



FACING WEST, FACING NORTH

CANADA AND AUSTRALIA IN EAST ASIA

SPECIAL REPORT



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Leonard Edwards and Peter Jennings, Project Leaders



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ABOUT THE PROJECT

Begun in late 2012, this two-year project will explore and promote the ways that Canada and Australia can enhance their security cooperation and contribute to more stable regional security environments and governance mechanisms in the Asia-Pacific region.

The region has become an increasingly important area for the Canadian government's international economic priorities. Regional security and stability are prerequisites to achieving these priorities, and given Australia's tremendous success engaging with Asia-Pacific countries from trade and investment through to security, there is no better partner for Canada's own broader engagement in the region.

The Centre for International Governance Innovation (CIGI) and the Australian Strategic Policy Institute (ASPI) will explore the possibilities for Canadian and Australian cooperation in promoting strengthened security and regional governance in the Asia-Pacific. It will cover areas such as strategic policy, cooperation in foreign policy and defence initiatives, and closer military-to-military ties. The project will be led by Australian and Canadian co-chairs, advised by a binational council of prominent individuals and officials. The project's research will contribute to discussions at the February 2014 Australia-Canada Economic Leadership Forum in Melbourne. The resulting report will be presented later in 2014 to both Australian and Canadian governments.

As an additional element, CIGI is working closely with two Korean partners — the Seoul Forum for International Affairs and the Asan Institute for Policy Studies — which will host one of the two regional workshops that form part of the project. It is expected that this workshop will also give important insights into the possibilities of Korean engagement with Canada and Australia in ongoing cooperation in the security domain.

PREFACE

This report has been prepared for delivery at the 2014 Australia-Canada Economic Leadership Forum in Melbourne, Australia. The forum is a summit of private- and public-sector leaders from both countries that meets every two years. The goal of the forum is to foster high-level and frank exchanges on issues and challenges of mutual interest to Australia and Canada — partners and allies who share common historical roots and values, including respect for freedom and the rule of law, and the advancement of international peace and security.

The report is the product of a highly successful partnership between ASPI and CIGI, with added support from the Asan Institute for Policy Studies and the Seoul Forum for International Affairs.

It was prepared under the direction of two co-chairs, Leonard Edwards, distinguished fellow at CIGI and Canada's former deputy minister of foreign affairs, and Peter Jennings, executive director of ASPI and former deputy secretary for strategy in the Australian Department of Defence.

The report was drafted by John Blaxland, a senior fellow at the Strategic and Defence Studies Centre at Australian National University, and James Manicom, CIGI research fellow in the Global Security Program, under the guidance of the two co-chairs. CIGI and ASPI are extremely grateful for their hard work in putting this report together.

The recommendations in this report are heavily influenced by two meetings, held in Singapore on June 2-3, 2013 and in Seoul on October 18-19, 2013. CIGI and ASPI thank all of the participants who attended those meetings, including Rajesh Basrur, Eva Busza, Andrew Carr, Cho Chang-beom, Graeme Dobell, Leif-Eric Easley, Paul Evans, Tobias Feakin, Roger Girouard, Han Feng, Tim Huxley, Jo Dong-Joon, Jung Ku Hyun, Kim Young Ho, Lee Jae-Sung, Lee Shin-wha, Iishi Masafumi, Elina Noor, Raymund Quilop, Liu Qun, Mark Raymond, Sakong Il, See Seng Tan, Sheen Seongho, Russell Trood, Ouyang Wei, Jung-yup Woo, Yoshinobu Yamamoto and Samina Yasmeen. The report has also benefitted greatly from detailed written comments and ideas offered by Tom d'Aquino, Perrin Beatty, Don Campbell, Wendy Dobson, Brian Job, James Judd, Pierre Lortie, Reid Morden, Alain Pellerin, Michael Small, David Welch and Yuen Pau Woo.

For their special contributions and support, CIGI and ASPI would like to thank Tanya Ogilvie-White, Sarah Norgrove, Hayley Channer and Janice Johnson from ASPI; Hahm Chaibong, Choi Kang, Jaehyon Lee and Haeri Joo from the Asan Institute for Policy Studies; Ambassador Yim Sung-joon from the Seoul Forum for International Affairs; and David Dewitt and Carol Bonnett from CIGI. CIGI Research Associate Simon Palamar also prepared some of the figures and charts contained in the report.

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EXECUTIVE SUMMARY

Canada and Australia have shared interests in bolstering economic prosperity and security cooperation across East Asia.¹ The focus of the world economy has shifted to Asia; Canada should follow the path Australia has taken for decades and orient itself — in economic and security terms — toward the emerging economies of East Asia. The risk of regional instability is growing, however, due to China's re-emergence, continued speculation about US strategic engagement in Asia and increased competition over disputed maritime boundaries. These developments provide opportunities for collaboration between countries like Canada and Australia. Non-traditional security threats, including natural disasters, climate change, food security and cyber security, point to a range of areas where the two countries can work more closely together.

Economics and security are indelibly linked in East Asia. Relations among the Northeast Asian states are marred by profound strategic and political mistrust. In Asia as a whole, there is an absence of strong regional institutions to help manage or mitigate crises. The Association of Southeast Asian Nations (ASEAN) is the pivotal institution around which other forums revolve. These are, in turn, the lynchpin of regional security and economic discourse. Progress on substantive issues can appear glacial, but participation in these forums is widely seen as the prerequisite for influence. Close engagement with ASEAN is essential for countries interested in contributing to regional security, which is, in turn, a precondition for improved trade relations with the dynamic East Asian economies.

The alignment of politically like-minded prime ministers in Ottawa and Canberra provides scope for creative consideration of how the two countries can help bolster regional security and stability as well as economic prosperity by working more closely together. Given its deeper integration in the region, Australia may also provide pointers to facilitate Canada's greater engagement, but Canada must also engage directly with the region.

Direct bilateral engagement between Canada and Australia should cover the following four areas: strengthening regional security; bolstering regional governance mechanisms; enhancing bilateral defence and security cooperation; and boosting industrial and economic cooperation.

This paper calls for policy makers and business leaders in Canada and Australia to consider the broader and longer-term benefits of greater bilateral and multilateral cooperation in East Asia. With resource constraints in mind, the following initiatives are recommended:

- **Strengthen regional security.** Canada and Australia must align their separate defence and security engagement activities in East Asia, share lessons learned and look for ways to maximize their separate and collective impact in cooperating with regional friends.
- **Bolster regional governance mechanisms.** Canada and Australia must work to strengthen regional capabilities in ways that add to stability, in particular, in the areas of peacekeeping skills, counterterrorism, humanitarian assistance, disaster relief and cyber resilience. They can also work with others to make regional security governance more effective.
- **Enhance bilateral defence and security cooperation.** Canada and Australia must deepen their individual defence and security dialogues and look for cost-effective ways to do more together across a broad sweep of areas from exercises to defence reform planning.
- **Boost defence industry and economic cooperation.** Canada and Australia should find ways to align defence procurement plans to find cost savings and share best practices on equipment procurement. Their reputation as reliable suppliers of freely traded agricultural and energy products should also be strengthened.

INTRODUCTION

Canada and Australia face critical challenges to their future prosperity. Both confront growing uncertainties conditioned by global economic rebalancing by the rise of emerging economies. Although the new engines of global growth — in Asia, primarily — are not as steady as once thought, governments in both Ottawa and Canberra have been clear that the future prosperity of their countries rests in East Asia. Reforms announced at the third plenum of the 18th Party Congress of the Chinese Communist Party's (CCP's) Central Committee suggest that Chinese leaders understand the huge challenges involved in rebalancing China's economy towards a more sustainable growth model. The US preoccupation with pursuing a wide-ranging "high quality" trade agreement with Asian economies requires Canada and Australia to take heed in light of their own trade ties with the United States. These economic prerogatives are set against an increasingly insecure regional setting in which deeply integrated production networks co-exist with active territorial disputes, historical animosity and rising military spending. This is the economic and strategic context in which ASPI and CIGI convened meetings in East Asia to discuss the trajectory of the Canada-Australia security relationship (see Boxes 2 and 3).²

¹ The region is referred to as "East Asia" for the sake of convention. The case for a redefinition of the region as "Indo-Pacific" is made in Medcalf (2012).

