

# POLICY BRIEF

**LOWY INSTITUTE**  
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## SO WHAT? MATCHING POLICY TO AUSTRALIAN INTERESTS IN WEST ASIA

### WHAT IS THE PROBLEM?

*Australia's interests in West Asia have grown, but policy approaches have not kept up.*

### WHAT SHOULD BE DONE?

*The government should reinvigorate Australian policy towards West Asia, through:*

- *an enhanced dialogue with key regional leaders*
- *a strategic partnership with one or two key regional players*
- *a strengthening of non-military cooperation, including with respect to Gulf civil nuclear programs*
- *a new trade and investment strategy which includes leveraging the growing regional and global role of the Gulf*
- *the use of multilateral and second-track diplomacy to address energy security and Afghanistan in a regional context*
- *greater on-the-ground involvement in development activities*
- *an expanded capacity to analyse and assess regional developments, including by strengthening key regional diplomatic posts.*



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- promote discussion of Australia's role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

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**Introduction**

Before 2001, Australian policy in the region defined here as West Asia – that stretching from India’s western borders across to the eastern shores of the Mediterranean, encompassing Southwest Asia, the Persian Gulf and the Levant – focused on two broad objectives: supporting American-led efforts to promote regional stability, and securing opportunities for Australian exports.

In pursuit of those objectives, a succession of Australian governments evolved a generally bipartisan policy approach, including military and political support for US regional security initiatives and for regional allies, notably Israel; the maintenance of a reasonably extensive diplomatic and trade promotion network; and relatively regular bilateral ministerial meetings, often focused on trade.

Since 2001 the weight of Australian interests in West Asia has increased substantially. Servicing alliance interests has become more demanding, with significant Australian military involvement in two major regional conflicts (Iraq and Afghanistan). Terrorism and proliferation-related threats emanating from the region have increased. Global and, in particular, Asian oil dependence on the Gulf has become acute, while the massive dividend earned by regional energy producers is fuelling a potential shift in global financial power.

The sceptical and entirely appropriate response is, however, ‘so what?’ It is one thing to note Australia’s stake in West Asia has increased. The question is, what should – or more pertinently, what can – be done about it in policy terms? Policy-making toward West Asia

is further complicated by the fact that Australia has a limited ability to influence independently developments in this part of the world.

There have already been some adjustments of Australian policy to account for these growing interests in West Asia (see below). But the evolution of policy has also been uneven, contingent and ad hoc. Often Australia is still using old policy approaches to deal with new and emerging sets of interests. It is time to renew Australia’s policy framework for West Asia.

**Australian interests in West Asia**

Previous Lowy papers have already provided a detailed treatment of Australian interests in West Asia.<sup>1</sup> Nevertheless, it is worthwhile reconsidering those interests to provide a background for our primary focus here on a reinvigorated framework for Australian policy in West Asia.

Australia’s interests in West Asia can be defined as follows:

*Supporting the US alliance*

Notwithstanding differences over Iraq, a bipartisan consensus exists over the strategic importance of the US alliance. For Australia, the benefits of the alliance come in a number of forms, from access to intelligence and advanced military capabilities to US strategic engagement in Asia. The quid pro quo is a willingness on Australia’s part to provide diplomatic or military support for the US from time to time. Often that support has been, and will continue

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to be, sought in West Asia – a region of critical strategic importance to the United States.

There have, however, been two important shifts in how the alliance relates to Australian interests in West Asia. First, whereas in the past supporting alliance interests in West Asia was an end in itself, today it is *also* a means to jointly address threats such as terrorism that more directly affect Australian security.

Second, and partly as a consequence, Australian military contributions in West Asia have become more substantial than in the past, illustrated by the deployment of a sizeable ground force (by Australian standards) in Afghanistan. This has also created additional demands for the basing and support of Australian forces in West Asia.

Third, both Iraq and Afghanistan underline the importance of having a national capacity to assess and form judgments about the military campaigns to which Australia contributes. At the very least, it seems prudent to have a greater capacity to assess how best, and for how long, to utilise military and diplomatic resources in such campaigns. Moreover, assumptions of American omniscience underestimate the relative openness of the US system to thoughtful and constructive ideas from other allies on the ground.

*Promoting exports, attracting investment*

In 2007, Australia exported roughly \$7.5 billion worth of goods to West Asia (comprising the Middle East and South Asia, not including India). The Gulf, in particular, has seen rapid export growth in the last decade, albeit from a relatively low base. The United

Arab Emirates (UAE) now ranks 13 in export destinations and on current trends will soon overtake Malaysia in rankings as an Australian export market.

