This appropriately reflects that bilateral relations, which have continued unbroken since 1955, are those that one would expect to find between close neighbours with significant shared interests in the Asia-Pacific region. It has become and still is a very strong relationship that encompasses shared economic and security interests and people-to-people contacts.

The current relationship draws on many long standing associations including:

- broadly common parliamentary, legal and administrative traditions and joint membership of the Commonwealth
- people-to-people links including students, business councils, immigration and tourism
- regular and close consultations in a variety of policy fields such as a Ministerial-level Joint Trade Committee
- bilateral defence cooperation through the Malaysia-Australia Joint Defence Program and the Five Power Defence Arrangements.

Official Visits

Australia's relationship with Malaysia is underpinned by strong people-to-people links with a significant program of two-way high-level visits. Australian and Malaysian ministers also meet regularly in a range of bilateral and multilateral fora, including within the WTO, Commonwealth, APEC, ASEAN, ASEAN Regional Forum, East Asia Summit (EAS) and the bilateral Joint Trade Committee.

The official visit to Australia by Malaysian Prime Minister Dato' Seri Abdullah Badawi, accompanied by a large ministerial delegation, in April 2005 – the first by a Malaysian Prime Minister in 21 years – provided an important opportunity to build on long-standing and cooperative links across a broad range of areas. A key outcome of the visit was the decision to proceed to bilateral free trade agreement negotiations.

A number of Malaysian ministers undertook separate bilateral visits in 2005 including the 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; and Minister of Transport, Dato' Seri Chan Kong Choy. Minister of Agriculture and Agro-based Industries, Tan Sri Muhyiddin Yassin, visited in March 2006 in an effort to remove barriers in the halal beef export trade to Malaysia, and also signed an MOU on Agricultural Cooperation with his Australian counterpart, the Hon Peter McGauran MP.

In addition to a private visit by Prime Minister Abdullah to Perth in February 2006 to receive an Honorary Doctorate from Curtin University, Minister of Foreign Affairs Datuk Seri Syed Hamid Albar visited Australia from 1-8 June 2006, and Minister of International Trade and Industry Dato' Seri Rafidah Aziz visited from 31 July-8 August 2006 to attend the 13th Australia-Malaysia Joint Trade Committee meeting as well as to run a series of Malaysia trade promotion seminars.

Australia's Attorney-General, the Hon Philip Ruddock MP, Minister for Veterans' Affairs, the Hon De-Anne Kelly MP, Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss MP and Minister for Education, Science and Training, the Hon Dr Brendan Nelson MP, undertook separate bilateral visits in 2005. Deputy Prime Minister and Minister for Trade, the Hon Mark Vaile MP, visited Malaysia in August 2005 and co-chaired the 12th Australia-Malaysia Joint Trade Committee Meeting with Malaysia's Minister of International Trade and Industry, Dato' Seri Rafidah Aziz. Prime Minister Howard and Foreign Minister Downer visited Malaysia in December 2005 to attend the East Asia Summit and East Asia Summit Foreign Ministers' meeting respectively.

This year has also seen parliamentary exchanges between Australia and Malaysia. An Australian Parliamentary Delegation visited Malaysia from 11-17 April 2006 while a Malaysian Parliamentary Delegation visited Australia from 19-25 June 2006.

Defence and Security Links

Australia has had a close defence relationship with Malaysia, including from before independence in 1957, reflecting a common commitment to the security and stability of the region. The relationship is based on practical cooperation including the Malaysia-Australia Joint Defence Program, an ongoing Australian presence at the Royal Malaysian Air Force Base at Butterworth, and common membership of the Five Power Defence Arrangements.

During the Second World War, Australian troops fought in Malaya in 1941-42 and took part in the liberation of Borneo in 1945. The Australian Army provided the interim military government in Sabah and Sarawak immediately after World War II. Australian forces also assisted Malaysia in operations against the communist insurgents during the Emergency and Confrontation.

In February 2005, Mr Downer released the Department of Foreign Affairs and Trade's publication, *Australia and the Formation of Malaysia 1961-1966*, which documents Australia's support for the establishment of Malaysia and defence of its territorial integrity. The Malaysian Government has awarded the Pingat Jasa Malaysia (PJM) medal to Australian servicemen and women, among others, who served in Malaysia during this time.