² This report draws on two regional meetings that featured scholars and practitioners from Australia, Canada and across East Asia, and on background papers commissioned for this exercise, which were published by ASPI and CIGI in 2013.

This report provides a road map for security and defence cooperation between two countries with similar economies, shared democratic values and complementary strategic perspectives.

Australia and Canada are free-market, liberal Western democracies with parallel historical experiences and very similar cultural predispositions deriving from their New World, multicultural and Westminster traditions. The two have similar positions on trade liberalization. Both have long-established economic, security and cultural ties with the United States and significant shared histories in Asia.

Box 1: Economic Stakes in the Asia-Pacific Region

Three of Canada's top six export destinations are in Northeast Asia, and the economies of ASEAN amount to Canada's seventh largest trading partner. East Asian countries and India dominated the list of emerging markets targeted by Canada's *Global Markets Action Plan*, released in November 2013. The Government of Canada is conducting free trade discussions with India, Japan, Singapore, the Republic of Korea and Thailand.

Australia's economy is already tied to East Asia. The Northeast Asian economies of China, Japan and the Republic of Korea account for 37 percent of Australia's total trade. Australia's free trade agreement with ASEAN and New Zealand has seen Australia's trade with Southeast Asia rise to the country's second-largest market after China. The newly elected coalition government has made it clear that economic prerogatives will drive its foreign policy toward the region, and will include an effort to finalize a trade agreement with China to follow from the recently concluded agreement with Korea.

East Asia confronts a number of threats that endanger not only the region's peace and security, but also its economic growth, which has received a great deal of attention from the business community and political leaders in Canada and Australia. The two countries must contribute to regional stability to secure the "Asian Century" that has captured corporate interest.

When addressing the Australian Parliament in 2007, Canadian Prime Minister Stephen Harper referred to the two countries as "strategic cousins." Australian Prime Minister Tony Abbott is demonstrably enthusiastic about relations with his Canadian counterpart. This alignment provides a strategic space for some creative and constructive thinking by Canadians and Australians about how best to capitalize on each other's complementary interests in East Asia's economic and security domains. The two sides have established communications mechanisms via the Canada-Australia Public Policy Initiative, their long-standing membership in the "Five Eyes" intelligence community and their new strategic dialogue (inaugurated in 2011 by then Defence Ministers Peter MacKay and Stephen Smith). Both have recently subsumed their foreign aid bureaucracies into their departments of foreign affairs, which reflects a commonality of approach to the conduct of diplomacy.

Canada and Australia have both emphasized aspects of their ties to Asia — for Australia, its proximity to the region, and for Canada, its significant Asian population — and both have a national interest in contributing to regional peace and security in a region both identify as the driver of their future prosperity.³ Combined with their ambitions for closer trade and investment ties with Asia, the two countries have a genuine interest in contributing to peace and security in the world's most economically vibrant region. Most East Asian states appreciate outside efforts to bolster regional peace and security. Consequently, Canada and Australia are members of a range of regional multilateral forums covering both economic and security affairs including the Asia-Pacific Economic Cooperation (APEC) forum and the ASEAN Regional Forum (ARF), where they already play constructive and multi-faceted roles.

However, there is more to be done. Canada and Australia need, *inter alia*, to:

- deepen relations with the region;
- open new markets for their companies and access value chains;
- reduce investment risks by helping to improve the local regulatory environment where their firms do business and by completing investment agreements; and
- contribute to ameliorating regional flashpoints via diplomacy, confidence-building initiatives and enhanced defence engagement.

East Asia will continue to drive global growth. The region accounts for 26 percent of global GDP, 28 percent of global trade and a third of the world's population (World Bank 2013; World Trade Organization 2012, 26 27). Northeast Asia alone accounts for 16 percent of the global economy (World Bank 2013). Often overlooked, the 10 countries of the ASEAN bloc, comprising over

3 See, for example, Government of Australia (2013); Baird (2012).

600 million people, form an integrated economy of US\$2.3 trillion and boast an average annual growth rate of five percent, which trails only China and India over the past decade (ASEAN 2012; World Bank 2013). Sitting astride the maritime arteries connecting the Indian and Pacific Oceans, Southeast Asia, in particular through the mechanisms of ASEAN, has become in effect the fulcrum of the region. For this reason, engagement with ASEAN and its related forums will remain vital.

For Canada, the region is an increasingly important target of Canadian trade diversification efforts, given the slowdown of traditional Canadian trading partners to the south and to the east across the Atlantic, notwithstanding the conclusion of the Canada-Europe comprehensive economic and trade agreement. From the Australian perspective, exports to the region have underwritten national economic growth. However, these economic opportunities come at a time of rising uncertainty, as traditional patterns of cooperation and conflict are unsettled by the rise of new powers and the re-emergence of old disputes.

In sum, continued regional stability cannot be taken for granted.

Critically, this changing strategic setting provides the impetus for enhanced collaboration to mitigate emerging risks. The Australian experience is instructive. Australia is far more deeply engaged in the region than is Canada, as a result of the recognition that improving opportunities for Australian business goes hand in glove with a comprehensive and wide-ranging engagement strategy with multiple partners that encompasses both economics and security.

If Canada wants to capitalize on the Asian Century, it would do well to draw from the Australian experience by:

- contributing to issues that promote economic prosperity and the security and stability of the region;
- staying committed for the long haul, demonstrating that Canada's renewed interest is not just a passing fad but central to Canada's national interests; and
- committing to more senior government, official and private sector face time in a region where face time matters.

Box 2: What Does Australia Bring to the Table for Canada?

Australia is well placed to support Canada's regional re-engagement. Australians are more comfortable than ever being seen as part of, yet distinct within, Asia. In many ways, this is now seen as a positive, with many Asian students choosing to study in Australia, in part because of proximity and stability, but also due to Australia's greater affinity with and knowledge of the region than other Western countries. To a certain extent this has also occurred in Western Canada, but for it to happen on a national level, Canada must undergo a similar, distinct process of national debate about the role of Asia in the country's future.

Box 3: What Does Canada Bring to the Table for Australia?

Given Canada's legitimate concerns and priorities elsewhere, Australian policy makers look for more practical demonstrations of Canada's commitment to the region. In this context, it is useful to note what a Canadian "pivot" contributes to Australia. At the regional level, this includes an additional like-minded voice at the table on issues important to Australia including people smuggling, human rights and military transparency. Canada's role in facilitating Australian access to the North Atlantic Treaty Organization (NATO) is noteworthy, as are the two countries' shared responsibilities in multilateral trade negotiations and arrangements for consular support in remote parts of the globe, where only one or the other has diplomatic representation. Following from the creation of a strategic dialogue on defence planning inaugurated in 2011, there is considerable leverage to be gained for both countries from seeking to align their policy priorities to ensure they operate in a way that is mutually reinforcing. Canada shares Australia's world view on many trade and security issues, which makes it an appropriate partner on matters related to the US alliance system, emerging powers and regional governance mechanisms.

STRATEGIC SETTING

The wider Asia-Pacific region, including the countries of South Asia, Southeast Asia, East Asia, Australasia and Pacific Ocean-facing North America, is undergoing a strategic shift at a time of global and regional uncertainty. A number of unsettled disputes over territory are becoming more politically prominent because of rising nationalist sentiment, which risks the outbreak of conflict in the most heavily armed region in the world. Even short of hostilities, these disputes increase investment risk and insurance premiums, and reduce opportunities for Canadian and Australian companies.

The region also confronts a number of non-state threats to economic growth including climate change and natural disasters, people smuggling, growing demands for energy supplies and cyber threats. Importantly, these threats occur in areas where Australian and Canadian comparative advantages could serve as a basis for deeper regional engagement.