The nature of Australia's trade to West Asia has also changed dramatically. Many Australians would be surprised to learn that the Australian-made Toyota Camry is the top-selling vehicle in the Middle East; or that Toyota exports about half its annual production in Australia to the region and Holden about a quarter.

The commercial potential vested in West Asia is significant and, in many respects, untapped. As a market it contains great diversity. It includes countries with huge populations and a growing demand for food (e.g. Egypt 80 million, Pakistan 164 million). There is great economic potential in Iraq (once stability returns) which was once a key Australian market in the region. Most notably, Gulf countries have earned a spectacular windfall from energy prices in recent years. According to one estimate, energy producers from the Gulf Cooperation Council (GCC)<sup>2</sup> will earn almost \$9 trillion cumulatively from oil exports out to 2020 (assuming a \$100 a barrel oil price; but even at \$70 a barrel revenues would still total an impressive \$6.2 trillion).<sup>3</sup>

A significant and growing proportion of this energy wealth is being invested internationally, presaging a potential shift in global financial power. At the end of 2006, one estimate placed the total value of Gulf foreign assets at 1.9 trillion, a doubling of foreign assets since 2003, and almost equal to the combined GDP of India and Brazil.<sup>4</sup> By the end of 2006 the GCC states had, together with China, become

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the world's largest source of surplus capital and was home to the world's wealthiest sovereign wealth fund (Abu Dhabi Investment Authority).<sup>5</sup>

The Gulf is also emerging as a major regional and potentially global hub. Dubai was the world's fastest growing airport in 2007. Construction is under way on a second major airport nearby, slated to become the world's largest, with the capacity to handle 120 million passengers a year. The UAE's strategic location at the crossroads of Asia, Europe and Africa and its excellent infrastructure have seen it emerge as a major re-export centre, including into the fast-growing Indian market.

*Energy security*

Alongside climate change, energy security has become a critical global concern. West Asia plays an obvious role in the energy supply equation: in 2007 the Gulf contained some 40 per cent of proven global oil reserves, with the share increasing, and 23 per cent of the world's proven natural gas reserves (the second largest reserves after Russia).<sup>6</sup>

Increasingly obvious too is the role that Asia plays as the other end of the energy equation. It is largely as a result of rapidly growing Asian demand, especially from India and China, that oil prices have skyrocketed in recent years. At the same time, many Asian countries that are Australia's major trading partners have become acutely dependent on Middle East energy and its transport routes through West Asia. In 2006, our top two trading partners, Japan and China, imported 83 and 44 per cent of their oil from the Gulf respectively.<sup>7</sup>

This dependence has a number of consequences. First, the security of supply, both with respect to regional stability as well as the true extent of regional oil reserves, has become a matter of critical interest to Asia. Second, energy insecurity has seen India, China and Japan become active competitors in efforts to secure supply deals in both West Asia and Africa. Third, that reliance gives East Asia a greater influence and responsibility in West Asia than it once had, reflected in key Gulf producers' seeming to look less to the American market for signals on production and price levels.<sup>8</sup>

*Proliferation and terrorism*

West Asia is the central node in two of the world's key collective security challenges: the proliferation of weapons of mass destruction and terrorism – two threats that some fear might one day combine. West Asia has long been a global proliferation hot spot, alongside North Asia; indeed the two are connected by the flows of technology and material between North Korea, Iran, Pakistan and Syria.

Today as the international community, including the new Australian government, attempts to reinvigorate global non-proliferation efforts, much of the focus will fall on West Asia; not just on Iran and the outstanding questions relating to Pakistan's global proliferation activities, but also the flow-on effects should Iran become a nuclear armed (or nuclear weapons capable) state.

Already GCC countries, amongst others in the region, have announced their intention to pursue civil nuclear programs. The Gulf states

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have the financial resources to commission foreign contractors to construct 'build, own and operate' facilities relatively quickly. Civil nuclear power reactors, which would be subject to international safeguards, in themselves pose little proliferation risk. Of greater proliferation concern would be any spread of sensitive nuclear fuel cycle technology (i.e. enrichment or reprocessing technology) in the region, as it is this technology that is needed for any weapons program.

While terrorism has long been a problem inside West Asia, it is only more recently that its reach has extended beyond the region. This is an immediate security threat for Australia. Australians have been killed in terrorist attacks linked to differing degrees to West Asia and will remain targets into the future, including at home. This means that efforts to stabilise Afghanistan, the political and security situation in Pakistan, and the disruption of links between terrorist groups in West Asia and Southeast Asia (and potentially, domestically within Australia) all have a direct bearing on Australian security.