Bilateral defence activities are conducted under the auspices of the Malaysia-Australia Joint Defence Program (MAJDP) which provides a structured framework for a broad range of bilateral defence interaction. The bilateral defence cooperation program, which formally commenced in 1964, includes the training of Malaysian military personnel in Australia, the attachment of Armed Forces personnel from each country to the other, and annual combined field exercises. Australia maintains a presence at RMAF Butterworth in Malaysia and is Malaysia's major source of external military training.

The Five Power Defence Arrangements (FPDA), which commits Australia, New Zealand and the United Kingdom to consult on a response to any armed attack or threat against Malaysia or Singapore, also provides a valuable framework for training exercises and other contacts. It was formally established in 1971 specifically to defend Malaysia and Singapore against external attack at the time of the UK withdrawal 'east of Suez'. More recently, the FPDA has expanded its focus to address non-conventional security threats facing the region, including terrorism and maritime security.

Australia and Malaysia cooperate closely on a range of security and transnational crime issues, including counter-terrorism and people smuggling, with good links between police and immigration agencies. In August 2002, Australia signed an agreement on cooperation to combat international terrorism with Malaysia. Australia also supports the work of the South East Asia Regional Centre for Counter-Terrorism (SEARCCT) based in Kuala Lumpur and the Department of Immigration and

Multicultural and Indigenous Affairs (now DIMA) conducted regional document fraud training at the Centre in August 2004. AUSTRAC has also conducted a course on money laundering at SEARCCT. Australia and Malaysia commenced an officials'-level Regional Security Dialogue in 2005, and Australia has also commenced a dialogue with Malaysia on a range of counter-proliferation issues.

Commercial Relations

In terms of two-way goods and services trade, Malaysia is Australia's second-largest trading partner in ASEAN and our ninth-largest partner overall with total trade in 2005 of \$10.44 billion (2.9 per cent share of Australia's total trade). Australia is Malaysia's seventh-largest export market and twelfth-largest import source. In 2005, total merchandise trade between Australia and Malaysia was \$8.59 billion (Australian exports of \$2.5 billion, with imports of \$6 billion), an increase of 7.6 per cent over total merchandise trade for 2004. While Australian exports to Malaysia have increased gradually over recent years (from \$2.07 billion in 2003), Malaysia's exports to Australia have jumped markedly (up from \$4.3 billion in 2003), largely due to a significant increase in exports of crude petroleum to Australia. Two-way services trade in 2005 totalled \$1.85 billion (\$1.05 billion in Australian exports, \$799 million in imports) (*see below on Education exports*).

Major merchandise exports from Australia to Malaysia include aluminium, copper, milk and cream, coal, zinc, medicaments (including veterinary), crude petroleum, and ferrous waste and scrap. Australia is the major provider of education services to Malaysia. Major Malaysian merchandise exports to Australia include crude petroleum, computers, telecommunications equipment, integrated circuits, and furniture.

The Malaysian business community has become increasingly aware of the strengths of the Australian economy and Australia's potential value as a location for regional operations. Malaysian investment in Australia has grown strongly in recent years. At the end of 2005, the level of Malaysian foreign direct investment in Australia was \$3.3 billion, making Malaysia the eleventh-largest investor in Australia. Malaysian investments are in real estate, restaurants, travel agencies and the gaming industry.

Major Malaysian companies investing in Australia include MBf Holdings Berhad (personal and household goods retailing), Mulpha International Bhd (property operators and developers), Sime Darby Berhad (car wholesaling), and Quantum Capital Ltd (business services).

Australian companies continue to pursue opportunities in Malaysia, although investment levels have still not recovered to pre-Asian financial crisis levels. At the end of 2005, the stock of Australian direct investment in Malaysia stood at \$371 million.