THE RISE OF CHINA

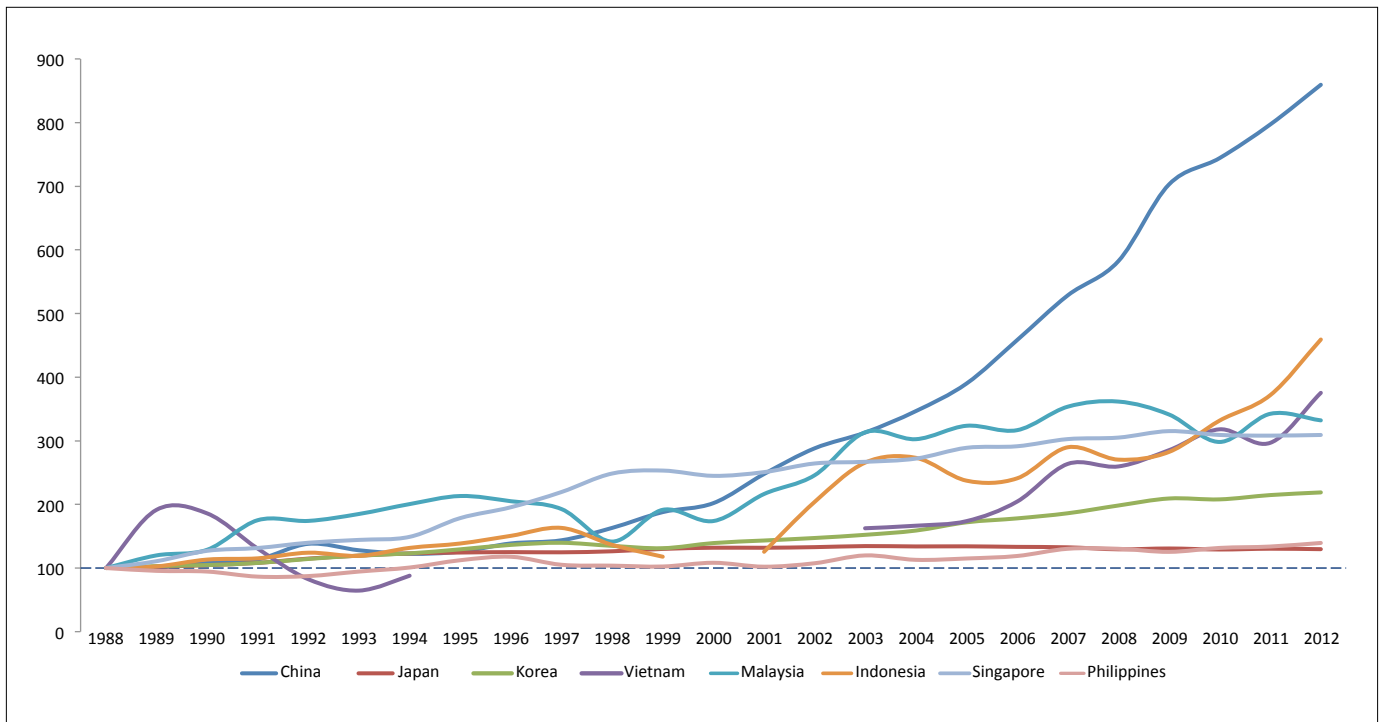
Chinese defence spending has been steadily increasing at double-digit rates since 1989, fuelled by its impressive economic reforms. Although it claims this spending is defensive in orientation, China seeks a military with a global reach to secure trade routes, protect its citizens abroad and maintain its growing investments overseas. China will continue to develop its blue-water naval and air support capabilities in its future procurement plans. The country has deployed a maritime task group for anti-piracy operations in the Gulf of Aden, which demonstrates its ability to sustain forces far from its

traditional theatre of operations. These steps indicate that China seeks a greater role for its armed forces both in the region and beyond.

In addition to its more potent military, Beijing is prepared to resist perceived slights on issues that affect the rule of the CCP. Years of emphasizing China’s “peaceful rise” in the region have given way to a confidence since 2009 that makes China more willing to use its economic weight and military and paramilitary power to assert its interests. Methods include, but are not limited to, deploying its coast guard vessels to police its claimed but disputed maritime jurisdiction, applying informal economic sanctions, encouraging consumer boycotts and, in November 2013, declaring an Air Defence Identification Zone in the East China Sea.

This behaviour has unsettled the neighbourhood, and points to the need for closer Canadian and Australian engagement with China as well as engagement with other security partners across East Asia.

Figure 1: Real Military Expenditures in Selected Asian Countries (Inflation-adjusted Index, 1988 = 100)



Source: SIPRI Military Expenditure Database (2012).

THE CHALLENGE TO US STRATEGIC POWER IN ASIA

Overwhelming US military strength has deterred military adventurism by would-be aggressors in the region since the end of World War II. However, amid some calls in Washington for the United States to “come home,” the United States is indebted and war weary. Mandatory budget cuts will constrain a US military that fought two wars in the Middle East for over a decade. Some strategists believe that China’s strategic shift since 2009 is based on the expectation that the United States does not have the capacity, or perhaps the political will, to stay a steady course in Asia.

China’s behaviour has increased quiet demands from countries in the region that the United States remain a dominant military power in East Asia. To allay regional unease, US President Barack Obama has reasserted the US commitment to regional security. In his address to the Australian Parliament in November 2011, Obama stated unequivocally that “reductions in US defence spending will not — I repeat, will not — come at the expense of the Asia Pacific.” This “rebalancing” from the Middle East and Europe is more than just a military effort — it is recognition that the United States’ economic future is tied to Asia. US leaders are quick to emphasize the economic dimensions of the rebalancing, embodied by the trade negotiations toward a Trans-Pacific Partnership (TPP), as well as the political and humanitarian aspects.

As a result, the United States is seeking to revitalize ties with its allies and, for the first time, encouraged Australia, the Republic of Korea and Japan to cooperate to strengthen regional security. The United States has also sought to engage Australia and Canada more closely in its security arrangements centred on the US military’s Pacific Command in Hawaii. As US allies with an interest in regional stability and free access to the global commons, deeper cooperation with the United States makes sense for Canada and Australia.

The two countries have responded positively to these US overtures. Canada and the United States have instituted an annual strategic dialogue on security issues in the region. Australia has assigned ships to work intimately with the US 7th Fleet based in Japan, and Canada seems prepared to increase the visibility of its navy in the region. In addition, Canada and Australia have assigned officials to operate in senior embedded positions in the US hierarchy in Hawaii, where they contribute alternative perspectives that reflect Australian and Canadian values and interests. These interventions are largely well received in the region and helpful in enabling the United States to engage in the region without unduly exacerbating tensions. There is a need to ensure the “rebalancing” does not increase Chinese fears about containment.

Box 4: Sources of Instability in East Asia

East Asia has gone from being particularly violent in the 30 years that followed the end of World War II to being particularly peaceful following the end of Cambodia’s civil war in 1991. There are, however, new or re-emerging sources of tension and instability accompanying the region’s explosive economic growth:

- The addition of one billion people to the middle class over the next five to 10 years will present enormous challenges and opportunities. Asia’s new middle class can be expected to demand participation in political systems where institutionalized avenues for political participation are weak.
- A shifting regional balance of power where a group of rising new regional powers — including India, Indonesia, Vietnam and South Korea — are challenging the regional power hierarchy, and where Russia and Japan worry about their loss of power relative to China.
- China’s heavy-handed management of relations with its smaller neighbours, particularly over maritime and other territorial disputes, drives them into the arms of the United States.
- Increased competition over scarce offshore energy and fisheries resources, localized in disputed maritime areas.
- Rising nationalism is playing out in territorial and resource disputes in the region. These disputes are infused by deep-rooted cultural and historical animosities tied to the legitimacy of political elites.
- Incidents at sea risk heightened escalation involving the naval vessels, coast guards and other maritime entities of claimant states.
- North Korea’s continuing nuclear sabre-rattling and blackmail tactics threaten security on the Korean peninsula.
- A major modernization of armed forces in the region, bordering on an arms race.
- Monopolization of water flows by China has become a source of leverage over downstream states in the Mekong River delta.
- Radicalization of ethnic and religious minorities has occurred, in particular in western China, southern Philippines, Myanmar’s borderlands, southern Thailand and parts of Malaysia and Indonesia. This leaves many states distrustful of each other, internally focussed and constrained from thinking strategically and acting collectively.

