

AUSTRALIA AND ASIA: ECONOMIC ENGAGEMENT

Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs and Trade, to *The Australian's* Asia Link Breakfast, Sydney, 23 November 1992

In his splendid new book, *The End of Certainty*, Paul Kelly describes the 1980s as the decade when the Australian political tradition was remade, when the central defining ideas of the old Australia - White Australia, Protection, Arbitration, State Paternalism and Imperial Benevolence - were swept away and a new order created. His book focuses, for most of its 750 pages, on the demise of protection, the changing shape of industrial relations, and the shift away from reflex reliance on the State to deregulation and privatisation and needs-based welfare. All of those have been crucial to our growing economic confidence, and competitiveness, throughout the decade and they have certainly been the themes that have mattered most in the rough and tumble theatre of domestic politics.

But from my own perspective I can't help but think that the great defining shift in Australia's identity in the last decade involved the themes only incidentally touched upon by Paul Kelly: the emergence of a genuinely multiracial and multicultural Australia (burying at last in the process the ghost of White Australia), and the perception that our security and our prosperity were best guaranteed by engaging - or "enmeshing" in Bob Hawke's language - with our own region rather than looking longingly around the globe to Europe and North America.

The last few years have been watershed years, as we have come as a nation to recognise that our future will be shaped not by our history but our geography, and have begun to act as a confident member of the Asia Pacific community. The *Australian's* Asia-Link series is an important contribution to the learning process we are all going through - as to how to reap all the rewards that flow from living as we do in such a vibrant and exciting part of the world - and I am very pleased to be associated with it. Even if it means making a speech over breakfast.

For too long we have sought to ignore the geographical reality of our location in the Asia Pacific region, turning our eyes rather wistfully to Europe or North America, instead of directly north to Asia. The demographic face of Australia is changing irrevocably, with 3.5 per cent of the population - or over 600,000 people - now being of Asian origin, a figure expected to grow to as much as 7 per cent in the next twenty years. Human contacts with the region are accelerating; cultural awareness is growing; and political and diplomatic co-operation is now occurring on a scale unthinkable even a decade ago.

But economic factors are the driving force in the process of linking ourselves increasingly to Asia. The figures make it abundantly clear: 60 per cent of our exports now go to North-East and South-East Asia, as compared to just 12 per cent to the NAFTA trio; eight of our largest export markets were in Asia in 1991, as were six of our twelve largest import suppliers; and we now sell more to South East Asia than we do to the EC.

In seeking to strengthen our economic linkages with Asia, we are not proceeding from a position of weakness. Australia has the twelfth largest economy in the world, the second largest market economy in the region, and we still have a GDP around the size of the six ASEAN economies combined. The growth in our exports in 1991 was almost four times that of world trade, and in 1990 and 1991, we recorded the fastest growth in manufactured export volumes of any OECD country. The most gratifying growth performance of all has been in the area of Elaborately Transformed Manufactures (ETMs): last year, for example, exports of these outstripped sales of farm products by nearly \$2.5 billion.

Where does the Australian Government's trade policy fit into all of this? What difference has our pursuit of the Uruguay Round and APEC and bilateral negotiations and all the rest had on our external economic performance to date, and what difference will it make to our success in the region in the future?

GATT is the beginning of the story, if by no means the whole story. The successful economies of Asia to which we are now harnessing ourselves in this way have grown on a diet of exports made possible largely by the GATT and its successive rounds of tariff reductions. Most of the economies of North-East and South-East Asia have as a result an enormous stake, as does Australia, in a successful outcome to the Uruguay Round - now, thankfully, looking very much closer as a result of Friday's breakthrough in the US-EC agricultural negotiations.

Thus, the effort we have been making on the Round, while global in scope, is also a crucial component of our regional strategy. Not only will success in the Round underpin the prosperity of our Asian markets, but the Round offers us further access to those markets, access we could not reasonably hope to achieve in bilateral negotiations relying on our own limited bargaining power. On the principle that what is offered to one GATT signatory is offered to all 105, Australia stands to gain from the reduction in barriers to trade, for instance, in manufactures and services offered by the members of ASEAN to trading powers with more influence than we can wield.

Nor has our Uruguay Round goal been fixated, as some seem to think, only on the question of **European** and **American** agricultural protectionism and export subsidies. In agriculture alone we have important regional goals in reducing the impediments to trade in Korea, Japan and, eventually, Taiwan. Our objectives in the Uruguay Round are just as much linked to our own region as they are to achieving agricultural reform by the EC and

the US.