Major Australian companies with investments in Malaysia include: Ansell (rubber products), Amcor (packaging), Austral Malaysian Mining (mining), Bluescope Steel (steel building products), OneSteel (steel building products), Blackmores (health supplements), Boral (plasterboard), Comgroup (communications), CSR (building materials), Grange Resources (mining), IAG (insurance), IBA Health (health IT

products), Ryco (hose manufacturers) and Stellar Group (media services). The ANZ Bank and Macquarie Bank both have representative offices in Malaysia. Austrade estimates there are about 400 Australian companies with offices or joint venture arrangements in Malaysia.

Many Australian franchises and licensed retail operations are present in Malaysia. These include Mambo, Surf Dive & Ski, Fasta Pasta, Harvey Norman, Cash Converters, Helen O'Grady Children's Drama Academy and Fastway Couriers.

Australia and Malaysia have a double taxation agreement.

In February 2005, the Minister for Trade, the Hon Mark Vaile MP, launched a report by the Department of Foreign Affairs and Trade entitled *Malaysia: An Economy Transformed*. The report analyses the challenges to Malaysia's development trajectory and the government's plans – including in education – for new drivers of growth. It also discusses new opportunities for Australian business, noting the Australia-Malaysia commercial relationship is set to expand further as Malaysia moves into its next stage of economic development.

Australia-Malaysia Free Trade Agreement

On 7 April 2005, Prime Minister John Howard and his Malaysian counterpart, Prime Minister Dato' Seri Abdullah Badawi, agreed to launch negotiations on a bilateral Free Trade Agreement (FTA).

The decision to begin negotiations on an FTA built on our already strong and broad-ranging bilateral relationship. It also followed consideration by our respective governments of comprehensive scoping studies into the likely impact of a bilateral economic agreement. The Australian Scoping Study was conducted in consultation with State and Territory governments, industry and non-government groups, and concluded an FTA would deliver significant benefits to both countries. This conclusion was supported by Australian and Malaysian speakers at the Australia Malaysia FTA Conference hosted by the Australian APEC Study Centre in March 2005.

There have been four full rounds of negotiations on the FTA since May 2005, the most recent being held in Kuala Lumpur in July 2006. Both sides have committed to completing a high-quality agreement. The current expectation is that the negotiations will conclude by around mid-2007, although Ministers have not sought to apply a rigid timetable to the negotiations.

Australia-Malaysia Joint Trade Committee

The annual Australia-Malaysia Joint Trade Committee (JTC) meeting, co-chaired by the Australian Minister for Trade and the Malaysian Minister of International Trade and Industry, provides a regular forum for the two countries to discuss their respective views on international and regional trade and economic issues, as well as to explore ways to expand the bilateral trade and economic relationship. The Joint Trade Committee is the longest running bilateral trade dialogue mechanism that Malaysia has with any country.

The 13th JTC was held in Adelaide on 3 August 2006 and was co-chaired by Australia's Deputy Prime Minister and Minister for Trade, the Hon Mark Vaile MP, and his Malaysian counterpart, Minister of International Trade and Industry, Dato' Seri Rafidah Aziz. At that meeting, Ministers underlined their commitment to negotiating a high quality Malaysia-Australia Free Trade Agreement that offered significant benefits to both sides. Ministers also reviewed the progress on a range of JTC initiatives, including activities under the Malaysia-Australia Agriculture Cooperation Working Group (which was reactivated in August 2005) and developments in cooperation initiatives in the franchising, medical devices regulation and coal and energy sectors. Ministers also examined potential new areas of cooperation, including in the field of groundwater management. Representatives from the Australia-Malaysia Business Council and the Malaysia-Australia Business Council also participated in the meeting, as they have done on previous occasions.

Education

Australian expertise in education and training is highly regarded in Malaysia and our links in this sector date back to the 1950s through the Colombo Plan. Approximately 250,000 Malaysians are alumni of Australian educational institutions. In 2005, 19,342 Malaysian students were enrolled in Australian education institutions onshore, making Malaysia our fifth-largest source of onshore international students. The offshore provision of education is also growing in importance with more than 14,000 students at Australian higher education institutions in Malaysia.