From Australia's perspective, these arrangements reflect a bipartisan commitment to encourage the United States to maintain an active and constructive role in ensuring regional security and stability while also providing an important means for engagement with the United States on issues of concern to Australia. For Canada, the issue may not be as fully articulated, but the sentiment is the same. Beyond these measures, there remains scope for considerably more to be explored on a bilateral basis between these two close US allies.

MARITIME SECURITY AND TERRITORIAL DISPUTES

Territorial and maritime boundary disputes have caused several states to increase spending on naval capabilities. Regional states are preoccupied with the potential riches from exploiting the oil, gas, minerals and fisheries that lie in disputed offshore areas. The political importance of nationalism has hardened state postures and thwarted cooperation. There have been a number of confrontations at sea between claimant states. In this context, there is a growing demand for US power in the region as a direct consequence of China's perceived aggression in regional maritime disputes, despite the pursuit of assertive policies by all sides.

The prospect of conflict at sea raises the cost of shipping through the world's busiest sea lanes. Furthermore, the recent tit-for-tat encroachment of coastal states on international airspace raises further concerns. First, it creates uncertainties for civilian air traffic in overlapping areas. Second, it will likely increase the number of interceptions between military aircraft, which have proven dangerous, and even fatal in April 2001. Threats to the global commons will ensure international preoccupation with regional security in East Asia.

Australia and Canada can play a role in encouraging the states involved to look beyond their own nationalist agendas. Although neither Australia nor Canada has a direct stake in these disputes, they are well placed to foster confidence-building measures and enhance regional collaboration and the de-escalation of disputes. Both countries have made important contributions to regional institutions in the past, including in the formation of APEC and support for track two diplomacy in the South China Sea.

Simultaneously, threats to maritime security (beyond the escalation of the region's maritime disputes) include piracy, high seas robbery, the politically motivated disruption of sea lanes and people-smuggling cartels dominating irregular and unregulated movement of people at sea, and bind East Asian states together. The stakes are high. The sea lanes of communication are the arteries of the region's growth, and the logistics of energy security feed the region's prosperity. Fifty percent of global container traffic passes through the Indian Ocean and Pacific sea lanes, as does 70 percent of ship-borne energy (Locklear 2012). Southeast Asian states have been particularly receptive to capacity-building

efforts, including coast guard exchanges, from China, Japan and Korea in the past. As countries that also police large maritime areas with scarce resources and that have refined and mature capabilities to offer, Canada and Australia could make headway in this area.

Engagement in regional security issues, in particular through the range of economic and security-related forums, improves relations with countries in the region, reduces the investment risks for Canadian and Australian companies and builds the trust needed to open new markets in the region. The Royal Australian Navy and Royal Canadian Navy already collaborate extensively on these issues in the Persian Gulf, the Gulf of Aden and elsewhere.

EMERGING "NON-TRADITIONAL" SECURITY THREATS

In addition to these state-centric challenges, a number of security threats are emerging that are reshaping regional dynamics. Food, energy, environment and cyber insecurity threaten economic growth and undermine political systems in the region.

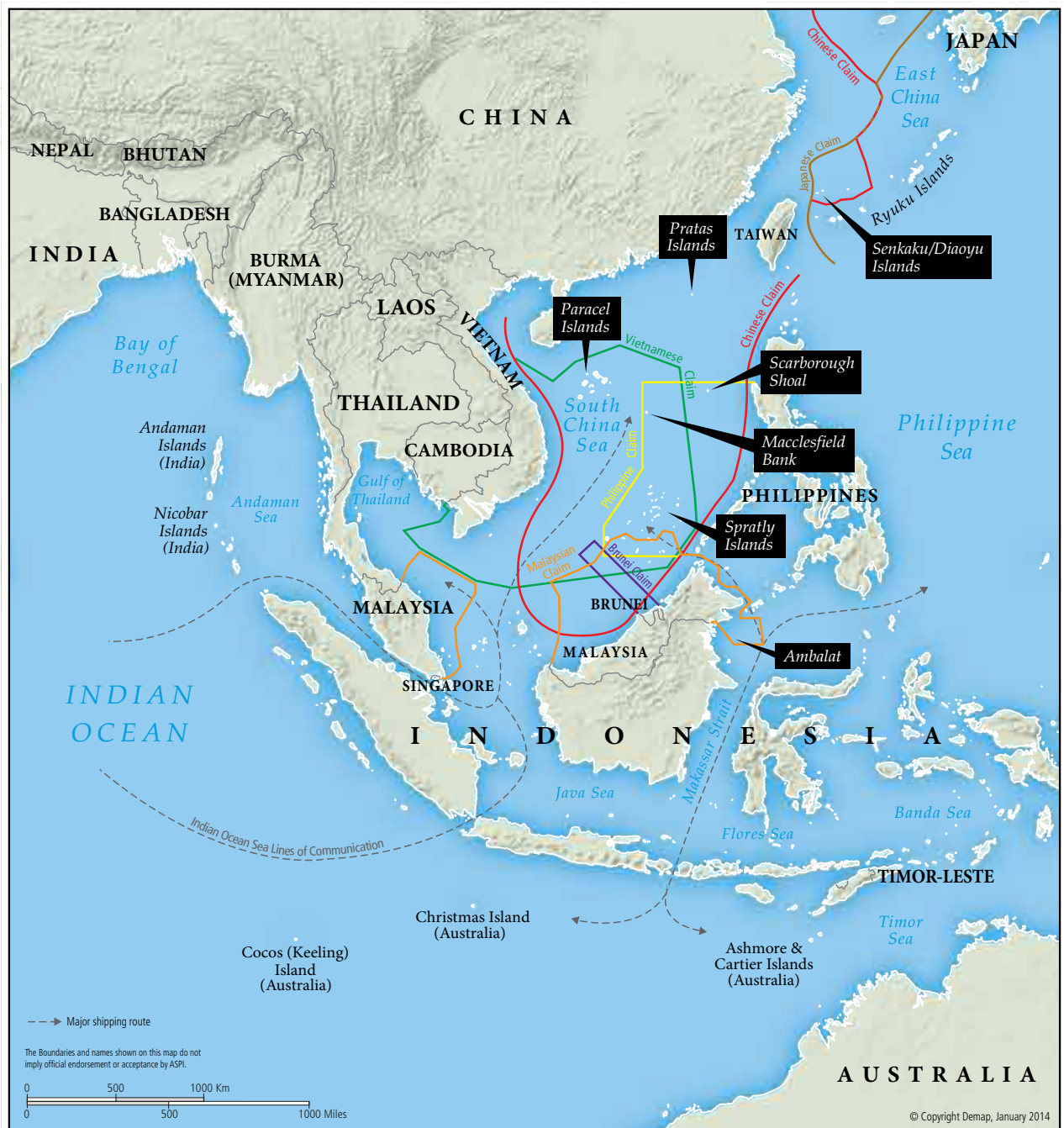
Price spikes in global food prices after 2008, driven by higher input prices including petrochemicals, and the growing frequency of extreme weather events in fertile areas have exacerbated food insecurities. Increased urbanization has reduced the availability of arable land, which has further affected food insecurity. The region presents a tremendous market opportunity for Australian and Canadian agricultural producers, who are net exporters of agricultural goods.

The Asia-Pacific region, particularly Northeast Asia, suffers from an acute sense of energy insecurity. The region consumes 34 percent of global energy, yet possesses less than three percent of global oil reserves and around five percent of global gas reserves (BP plc 2013). The situation is worsened by hoarding practices by some states and by market interference by states using their revenue to "secure" energy sources overseas.

Feeding this appetite for energy and commodities has underwritten Australia's economic boom over the past decade. Canadian political and business leaders recognize that the time has come for them to capitalize on this market as well. As resource exporters, Canada and Australia are well placed to engage regional partners in a comprehensive framework on energy security that strengthens management of supplies and mitigates supply disruptions.