Whilst the war in Afghanistan attracts most attention with respect to counter-terrorism efforts in West Asia, Pakistan is now attracting its rightful share. This reflects not just the role that Taliban and al-Qaeda camps in Pakistan's tribal areas play in Afghanistan, but the links between extremist movements in Pakistan and international terrorist networks (illustrated by the 7/7 bombings in London), all complicated by an unsteady internal political situation and Pakistan's status as a nuclear power. Preventing state failure in Pakistan has become as, if not more, important than preventing it in Afghanistan.

*Regional stability*

Beyond specific regional challenges, Australia has a greater interest in regional stability more generally in West Asia than it once arguably did. Most obviously, instability has a direct impact on these specific threats, increasing energy insecurity, terrorism and proliferation prospects. Against this background, efforts to resolve longstanding conflicts, like the Israeli-Palestinian conflict at one end of West Asia and Kashmir at the other, become more important, even if Australia's ability to make a contribution to such solutions remains marginal. Australia's historical commitment to the security of Israel will also remain a part of its interests in this respect.

**Adjusting policy**

In recent years, Australian policy has adapted to growing strategic, economic and political interests in West Asia, though in an ad hoc and uneven way.

One by-product of Australia's military commitment to the region, and the War on Terror more generally, has undoubtedly been the strengthening of strategic interaction and ties with key regional countries. For example, Australia recently signed a defence cooperation agreement with the UAE. The government also recently announced that it will provide counter-insurgency training to the military in Pakistan.<sup>9</sup>

With respect to trade, the Australian government is engaged in negotiations for a free-trade agreement with the Gulf Cooperation Countries. There have been two rounds of talks, although the GCC's record on such

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agreements suggests that the negotiations are likely to be protracted.

At a working level, a creative effort is being undertaken by Austrade and the Department of Foreign Affairs and Trade (DFAT) to promote, in effect, intra-regional trade in West Asia, by encouraging those Australian companies active in the Gulf to explore opportunities in South Asia and vice versa. This builds on both the long-standing trading and people-to-people links between South Asia and the Gulf, and the growing role of Gulf centres like Dubai as regional economic hubs.

More generally, there has been a modest expansion of Australia's diplomatic network in West Asia (with new posts open in Kuwait City, Baghdad and Kabul) and an increase, quite significant in the cases of Iraq and Afghanistan, in Australian development assistance. According to one press report, consideration is currently being given to ways to expand Australian development assistance to Pakistan as well.<sup>10</sup>

There is still, however, a tendency to rely on traditional approaches and policy mechanisms notwithstanding Australia's growing interests. If commercial, and to some degree, strategic ties have grown, there has been a major lag in the development of political ties, especially at the senior leadership level. The latter is all the more remarkable given the number of times senior Australian ministers have visited Australian forces in the region in recent years.

A similar imbalance is apparent with respect to development assistance. Afghanistan is a case in point. Relative to its size, Australia's military contribution to Afghanistan has been

substantial, but its diplomatic and developmental contribution (beyond financial assistance) has been much less so. Whilst the size of the development program (\$AUD150 million through to 2010) is significant, it is only very recently that the government has foreshadowed a very modest increase the number of non-military development staff on the ground in Afghanistan on anything approaching a permanent basis.

Security is undoubtedly a factor, but it is also a factor for other contributing countries. The Netherlands, for example, has some 15 Dutch national diplomatic and development staff permanently based in the Afghanistan. By comparison Australia currently has two. This disparity is made all the more stark given the oft-repeated view by Australian ministers that the key solutions in Afghanistan are developmental rather than military.

More generally, even military cooperation in West Asia will remain susceptible to future budget strictures and changes in Australia's defence leadership (losing some of the personal connections built up in recent years). The risk is that Australia will repeat the mistake of the post-1991 period in the Gulf, when similar ties were forged as a result of Australia's participation in the effort to expel Iraq from Kuwait, but were then allowed to gradually wither.

**A new policy framework**

To date there has been no comprehensive articulation by the Australian government of where West Asia fits into Australia's foreign policy priorities – though the Middle East has

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been mentioned in recent Defence White Paper updates. The question remains, therefore, with the shifts in Australian interests in West Asia, what should the overarching goals of policy be? Given the interests noted above, three broad goals suggest themselves:

- **A more focused pursuit of those strategic interests directly relevant to Australian security**, in particular, energy security, non-proliferation and counter-terrorism, within the context of continuing support for the US alliance in West Asia.
- **A renewed effort to maximise Australian exports to West Asia**, but with an additional focus on attracting investment from the Gulf region and on exploiting the emergence of the Gulf as a major trading and financial hub.
- **A new effort to establish stronger bilateral political relationships with key leaders in the region**, in support of Australia's strategic and economic goals in West Asia.

