

AUSTRALIA AND THE UNITED STATES IN THE ASIA PACIFIC

Address by Senator Gareth Evans, Minister for Foreign Affairs and Trade, to the USA-Australia 1992 New Policies and Business Opportunities Conference, 17 February 1992, Sydney.

Australia and the United States have since the Second World War tended to look at each other very much through the lens of our alliance relationship. This is only natural. In Australia's case, our most important security relationship since the Second World War has been with the United States. And for the United States we have been an important and tried ally: the effective suspension of the American-New Zealand leg of the trilateral ANZUS alliance has served only to emphasize again the strength of the bilateral tie.

That security relationship has been consolidated by the similarities between us of which we have been so conscious: both democracies; both beneficiaries of the English language; both inheritors of the rule of law, a free press and a strong private sector; and both a part of what used to be called the New World. It would be fair to say that Australia now has with the United States not just a military alliance, but a relationship of substance, embracing ties of history, commerce and culture, and a profound mutual interest in maintaining a strong American presence globally and within our region.

That relationship, like any other, has not of course been without its highs and lows, and sources of tension both economic and political. The current sore spot is the continued use by successive United States administrations of the Export Enhancement Program to subsidise American agricultural exports, which - whatever its rationale in terms of beating sense into EC agricultural policy - has unquestionably added to the hardship of efficient unsubsidised

Australian farmers; the EEP issue has to some extent dented the standing of the United States in Australia, but President Bush's recent very successful visit did much to redress the balance in that respect.

Perhaps the most interesting aspect of the Australia-United States relationship is the way in which it has, in very recent years, begun to slightly change its character, reflecting the fact that both Australia and the United States are beginning to conduct our diplomacy through what I might describe as a bifocal lens - regionally as well as bilaterally focused. The bilateral ties that bind us are and will remain very strong, but increasingly the initial focus of our diplomacy, both political and economic, is becoming the Asia Pacific region. To vary the metaphor, the bilateral ties are assuming the role of crucial reinforcing rods,

rather than being - as they have tended to be for the last generation - the only structures in sight.

The new focus on the Asia Pacific region reflects, most obviously, its extraordinary economic dynamism. The economies of the Western Pacific rim were, by the late 1980s, recording an average annual GDP growth of about 7 per cent, and an export growth of 14.5 per cent. The wider Asia Pacific region accounts for half of global production and about 40 per cent of world trade. The emergence of the Asia Pacific region as the most economically dynamic in the world, and the centre of gravity of world production, is altering the pattern of international relations almost as profoundly as have events in Eastern Europe and the old Soviet Union.

An important accompaniment to this explosive growth has been the increasing linkage of the economies of the region. A process of shifting complementarities has been working its way through the region, with manufacturing industries spreading from Japan to Korea and now to South East Asia and indeed places further West, fuelled by intra-regional flows of investment and technology. A new regional economic map has been created, crisscrossed with the ties of interdependence. And in some cases, we are seeing the emergence of economic areas that effectively ignore political boundaries. The southern coastal provinces of China, Hong Kong and Taiwan form one such emerging area; the growth triangle of Singapore, Batam in Indonesia and Johore in Malaysia another. The Tumen Delta area linking China, Russia and the Koreas may come in due course to be yet another.

While linked together in many ways and becoming more so, at the same time the successful economies of the Asia Pacific region are outward-looking. They have taken advantage of the relatively open post-War international economic order and depend heavily on global, not simply regional trade and investment. As a whole, the region is strongly committed to the liberalisation of international trade - even though Japan and Korea do refuse obstinately to concede that such liberalisation must include their own heavily protected agriculture.

Security developments in Asia have been over-shadowed by these economic developments. But they are an important part of the Asia Pacific context to which both Australia and the United States are adjusting. The end of the Cold War has removed the threat of superpower conflict in Asia. It has helped us make enormous progress in solving one of the region's most distressing and protracted security problems, Cambodia. But it has left a regional security picture that is more complex and less certain.

Three key elements are involved. There is the reality of, now, a diminishing (or at least less than all-pervasive) presence by the United States and Russia. Secondly, there is a correlative growth in the capacity for influence of the region's other major powers, Japan and China. And thirdly, there is a significantly growing capability in a number of other

countries, reflecting their new economic strength. The area is not without its potential flashpoints - the Korean Peninsula and the South China Sea conspicuous among them - and non-military threats to security (like the movement of peoples, the spread of crime and disease and environment problems) all have the capacity as well to contribute to regional tension, particularly in the absence of developed habits of looking at security issues on a region-wide basis.

These broad economic and security developments underline the importance to Australia of our identity as an Asia Pacific nation. We have never had any real problems with the Pacific component of that identity. But progress towards an Asian identity has been, until recently, slower. There is now a widespread recognition in Australia that Asia is the region where we live, and where we must survive and prosper economically. Almost half our trade is with the economies of North and South East Asia. More than 60 per cent of our trade is with the wider Asia Pacific region. That wider region provides nine of our ten largest export markets. The same historic shift of Australia's focus towards Asia is clear in terms of security. The need to live in Asia strategically has led us to realise that we must seek security with Asia rather than from it.