Natural disasters and climate change present a recurrent and growing threat to economic stability in the region, exacerbated by poor adaptive capacity on the part of regional states and institutions. This is well demonstrated by Typhoon Haiyan/Yolanda, which struck the Philippines in November 2013. In the long term, rising sea levels and other environmental pressures will exacerbate many of the

Figure 2: Sea Lanes and Maritime Disputes in East Asia



Source: ASPI.

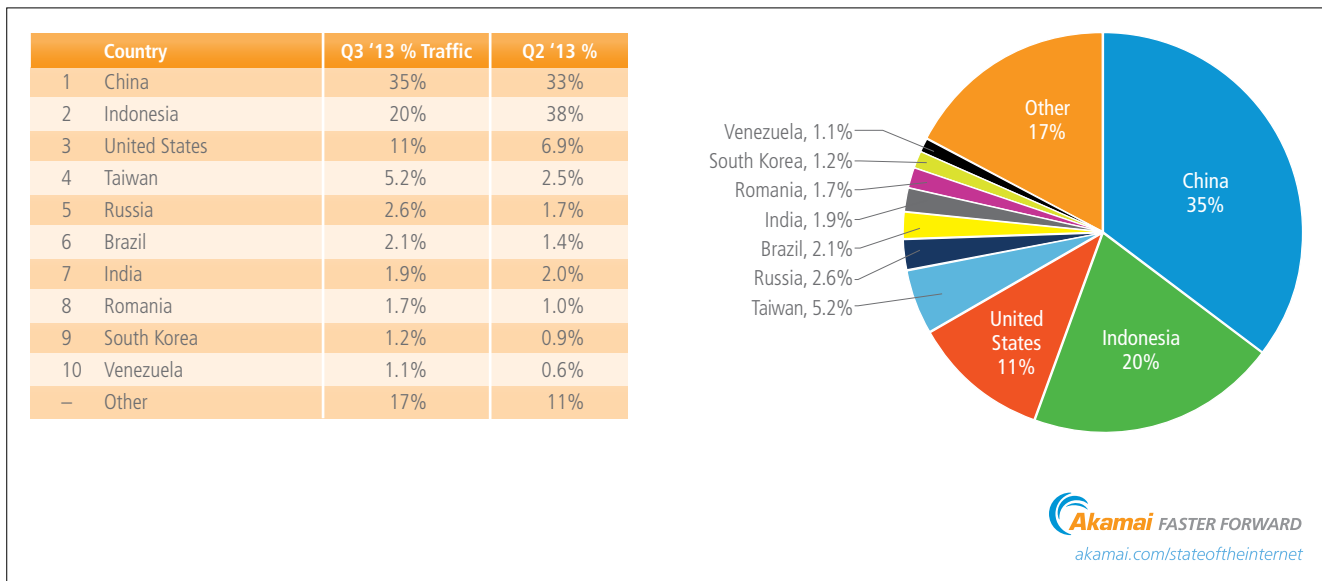
food and energy insecurities noted above. Admiral Samuel Locklear, commander of US Pacific Command, recently described climate-related disruptions as the most probable security challenge in the Asia-Pacific (Bender 2013). The Internal Displacement Monitoring Centre has reported that around 117 million people were displaced by natural disasters and climate-related events from 2008 to 2012, across all of Asia (Yonetani 2013, 27).

Australia and Canada have significant experience and the resources and capabilities to address these matters. Both countries made considerable diplomatic headway in the region after the 2004 Indian Ocean tsunami and with similar responses to Typhoon Haiyan/Yolanda. There is the potential for both Canada and Australia

to make significant and constructive contributions to regional security and stability in the face of a likely surge in such challenges. At a minimum, the increase of climate refugees suggests the escalation of existing concerns for both governments, warranting closer bilateral consultation and collaboration.

The emerging issue of cyber security also presents a challenge to regional security. Numerous studies place East Asia as the leading point of origin (by IP address) for cyber attacks. Canada and Australia already share a high standard of cyber security capabilities. Canada and Australia could work with countries in the region to strengthen global institutions and norms surrounding the use of cyber capabilities.

Figure 3: Global Origin of Cyber Attacks



Source: Akamai (2013).

In sum, East Asia confronts a number of growing threats to its prosperity; however, these same circumstances also provide an opportunity for Canada and Australia to contribute to the reduction of such risks.

Canada could take its cue from the Australian experience, which is predicated on committing the time of senior political leaders, officials, the business community and real resources to deepening bilateral relations and multilateral engagement. Working jointly with ASEAN on non-traditional security concerns is a very promising path forward.

GOVERNANCE CHALLENGES

Asian countries prefer consensus building over negotiation and rules, and have developed the evolving institutions for confidence building in security and economic integration along those lines. As a result, the functional contribution they make to regional stability is generally marginal, although some progress is being made in harnessing the region’s remarkable diversity and competing interests around common goals. In practice, these regional institutions facilitate interaction between competing interests in a constructive setting, where personal relationships facilitate mutual understanding. Participation by non-Asian countries is noted and appreciated.

Participants at recent meetings, however, have struggled to develop a coherent response towards competing sovereignty claims in the South China Sea. ASEAN countries are divided between those that claim part of the South China Sea and those that do not. The latter group includes countries dependent on Chinese aid and investment. Those that are most alarmed have sought deeper US involvement in the region, inviting the US to “rebalance.” The related dilemma is that most governments recognize that their economic future is tied

to China, but seek out the Americans to provide security. In this climate, Northeast Asian rivalries are being played out in Southeast Asia as Japan improves its ties with countries alienated by China.

Australia has remained consistently engaged in the region and is well placed to participate in these forums. Canada has a strong track record of engagement, but its investment in the process is not perceived as consistent and strong. For that perception to change, Canada needs to demonstrate its resolve to remain engaged as a serious player in regional security, including in the range of multilateral official and semi-official forums to pave the way for deeper participation. Renewed engagement can be pursued at the official and unofficial levels through participation in the ARF and its associated think tank, the Council for Security Cooperation in the Asia Pacific. Building closer bilateral defence relationships, in addition to broader engagement with ASEAN, is a critical preliminary step for Canada as it seeks membership in the premier regional economic and security institutions: the East Asia Summit and the ASEAN Defence Ministers Meeting Plus (ADMM-Plus) respectively.

Predisposed to a trans-Atlantic tradition, and often preoccupied by Middle Eastern and African engagements, Canada has not been seen as a consistent and committed participant in these ASEAN-centric forums. To change these regional perceptions of Canada, considerable investments in time and effort, especially at the bilateral level, are required to deepen bilateral defence and security ties with key trade and investment partners in the region.

Asian countries have come to value the notion of multilateral defence diplomacy — the idea that military exchanges and exercises can increase transparency and reduce suspicion among potential adversaries. In many respects, this is based on the recognition that defence diplomacy is needed to maintain and strengthen ASEAN.

This also provides a number of openings for Canada and Australia, separately or together, to engage with regional security partners in ways that were difficult to conceive only a few years ago, specifically the biannual humanitarian and disaster relief exercise held under the auspices of the ARF, and increasingly under the auspices of the ADMM-Plus. Canada should consider engaging the priority markets outlined in its *Global Markets Action Plan* (China, India, Indonesia, Malaysia, Singapore, Korea, Thailand and Vietnam) as security and economic partners.