Education for Malaysian students has traditionally been provided at universities in Australia, but university twinning arrangements and Australian branch campuses allow Malaysian students to undertake Australian courses in Malaysia. In February 1998, Monash University was invited by the Malaysian Government to establish a branch 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 service 2,450 students. Curtin University has also established a branch campus in Malaysia, in the state of Sarawak, as has Swinburne University of Technology.

Migration/Tourism

The 2001 census showed 78,850 Malaysian-born people lived in Australia, an increase of three per cent from the 1996 census.

In 2005, there were 159,900 Australian visitors to Malaysia, representing an 11 per cent increase from 2004. Malaysian tourist flows into Australia have shown a steady increase over time. In 2005, there were 166,000 short-term visitor arrivals from Malaysia, making it our second-largest source of visitors from South East Asia.

An air services agreement is in place between Australia and Malaysia.

Other Areas of Cooperation

The Government has encouraged and supported an active group of institutions which are keen to promote the relationship and develop and maintain people-to-people links between our communities.

- The Australia-Malaysia Institute

The establishment of the Australia-Malaysia Institute (AMI) was announced by the Minister for Foreign Affairs, The Hon Alexander Downer MP, on 7 April 2005 during the visit to Australia by Malaysian Prime Minister Dato' Seri Abdullah Badawi. The establishment of the AMI reflected the long-standing links between Australia and Malaysia and was designed to assist the Government in its efforts to enhance these links further and to build a strong platform for the future.

The key objective of the Institute is to strengthen Australia's people-to-people and institutional links with Malaysia. By supporting these existing links and promoting new ones, the Institute aims to deepen mutual understanding and cooperation between Australia and Malaysia for the mutual benefit of both nations.

The Australia-Malaysia Institute is presided over by an Executive Committee comprised of eight prominent Australians plus an ex-officio senior DFAT officer. Mr Downer appointed Mr Michael Abbott QC, barrister, as the Chairman of the AMI Executive Committee. Mr Abbott has a long-standing and active interest in Malaysia, including through his association with the Australia-Malaysia Cultural Foundation. Other Executive Committee members are drawn from business, academia and the media.

AMI programs over 2005-06 have added a new dimension to the bilateral relationship. The Institute organised three media visits to Australia and co-sponsored a visit to Malaysia by eight Australian journalists organised by the Asia Pacific Journalism Centre.

The AMI also organised, inter alia, a visit to Malaysia by a group of young leaders from Australia, set up a series of scholarships related to bilateral relations, and co-sponsored a successful Australia-Malaysia Forum, organised by Monash University and the Asian Strategy and Leadership Institute (Malaysia) in June 2006. Malaysian Foreign Minister Syed Hamid Albar delivered a keynote address at the Forum.

In the area of arts and culture, the AMI sponsored a number of Malaysia-related aspects of the "Crescent Moon" Exhibition of Islamic Art and Civilisation of South East Asia which was displayed in Adelaide and Canberra from November 2005 to May 2006.

Further information on the Australia-Malaysia Institute can be obtained from: <http://www.dfat.gov.au/ami/>.

- **Malaysia-Australia and Australia-Malaysia Business Councils**

The Malaysia-Australia Business Council (MABC), established in 1986, and the Australia-Malaysia Business Council (AMBC) are important coordinating bodies for commercial linkages, and conduct regular dialogue with both Governments, including through participation in the Joint Trade Committee meetings. Among other roles, the councils assist with business delegations accompanying Ministerial visits and coordinate commercial events to coincide with such visits. They are an important source of information and advice for businesses active in Australia and Malaysia and play an important role in promoting strong networks in the respective private sectors. In May 2002, the (then) Chairman of the MABC, YAM Tunku Dato' Sri Shahabuddin Bin Tunku Besar Burhauddin was awarded an honorary Order of Australia for services to Malaysia-Australia business relations. Wee Keat Chan is the current National President of the AMBC.

- **The Malaysia Australia Alumni Council**

The Malaysian Australian Alumni Council (MAAC) is a national organisation for Malaysian alumni associations of Australian universities. The MAAC spearheads the Malaysia Australia Colombo Plan Commemoration (MACC) Scholarship initiative, which provides for a two-way exchange of scholars between Australia and Malaysia to undertake their tertiary education at universities and institutions of higher learning in both countries.