The United States is making a different sort of adjustment. America has been involved actively in the security of the Asia Pacific for more than a century. Its security umbrella has allowed countries of the region to prosper. But, with the end of the Cold War, the United States is re-examining the nature, although not the principle, of its security presence in Asia. Emphasis on the economic dimension of the American role in the Asia Pacific is growing, with the United States having played a massive role, through trade, aid and investment, in producing the current economic dynamism of Asia. America's trade across the Pacific is now worth considerably more than that across the Atlantic.

So it makes sense that Australia and America are both seeing our bilateral relations with each other and with other countries of the region more and more in the larger context of regional linkages. Once we saw the region as involving not much more than a series of bilateral relationships - some inter-connected, some not. Now we are increasingly seeing bilateral relations in terms of region-wide issues, such as communications, trade flows, or security cooperation. Of course, the same trend is being seen on the wider, global scale. The agenda of serious international problems that cut across the traditional boundaries of diplomacy and require global treatment is growing. But the rapid development in the Asia Pacific of new economic linkages has made issues of regional cooperation there particularly important.

These emerging links, and the emerging sense of an Asia Pacific community, call for new habits of thought and innovative policies. I want to look in some detail at the policy responses in the economic area, which will be of principal interest to you. But I want also to indicate first the direction that we shall need to follow in responding to Asia Pacific security changes.

Our emphasis in Australia has for some time been on the need for a substantial regional dialogue on security issues, involving a combination of bilateral and multilateral forums. Part of this dialogue should be the possibility of confidence-building measures that could make strategic views and military intentions more explicit, and create a sense of mutual assurance in the region. It will need also to deal with the increasing perception of security as multidimensional in character, embracing economic and social as well as military and politico-military elements. Such a multilateral dialogue is already developing out of the annual Post Ministerial Conference meeting of the Association of South East Asian Nations (ASEAN) with its dialogue partners, an approach which was endorsed by the ASEAN leaders at their recent summit meeting.

The system of American bilateral defence arrangements, with the alliance with Australia as the southern anchor and that with Japan as the northern anchor (or, to pick up a more recent metaphor - the northern and southern spokes in the fan) remains fundamental for the region's security. The United States is reconsidering the extent of its physical security presence in the region, and some further diminution of that presence must be expected but at the same time I am confident that the withdrawal from the Philippines does not signal the end of its engagement in the region. The wide acceptance in the region of the American security role is unique - no other power can replace the United States. But regional security dialogue will enhance this system. We have been fascinated to see the gradual evolution of United States policy on Asia Pacific security from an exclusive focus on bilateral arrangements, to an acceptance more recently that multilateral solutions need not detract from American or regional interests.

Turning from economics to security, we need to see economic policy responses to this Asia Pacific focus, and how that affects relations between Australia and the United States, as part of a pattern comprising three levels: the global, the regional and the bilateral.

At the global level, I cannot overstate the importance of a successful outcome to the Uruguay Round of multilateral trade negotiations now, I hope, in its final stages in Geneva. A successful outcome is particularly important for the Asia Pacific region, which owes much of its rapid economic growth to the trade and investment opportunities provided by the relatively liberal trading system of the post-War world. The General Agreement on Tariffs and Trade (GATT) has been a vital element of that order.

The outcome of the Uruguay Round is not going to satisfy every group in every country. But international trade is not, as some European farmers or American car-makers tend to see it, a zero-sum game where profit and loss are evenly balanced. The wider gains from fairer, more liberal global trade in goods and services will greatly exceed the losses that some will have to bear. On this basis, we in Australia have already moved to open our protected manufacturing sector to global competition. We expect others to take the same

decisions.

Australia still remains cautiously optimistic that the Round will succeed. The draft text of an agreement proposed by GATT Director General Dunkel has aroused much muttering in the corridors, but no-one has yet had the foolhardiness to reject it outright. Australia and its partners in the Cairns Group of fair agricultural traders are urging all countries to support that text and bring the round to a successful conclusion by mid-April. But the crucial question is, as it has always been, the willingness of the European Community to reform its system of agricultural subsidies that has severely corrupted international agricultural trade to the detriment of more efficient producers such as the United States and Australia. Any gains agreed in other areas will not be realised until there is an agreement to reform agricultural trade.

The second, regional level of our response must be to take advantage of and build on growing Asia Pacific economic links. The most effective way we can do this is through the Asia Pacific Economic Cooperation process (APEC), the formation of which in 1989 resulted from an Australian initiative to meet the glaring need for some such regional economic forum. Just how overdue and welcome that initiative was has been recently demonstrated by APEC's prominence in the Tokyo Declaration of President Bush and Prime Minister Miyazawa and in the communique of last month's summit meeting of the leaders of ASEAN.