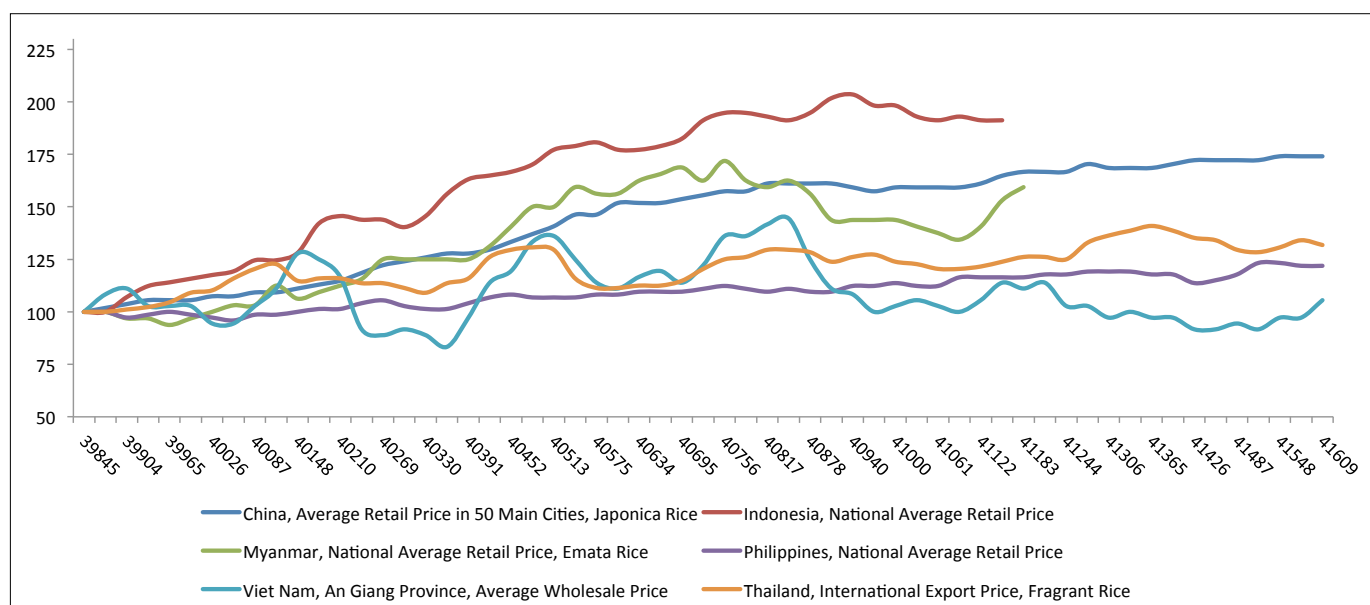
ECONOMIC CHALLENGES

The region's economic dynamism in the post-war period has been underpinned by US defence alliances, most notably with Japan, which have kept China and Japan from each other's throats and provided a foundation of political stability, leaving governments relatively free to focus on economic development and integration. Millions of people are now approaching middle-class levels of per capita incomes. Governments have become

concerned about avoiding the "middle-income trap," in which increases in per capita income could slow or even stagnate. At the same time, individual expectations of material prosperity are rising because of a reluctance to make changes to institutions and incentive systems that encourage technical change and innovation as a source of growth. Regional production networks that foster the division of labour among countries and provide opportunities for moving up the value chain and greater engagement in trade in parts and components linked to cross-border investment assist with the desired transition. Facilitating the growth of global value chains is one of the main focusses of the TPP negotiations.

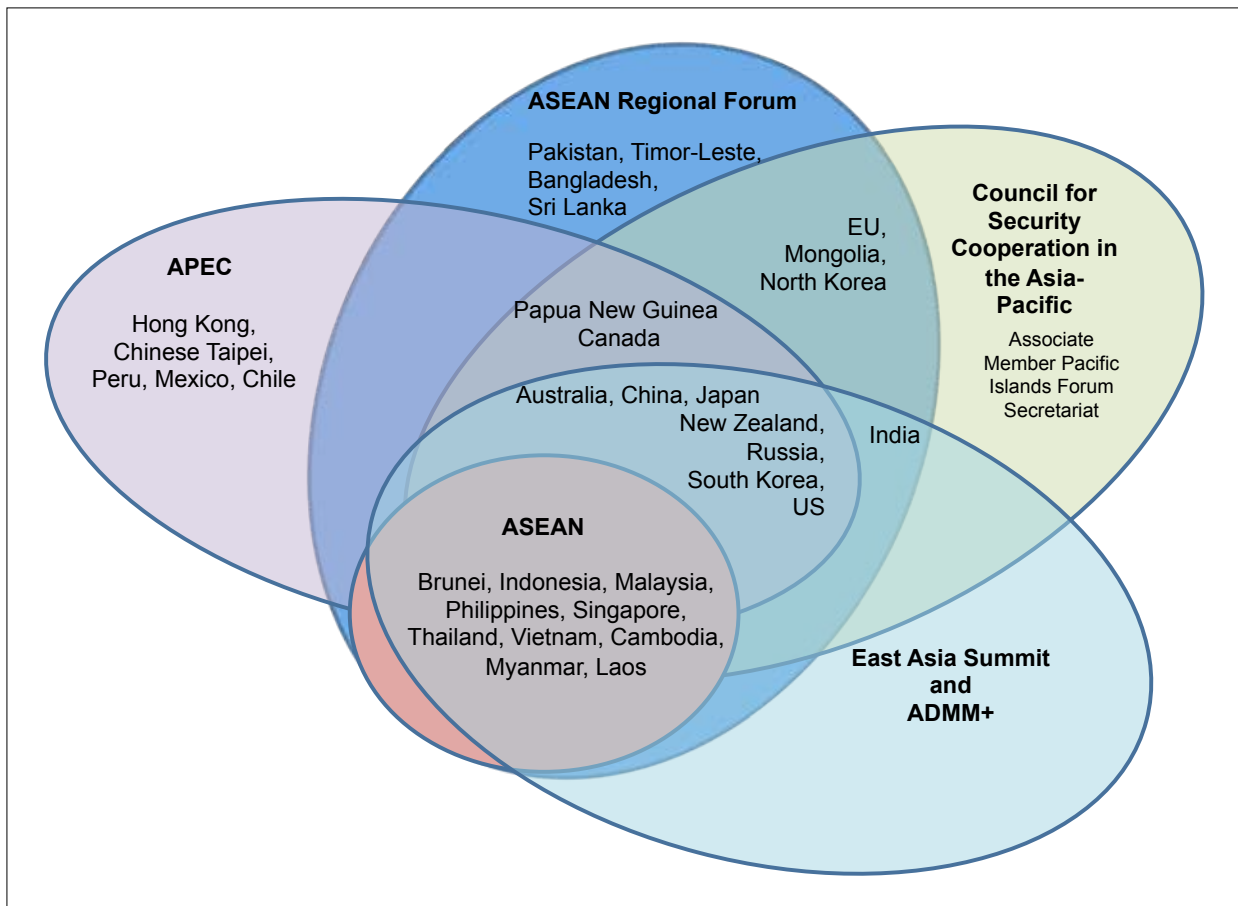
The TPP originated in a smaller agreement that others could apply to join — which the United States did. It now includes 12 countries on both sides of the Pacific, and is designed to address twenty-first century trade challenges such as global value chains, state-owned enterprises, competition policy, investment and intellectual property concerns. More recently, ASEAN has proposed the Regional Comprehensive Economic Partnership (RCEP)

Figure 4: Index of Rice Prices, Selected Asian Economies (February 2009 Price = 100)



Source: Food and Agricultural Organization of the United Nations.

Figure 5: Asia's Regional Security Architecture — Where Australia and Canada Fit



Sources: Australian Department Foreign Affairs and Trade and ASEAN.

in an effort to consolidate a series of plurilateral trade agreements between ASEAN and China, India, Japan and Korea, as well as New Zealand and Australia.

These initiatives create competing pressures for those on the outside. Consistent with ASEAN's style, the RCEP is preoccupied with traditional concerns of trade in finished goods and is moving more slowly than the TPP. Although the RCEP currently excludes the United States and Canada, the TPP has proven itself to be a more flexible model, capable of incorporating latecomers like Canada, Mexico and Japan. China is studying the question.