It is, of course, important to recognise where West Asia sits in Australia's overall international policy priorities. Notwithstanding the growth in Australian interests, West Asia is never going to rank above Australia's immediate region, Southeast Asia and the Pacific, in strategic terms, nor is it likely to challenge the importance of North Asia in economic terms.

What is needed, therefore, is not a major new policy initiative for West Asia, but rather an updating of the old policy framework to realise the evolution and maturation of Australia interests. This could include:

*Regular, high-level leaders' meetings with key countries*

While diplomatic exchanges and officials' meetings will always be the bread and butter of bilateral relationships, it is only meetings between political leaders that provide real depth to these ties. All too often in the past, in the case of West Asia, these meetings have not happened or have been limited to meeting of trade ministers. Meetings between foreign and defence ministers, and occasionally between prime ministers, are particularly important given that these positions are usually occupied by key members of the ruling families or regimes of countries in West Asia. (By contrast, trade ministers are usually more junior figures.)

A more strategic approach also needs to be taken to the holding of such meetings both in the region and Australia, with a focus on a few key countries. The Gulf would be a good place to start. The growing strength of bilateral economic and strategic ties provides both an opening but also a reason and an agenda for greater ministerial-level contact with the UAE, though Saudi Arabia should also not be forgotten given its regional leadership role.

In the Levant, Egypt and Israel would be strong candidates for more regular meetings in the former case and more structured ones in the latter. In Israel's case, while the number of ministerial visits has been relatively high in recent years, an ongoing and more structured agenda focused on key issues of mutual interest (such as proliferation and terrorism) would be of benefit. Given Egypt's activism in the UN and its regional leadership role, more regular ministerial contact will be central to the



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government's stated desire to mount a Security Council candidature.

*Formalise military cooperation*

Notwithstanding the withdrawal of Australian ground forces in Iraq, Australia is likely to retain a sizeable military presence in West Asia for some time.

A strong argument for a strategic partnership with the UAE was made in the recent Lowy Institute Policy Brief, *Why the Gulf matters: crafting an Australian security policy for the Arabian Gulf*, based on the strength of current defence and economic ties, the UAE's strategic location and similar strategic outlook. To the extent that resources allow, establishing more modest frameworks for defence cooperation with other countries, such as Pakistan (training – as recently announced by the government<sup>11</sup>), Israel (defence technology) and Saudi Arabia (given its regional importance) would also make sense.

*Expanded non-military strategic cooperation*

Australia's significant military deployments in West Asia have driven the development of stronger strategic cooperation with key countries. But there is also a need to further develop non-military cooperation on strategic issues (broadly defined).

One key area is non-proliferation. Australia is never going to be a major player in efforts to resolve West Asia's central and immediate proliferation question – Iran. But it could play a modest role in helping to ameliorate one of the key negative consequences of the Iranian nuclear program – regional proliferation.

Australia should offer to engage the countries of the GCC, individually or collectively, to provide training and technical assistance in areas such as nuclear security, export controls and international safeguards obligations as they seek to develop civilian nuclear programs. While such civilian programs do not, in and of themselves, represent proliferation risks, Australia could usefully use cooperation in the civilian field to strengthen regional non-proliferation norms more generally.

*Reinvigorated trade and investment strategy*

Beyond the FTA negotiations with the GCC, little is being done to establish a framework for expanding Australian trade in West Asia (beyond day-to-day trade promotion) and attracting investment. In particular, the old Joint Ministerial Commission structure is largely seen to have become too generic, yet nothing has been formulated to replace it.

As a first step, the government and business need to map out a new trade and investment strategy for the various West Asian markets. Again, the Gulf is an obvious place to start, including planning for an expansion of exports into Iraq once the security situation improves. The big population centres at the opposite ends of West Asia should also not be forgotten. More resources could be applied to current efforts by Austrade and DFAT to promote intra-West Asian trade, leveraging the strategic location and infrastructure of centres like the UAE as a hub for Australian exports into South Asia and the Levant.

In terms of a structure for bilateral meetings, Joint Ministerial Commissions would be more profitably replaced by more focused sectoral

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meetings (e.g. construction) involving relevant ministers (not just trade ministers). High-level meetings to promote Gulf investment in Australia would also be a useful step.