Of course, time has not stood still waiting for the labyrinthine negotiations of the Uruguay Round. While completion of the Round is at the top of the Government's global and regional trade agenda, we have already been discussing with our Asian trading partners how to ensure that the progress made in the Round so far could be preserved in the event of failure, and - now more likely - built upon in the case of success. We have proposed to the ASEANs and the economies of North East Asia that we can work together bilaterally or in small groups to remove barriers to trade in areas of manufactures and services trade: exploratory discussions so far have covered banking and insurance, telecommunications, business and professional services, steel and processed foods.

We have been concerned about, particularly in the context of possible failure of the Uruguay Round, moves toward the formation and strengthening of discriminatory regional trade arrangements. Governments around the world are already focusing on regional trade arrangements and they will continue to do so whatever the outcome of the Round. The object is to ensure that any such regional arrangements are not discriminatory, that they do not divert trade but create it, and that they do not distort flows of investment. Our Asian export markets depend on the flows of trade and investment through the whole region. Fragmentation of the Asia Pacific into discriminatory arrangements would almost certainly undermine the region's dynamism and so reduce Australia's trade prospects.

Expectations are already changing in the region as a result of the initialling of the North American Free Trade Agreement. NAFTA will probably not have a large direct effect on our exports to the United States. But it could have a greater effect on our exports of raw materials to Asia by switching North American trade from Asia to Mexico. It's harder to predict the effects of NAFTA on investment, but they could be significant as funds and technology go to Mexico and, perhaps, elsewhere in Latin America, rather than to Australia and Asia. The US is, of course, the largest investor in Australia.

The damage to our interests may be greater if - particularly in the context of the break down of the Uruguay Round - the United States moved in effect to extend NAFTA, creating a series of separate trade arrangements with different economies, like spokes with the United States as the hub. The trouble with an arrangement of this sort - assuming we could negotiate a spoke for ourselves in which the bilateral benefits outweigh the costs - is that it would do little to increase our trade with the Asian spokes on which we increasingly depend. And from a larger strategic perspective it would make no sense for Australia to become party to a set of arrangements aimed against our largest trading partner, Japan, and our other East Asian trading partners: these countries take almost six times more of our exports than the United States, and that figure is likely to grow.

The crucial factor in maintaining the coherence of the global trading system will

nevertheless in fact be the United States. We don't expect the United States to discard its enormous trade clout. In the real world of struggle for trade advantage, countries use what muscle they have. To those of us opposed to unilateral trade retaliation, the United States's persistent efforts to resolve its dispute over oilseeds with the EC through GATT machinery were encouraging. But, faced with the European refusal to comply with GATT findings, we well understood the American threat to withdraw trade concessions to the Europeans: certainly the threat seemed to produce the desired result.

It's hardly surprising that the United States, now the world's sole remaining superpower, shows a certain amount of trade schizophrenia, shifting its attention between unilateral, bilateral and multilateral strategies. But it would ultimately be in no-one's interest to see multilateral economic cooperation in the Asia Pacific threatened by more exclusive and less widely beneficial dispositions, such as the fragmentation of the region to which I have already referred. It would be in no one's interest for the Pacific to divide sharply between trade allies of the US and trade allies of Japan.

What we know of President-elect Clinton's views on trade is generally reassuring. There is no doubt that he is an internationalist, by intellect and instinct. He enjoys a broad basis of support and is not obviously hostage to the familiar list of Democrat-supporting protectionist special interest groups. He has consistently expressed support for the Uruguay Round and, since the election, has given unequivocal support to the efforts of the Bush administration to bring the Round to a successful end. He has been cautious in his comments on the creation of a strategic system of trade agreements beyond NAFTA. Although he has said little on APEC and the Asia Pacific region, I would expect that the multilateral and cooperative nature of APEC will appeal to his administration.

But while President-elect Clinton looks like a free trader, he has also called himself a fair trader. In US parlance, this means we will certainly see the Clinton administration pushing hard for greater access to the markets of Japan, China and other East Asian economies - not ruling out in the process use of any of the resources of the American trade armoury, such as Section 301 of the Trade Act, and "Super 301" and other forms of trade harassment. The hopefully now imminent success of the Uruguay Round, and an effective program of regional trade liberalisation and facilitation delivered through APEC - which I'll come to next - will constrain the American tendency to use these weapons. It will be up to us and others to convey that perspective to the United States: we will be seeking to do precisely that with the Clinton team in the near future.