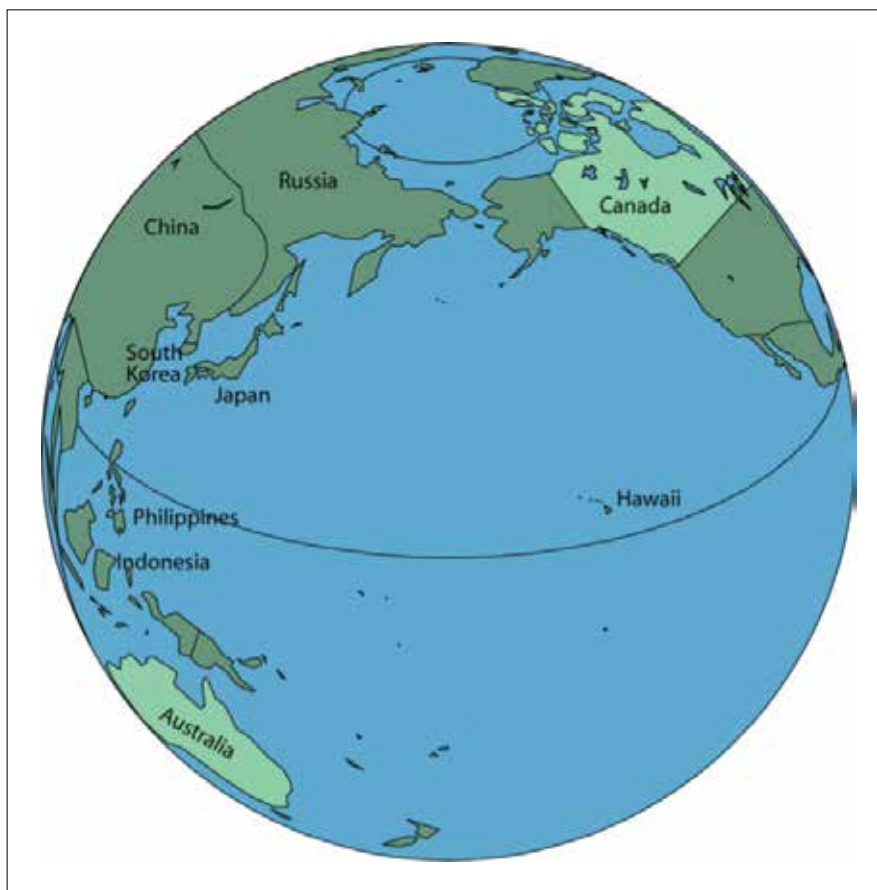
With shared equity in maintaining a rules-based economic order, and with their own access to the US market at risk, Canada and Australia have a vested interest in facilitating a constructive path forward, up to and including supporting Chinese accession to the TPP in the same spirit as encouraging its accession to the World Trade Organization almost a generation ago. Economic and security cooperation go hand in hand. Economic integration can leaven tensions; security cooperation and institutional face time can build trade ties by maintaining stability, reducing mistrust and preventing potentially costly escalation of regional disputes.

AUSTRALIA'S OUTLOOK ON EAST ASIA

For obvious geostrategic reasons, Southeast Asia looms large in Australia's security consciousness. This has traditionally driven Australians to seek security ties with great powers, first the United Kingdom and then the United States. Australia was a founding member of the ADMM-Plus initiative because Australia has consistently invested in Southeast Asian relations over several decades.

Australia engaged in a vigorous debate for much of the 1980s and 1990s about where its strategic prerogatives should lie — with historical partners such as the United Kingdom and the United States, or with East Asia. In practice, Australian policy has emphasized deep engagement both with Asia and with traditional friends and allies. Early trade and economic engagement with Japan after World War II created the basis for solid Australian economic growth in the 1960s. China's economic opening in the 1980s and the broader North Asian demand for Australian commodities continues to be the basis of Australian economic growth. In Southeast Asia and the Pacific, Australia has sought to develop strong economic, defence and people-to-people

Figure 6: The Pacific Rim



Source: Blaxland (2006).

ties for decades. Although there have been incidences of mutual mistrust and occasional misunderstandings, the trend over the last half century has been for a deepening of relations between Australia and the Asia-Pacific even as the United States has remained Australia's closest defence partner through the ANZUS alliance⁴ as well as its largest economic partner through a combination of trade and investment.

Australia's engagement with ASEAN neighbours as partners has paid real dividends for its standing as a major contributor to the region's security and economic prosperity. Like many of its neighbours, Australia looks for practical signs of Canada's bid for regional re-engagement. Furthermore, Australia shares broader regional hesitations about the durability of Canada's re-engagement with the region, which it sees as being driven largely by economic motivations. Ottawa needs to understand that engagement comes at the price of being involved in the region on a practical level. Defence cooperation requires Canadian Armed Forces (CAF) assets to visit the region and engage in practical exercises and skill development. Not surprisingly, being engaged requires Canada to actually be in the region. Over time, a real priority for engagement must drive defence cooperation investment decisions. Australians

are ready to welcome heightened Canadian participation in regional affairs. Australia and Canada should work together where they can add value, and separately where it makes sense to do so.

CANADA'S OUTLOOK ON EAST ASIA

Given its geography, Canada has primarily focussed south across the 49th parallel to the United States and looked east across the Atlantic to the United Kingdom; however, it has had important but little-recognized security and trade interests in East Asia. These enduring interests are defined by several considerations, including Canada's growing diversification of trading and investment partners and the associated necessity of strengthening regional security and institutions. Almost 10 percent of Canadians identify as being of South Asian or Chinese heritage; Asia is the largest regional source of immigration to Canada (Statistics Canada 2013, 7 and 15).

Although it is hamstrung by limited budgets, if Canada is to make the most out of Asian growth, its stake in regional stability and prosperity must grow commensurately. Canada's economic partners in the region, notably Japan and Korea, but also new trading partners in Southeast Asia, have signalled that if Canada wants to conclude new investment and trade deals, it will have to be a

⁴ ANZUS is a military alliance between the United States, Australia and New Zealand.

more reliable and engaged security partner. Although China, the region's biggest economic player, has not sought increased security engagement from Canada, it may be responsive to such overtures if they are presented appropriately. As a globally conscious country of capacity, Canada can work with other "constructive powers" to influence the behaviour of great powers in the region.

Like Australia, Canada also has a clear interest in the prudent management of relations between the United States and China. Ottawa is well placed to act as a secondary conduit between Washington and East Asia. Many of the region's emerging security challenges, including cyber security, are global challenges that require a concerted regional and global response. Canada can make substantial contributions, but will have greater impact if it works with a like-minded country such as Australia. Other security challenges, such as food and energy security, provide opportunities for Canadian business, which could significantly bolster Canada's prospects for engagement in the region on other fronts.

PROPOSALS AND RECOMMENDATIONS

There is the potential for significant synergies to be harnessed between Canada and Australia at diplomatic, strategic and economic levels. A clear demonstration of resolve and political will, informed by a fresh understanding of what they have in common, is needed. The political alignment between the Harper and Abbott governments can help to broaden and deepen bilateral relations in terms of immediate opportunities for cooperation. It is important to recognize, though, that there is strong bipartisan political support for the relationship and, with the right emphasis, it should thrive under any combination of governments in Canberra and Ottawa.

Australian and Canadian political leaders, policy makers and business people must focus on areas where they can make tangible and mutually beneficial steps towards closer bilateral engagement. Close cooperation already exists, but it should be ramped up. There is scope for enhanced engagement across the following four areas: strengthening regional security; bolstering regional governance mechanisms; enhancing bilateral defence and security cooperation; and boosting industrial and economic cooperation.

STRENGTHENING REGIONAL SECURITY

- **Australia and Canada should take practical steps to help build trust and reduce the potential for misperceptions and crises in the region.** As respected and influential countries with high-quality defence forces, Australia and Canada are welcomed in East Asia as net contributors to stability.

- **Align and deepen defence engagement with China.** Canada and Australia can help to integrate China more fully into the regional security architecture by extending invitations to observe and, where possible, participate in programmed international security events including civil-military disaster response and counterterrorism exercises.
- **Strengthen defence ties with other regional powers,** including India, Japan, Korea and Indonesia. Canada and Australia should provide information exchanges on how relations with the great powers are being managed and develop confidence-building measures bilaterally and multilaterally.
- **Facilitate track one and track two information exchanges.** Canada and Australia could jointly host such events and, at minimum, should have each other closely in mind when formulating proposals and information exchanges. The defence attaché in both capitals should be upgraded.
- **Share policy approaches on people smuggling.** Canada and Australia can benefit from continuing to work together operationally while harmonizing their positions toward transit countries and aligning their messages to key states (notably Indonesia, but also Malaysia, Thailand and Sri Lanka). Australia's new head of Operation Sovereign Borders could help take the lead on this.
- **Enhance law enforcement collaboration and information sharing.** Information sharing is required between the Royal Canadian Mounted Police (RCMP) and Australian Federal Police (AFP) as well as state/provincial and municipal police bodies on transnational crime. This would involve reaching beyond federal bodies to their state/provincial counterparts to explore opportunities together. The initiative would require the RCMP and AFP to work in collaboration, but modern information communications technology makes this quite feasible.