One of the principal aims of APEC has always been to support the prospects of a successful outcome to the Uruguay Round. The very existence of APEC has been a powerful vote of its members' confidence in the future of a fair and liberal international trading system and a rebuttal of the scenario-writers' visions of a world dominated by discriminatory trade blocs based respectively on Japan, the United States and the European Community. APEC forms a bridge between two of those putative blocs. It is not in any way a trade bloc in its own right. And its diversity alone would make that an unrealistic goal.

But APEC is not just a cheer-leader for the Uruguay Round. At the most recent ministerial meeting in Seoul, last November, we started to consider the possibility of APEC's leading by example through non-discriminatory regional trade liberalisation. Australia has been arguing strongly that the region could identify highly protected sectors where a high proportion of trade takes place within the region itself and where gains from liberalisation for regional economies could be accordingly significant. This could be a difficult and complex process, not least in negotiating reciprocal concessions from those outside the Asia Pacific who would profit from liberalisation within the region.

The admission into APEC of the three Chinese economies at the Seoul meeting will boost efforts to improve sectoral links through the forum's ten work programs, which include

energy, telecommunications and other areas. Economic growth has largely outstripped the current levels of physical and human infrastructure in the region. The massive infrastructural programs of some Asia Pacific economies make it all the more pressing that we cooperate to produce a region-wide infrastructure that enhances the flow of information, trade and technology.

The third level of our economic response after the global and the regional must be the bilateral. Countries will continue to do make bilateral arrangements with each other. Indeed, the United States has proposed to Australia that we work to set up a Trade and Investment Framework Agreement. In view of our substantial and varied economic relationship, this proposal has a deal to recommend it, and we have begun discussion about its content. Since trade issues are the source of most of the tension in the bilateral relationship, we shall be particularly keen to establish arrangements that allow us to consult regularly and at a high level with the United States about them.

Bilateral arrangements will continue, but it is important that they not degenerate into managed trade, or discriminate against other, efficient suppliers. I have to say that the agreement on trade in motor vehicles and parts struck during President Bush's visit to Japan could do just that. The Japanese and American Governments seem to have endorsed preferential treatment for American suppliers of automobile parts to Japan. To the extent they have done so, this sends quite the wrong signals at this crucial stage of the Uruguay Round negotiations, appearing as it does to devalue the commitment of the United States to the liberalisation of global trade. Australia, which has taken the difficult decision to restructure its own automobile industry, will be looking for assurances from Japan that the arrangements with the United States will be implemented in a way that does not disadvantage Australian and other suppliers.

Bilateral agreements or agreements between groups of countries must be trade-creating rather than trade-diverting, and must be consistent with the rules and spirit of the GATT. We need to recognise that for a relatively small trading power like Australia bilateral arrangements complement, but cannot be a substitute for, the main game - the attempt to secure a fairer and more liberal international trading order. Such a system constrains, although it can never prevent altogether, the arbitrary use of economic muscle by the trade majors.

It is possible for bilateral agreements to be trade creating. Australia and New Zealand, with the Closer Economic Relations agreement, have shown how two countries can combine closer economic ties with economic liberalisation. At this stage the creation of an ASEAN Free Trade Area also looks as though it will encourage rather than divert outside trade and investment. These are the only sort of agreements that make any sense in the context of the Asia Pacific's dependence on a fair and liberal trading order.

The implications for business in both our countries of the developments I have described should be self-evident. In the first place, trade liberalisation, whether at the global, regional and bilateral level, means a better chance of economic growth, but it also means tougher competition. The only realistic, long-term response to this competition is greater efficiency. Deals like that between Japan and the United States on automobile parts, or voluntary restraint agreements, or the abuse of anti-dumping regulations, do not address the real issue of industry reform. That is a need that we in Australia have taken to heart.

Business in one Asia Pacific country will come increasingly to depend on business elsewhere in the region. This has already started to create a constituency in the private sector for more liberal regional trade. If, for example, United States computer manufacturers can increase their efficiency by using cheaper semi-conductors from Japan or Korea, they will not be pleased with voluntary restraint agreements limiting the supply of those semi-conductors. More efficient businesses should be a force for more liberal trade.

I believe that business will profit from improved economic linkages in the Asia Pacific region - and I should mention here the excellent work done by the Australian Committee for the Pacific Economic Cooperation Council (and its retiring Chairman, Sir Russell Madigan, to whom I would like to take this opportunity to pay tribute) in integrating the interests of the private sector into the APEC process. It is particularly important that the private sector be involved in the work of APEC, particularly in the ten work projects.

We are in a position now to determine the future shape of Asia Pacific economic development for many years to come. Business as much as governments should take advantage of the opportunities. And Australia and US business - given all the ties that bind our two countries together - should be among the quickest and most capable of all in seeing opportunities for two-way trade and investment, and for working together to explore the richness, and exploit the dynamism, of this Asia Pacific region in which we both live.

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