Another potential and hitherto largely unexplored area of cooperation is food security. Saudi Arabia, amongst other Gulf countries that are dependant on food imports, has increasingly been making strategic agricultural investments overseas.<sup>12</sup> The proximity of Western Australian agricultural producers in particular creates potential for attracting investment and other forms of cooperation in this sector.

*Multilateral and second-track diplomacy*

As already noted, a key challenge for policy in West Asia is Australia's limited ability to influence events in the region on its own. Australia will always find itself working with its alliance partner, in coalitions or with key regional partners. There is scope, however, for further developing the multilateral dimensions of Australian policy in West Asia with respect to two issues in particular, energy security and Afghanistan.

In the lead-up to the 2008 G8 Summit, Prime Minister Rudd noted the importance of the international community's addressing the energy security challenge, whilst APEC has also signalled its intention to pursue this issue. A multilateral dialogue between Asian consumers and key producers in West Asia would be a logical extension of any regional effort to tackle this issue.

In the case of Afghanistan, the regional dimension is critical to any effort to bring

stability to that country. The war in Afghanistan is symptomatic of regional conflicts and rivalries being played out in that country. Building regional cooperation is no simple task, given the political sensitivities involved and the strained relations between among players such as the United States, Iran, India and Pakistan. But a second-track effort led by Australia, a country with a smaller direct stake in the region, that began with a focus on issues of common interest (e.g. drug trafficking) could help generate some practical proposals for first-track cooperation between regional states.

*Greater on-the-ground involvement in development activities*

With a few exceptions such as the Palestinian territories, historically West Asia has not been a priority for Australia development assistance. That has obviously changed in recent years, illustrated by the significant increases in Australian development assistance to countries such as Iraq, Afghanistan, and possibly in coming years, Pakistan.

This will require, however, a stronger AusAID presence on the ground to manage development assistance, especially given the critical role such aid would play in achieving strategic goals in Afghanistan and Pakistan. There should also be greater scope for Australian diplomatic posts in West Asia to provide discretionary aid to small-scale local projects whose financial size often belies their impact, especially in terms of winning local hearts and minds.

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*Understanding regional developments*

An enhanced capacity to understand and assess regional developments is critical to Australian policy in West Asia. One element in this would be the proposal above for more regular ministerial meetings with key countries in the region. In many countries of the region it will be the private views of senior leaders, whom Australian ambassadors will not always be able to access, that will provide the most significant insights into contemporary issues.

Nevertheless, Australia's network of diplomatic missions will continue to play a critical role in this regard. While Australia maintains a reasonable spread of missions in West Asia, the addition of one or two more staff to key missions would strengthen their ability to provide analysis of regional developments. Fostering contacts between educational and cultural institutions and think tanks in West Asia and Australia and supporting second-track dialogues in certain cases would also help.

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<sup>1</sup> See Bubalo, Anthony. *Reinventing West Asia: how the Middle East and South Asia fit into Australia's strategic picture*. Lowy Institute Policy Brief. Sydney, Lowy Institute for International Policy, 2007 and Shanahan, Rodger. *Why the Gulf matters: crafting an Australian security policy for the Arabian Gulf*. Lowy Institute Policy Brief. Sydney, Lowy Institute for International Policy, 2008.

<sup>2</sup> Saudi Arabia, UAE, Kuwait, Bahrain, Qatar and Oman.

<sup>3</sup> de Boer, Kito, Diana Farrell, Chris Figee, Susan Lund, Fraser Thomson and John Turner. *The coming oil windfall in the Gulf*. McKinsey Global Institute Perspective. McKinsey Global Institute, 2008.

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> *BP Statistical Review of World Energy 2008*.

<sup>7</sup> Shanahan. *Why the Gulf matters: crafting an Australian security policy for the Arabian Gulf*.

<sup>8</sup> See for example Cordesman, Anthony and Jon Alterman. *President's Trip to Israel, Saudi Arabia and Egypt* (CSIS Briefing Transcript May 7 2008). Washington DC, Center for Strategic and International Studies, 2008.

<sup>9</sup> Nicholson, Brendon. Offer to help fight terror in Pakistan. *The Age*, 23 July 2008.

<sup>10</sup> Pearlman, Jonathon. Counter-terrorism force set for Pakistan. *The Sydney Morning Herald*, 23 June 2008.

<sup>11</sup> See Nicholson. Offer to help fight terror in Pakistan.

<sup>12</sup> See for example Wright, Tom, Mariam Fam and Patrick Barta. Exporting farmland to feed global demand. *The Wall Street Journal*, 11 July 2008.

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