BOLSTERING REGIONAL GOVERNANCE MECHANISMS

- **Support capacity building in East Asia.** Canada and Australia are well placed to leverage their expertise in a range of areas to build the capacity of their partners in the region. This could include areas such as peace operations, military medicine, strengthening regional military approaches toward the rule of law, strengthening counterterrorism collaboration and reviewing options for a common agenda on food security.

- **Develop shared approaches to humanitarian assistance and disaster relief.** Canada and Australia should participate in preparatory training that draws on ADF and CAF elements as they undertake military exercises.
- **Share approaches to building cyber resilience.** Australia and Canada should consider ways to bolster regional cyber security capabilities that include assisting local authorities build cyber resilience in Southeast Asia.
- **Strengthen the ARF.** Canada and Australia should consider aligning working group agendas with other institutions like the ADMM-Plus, for example, on maritime security. The two countries should foster collegial engagement on topics of mutual concern, perhaps under the auspices of the Expert and Eminent Persons group under the ARF.
- **Engage South Asian regional institutions.** The Indian Ocean Rim Association and the Asian Coast Guard Forum are two examples.
- **Cooperate in development assistance programming** in countries of comparable levels of engagement, including Mongolia and Vietnam, and countries of priority such as Myanmar. This builds stronger economies and better governance, which strengthens the climate for Australian and Canadian business.

ENHANCING BILATERAL DEFENCE COOPERATION

Building on their strong intelligence-sharing relationship, Canada and Australia should consider a range of strategic and governance proposals that draw on ADF and CAF resources. The Australian Defence Organisation and Canada's Department of National Defence, and related services, should seek to:

- **Align interaction with Chinese security forces.** Canada and Australia should develop common standards/protocols on interaction with the Chinese military and security forces, including the newly formed China Coast Guard.
- **Share lessons learned on regional defence engagement.** Australia has considerably greater levels of engagement in the region, but Canada has a wealth of experience from its engagement in other parts of the globe, which is acknowledged by its regional partners. Lessons can be shared through working-level information exchanges as well as regular high-level meetings.
- **Promote even closer cyber cooperation.** Much work is needed to ensure that the CAF and the ADF remain interoperable while also maintaining the highest levels of cyber defence. The Australian Signals Directorate and Communications Security Establishment Canada are already involved in this

domain, but further collaborative measures should be explored, including in military-to-military cooperation.

- **Maximize opportunities presented by multilateral exercises.** Exercises such as RIMPAC (the Rim of the Pacific exercise) and Cobra Gold are excellent venues for collaboration and building ties with regional security partners. Canada and Australia already participate in RIMPAC; however, neither has a significant presence at Cobra Gold, which is the most significant regional military exercise conducted in Southeast Asia. They should also use the exercise to explore further opportunities for bilateral and multilateral collaboration with like-minded regional security partners, such as FRANZ.⁵ Australia is a major participant in the Five Power Defence Arrangements with Singapore, the United Kingdom, Malaysia and New Zealand. Canada conceivably could seek observer status in such activities and coordinate the timing of participation in other regional activities (such as Cobra Gold) to be closely aligned, enabling sequential participation. Similarly, Canada could widen the list of countries that it invites to the annual Maple Flag exercise.
- **Deepen bilateral military dialogues.** Australian and Canadian officials should meet regularly to identify opportunities in defence diplomacy, both under the nascent ADMM-Plus construct and under NATO.
- **Share best practices on defence reform.** Both Australian and Canadian defence establishments are going through new reform programs designed to make efficiencies and maximize value for money. The comparable size, scale and organizational structure of the two countries' defence organizations provide opportunities to share best practice thinking on defence reform.

BOOSTING DEFENCE INDUSTRY AND ECONOMIC COOPERATION

- **Develop synergies in military procurement.** There are a number of potential synergies on procurement priorities between the two countries. The Harper government's new *Global Markets Action Plan* (November 2013) calls for greater attention to the defence sector. For instance:
 - The industrial capacity required to meet Canada's Arctic and maritime security priorities is similar to that required for Australia's interest in acoustic technologies and systems.
 - The two countries share procurement goals in soldier protection and outfitting.

⁵ FRANZ is a military agreement between France, Australia and New Zealand.

- Both countries need to replace their submarine fleets, yet neither Canada nor Australia has the critical mass to sustain its maritime defence industry single-handedly. Long-term industrial cooperation could see a longer production run and yield more benefits to industry. Canada could purchase next-generation diesel submarines made in Australia.
- As a quid pro quo, Australia could review options for collaboration in the Offshore Patrol Vessel program that will be built in Canada, as Australia looks to build its capacity for offshore patrolling the Southern Ocean.
- Reviews in both countries highlight the need to engage industry earlier in the procurement process. Given the lack of critical mass in either country to maintain rolling production lines for capital items like ships, defence companies in both countries should consider discussing the procurement needs of their government and look to present their governments with cost-saving opportunities for cooperation between Canada and Australia. Cooperative procurement could generate savings for both countries.
- **Align agendas as agriculture exporters.** Canada should follow the Australian lead and remove tariff barriers from agriculture. Free trade in agriculture is the best way to improve food security.
- **Cooperate to act as secure suppliers of energy.** Canada should consider extending to its Asian trade partners guarantees similar to those contained in Article Six of the North American Free Trade Agreement as relates to the export of energy. Australia should consider extending similar guarantees.

These three sets of senior meetings provide the right mechanism to drive the bilateral defence relationship.

Relations between foreign ministries, intelligence agencies, police, customs and immigration departments are vital to the broader security relationship, both at the strategic level and in specific functional areas. These relations, both at ministerial and official levels, should be intensified in a manner that complements the defence component. The recommendations in this report provide a suitable checklist for ministers and senior officials to benchmark progress in relations.

It should be noted, of course, that a closer and more active bilateral security and defence relationship and a more coordinated approach to East Asian engagement cannot be achieved without some cost. Expressed priorities must drive some investment decisions. While the cost of sustaining a more active bilateral relationship may not be that great, a bigger investment must come in the form of the time ministers and senior officials should devote to the relationship. The payoff from closer cooperation between Canada and Australia, two countries that pride themselves on their capacity for innovation and for practical achievements, could be enormous.

STRENGTHENING BILATERAL DEFENCE AND SECURITY RELATIONS: NEXT STEPS

This agenda for closer Australia-Canada defence and security cooperation builds on an already close relationship, albeit one that suffers occasionally from complacency, given the levels of comfort between the two countries, and a perception that distance makes cooperation difficult.

The good news is that the defence and military relationship is already well supported by a number of key annual meetings. As outlined by Australia's then Defence Minister Stephen Smith in September 2011: "We have agreed that from here on in we will have formal Australia-Canada Ministerial Bilateral Meetings on an annual basis. We will also have meetings of our Chiefs of Defence Forces on an annual basis and meetings of our defence officials at Deputy Secretary level also on an annual basis" (Minister for Defence 2011).

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ACRONYMS

ADF	Australian Defence Force
ADMM-Plus	ASEAN Defence Ministers Meeting Plus
AFP	Australian Federal Police
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASPI	Australian Strategic Policy Institute
CAF	Canadian Armed Forces
CCP	Chinese Communist Party
CIGI	The Centre for International Governance Innovation
NATO	North Atlantic Treaty Organization
RCEP	Regional Comprehensive Economic Partnership
RCMP	Royal Canadian Mounted Police
TPP	Trans-Pacific Partnership

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