APEC - the Asia Pacific Economic Co-operation process launched in Canberra in 1989, and now comprising the 15 major trading economies of the Pacific Basin with a new Secretariat in Singapore - is now established beyond doubt as the major organisation for the consideration of regional economic development and trade policy issues. And it is an organisation dedicated to uniting North America and East Asia - building bridges, not barriers, between them.

Australia's approach to regional economic cooperation has always been based on the need to take advantage of the rapid growth and increasing integration of regional economies. Trade in the region is increasingly inter-dependent. Trade in services in the region is growing faster than the world average. Most of the current US\$100 billion of direct foreign investment in the region came from regional sources. And the deepening of interdependence has received a powerful boost from the activities of multinational enterprises in transferring industries within the region.

Australia has consistently urged APEC to focus on regional trade facilitation and liberalisation, and agreement on this was in fact a key outcome of the APEC ministerial meeting in Bangkok in September. Ministers endorsed a program of short-term measures addressing impediments to regional trade which could see in the near future the removal or reduction of customs formalities and red tape, moves towards greater consistency of labelling and packaging requirements and the ready availability of information through regional electronic networks. These could result in significant reductions in the cost of doing business in the region.

The deficiencies of specific industries show the scope for action. Take for example the maybe unlikely case of the cut flower industry, which last year earned over \$12 million in Australian exports to Asia: the Pacific Economic Cooperation Council has recommended that regional governments promote trade by establishing the necessary infrastructure, disseminating market and technical information, simplifying quarantine inspection procedures and coordinating research in biotechnology. Without these basic linkages the further enormous regional potential of this industry will not be realised.

In addition to shorter term trade facilitation issues of this kind, an exercise has been set in train by APEC members to commission a group of eminent persons from the region to report back to APEC next year on their longer-term assessment of the likely shape of Asia Pacific trade and investment relationships at the turn of the century and what might be done to advance the region's development. Some feasible medium term outcomes of this could be a regional agreement designed to facilitate the flow of investment through the whole region, replacing the present tangled web of bilateral investment agreements; and an agreement to move toward complete removal of trade barriers in sectors like steel, where trade is overwhelmingly within the region and where the gains for the region from non-discriminatory liberalisation could be great.

The regional approach to trade liberalisation we have in mind is one that complements the multilateral approach through the GATT, but is rather different in character. It involves a search for regional linkages and synergies through which groups of regional economies can move forward together, perhaps initially in sub groups with other economies joining later. Powerful inducements can be generated in this way for the economies of the region

to cooperate rather than pursuing trade advantage through discriminatory arrangements.

Multilateral and regional approaches are not, and cannot, be the end of the Asian trade strategy story: they have to be supplemented by the constant advancement at the bilateral level of our commercial interests. This is the element that makes the least noise in the media, perhaps because critics and pundits prefer to focus on grand and sometimes hypothetical trade alliances than on the routine and fruitful cooperation between government and business in furthering our day-to-day economic links with Asia. It's hard, logging and usually unspectacular work, but its a very important part of the total picture.

The best way to think of the immense range of the Government's bilateral economic activities with our Asian markets is in terms of three categories: first, the work we do in reducing specific barriers to our trade; secondly, the structures we set up to facilitate commerce; and thirdly the strategies we produce.

My own involvement in reducing barriers to trade has included processed foods, where the rapid growth of an Asian middle class with a taste for western products provides immense opportunities for an Australian industry that has great traditional strengths. In 1990 I made successful representations to the Thai Government on behalf of Australian confectionery - and in Indonesia last week I began another such exercise in Mars Bar diplomacy. Other recent success stories for Australians have been agreement by the Philippines to liberalise import licensing restrictions on agricultural products; recent tariff reductions by Malaysia which will create opportunities for Australian biscuits and other products; and Indonesia's lifting of import bans on dairy products.

Australia has also been more active in dealing with Taiwan over barriers to trade than have been comparable countries which have diplomatic relations with China. Despite the necessity for contacts to be informal, we have held two rounds of trade talks. At the third, to be held in Taipei in December, we will push for access to the Taiwan market for Australian products such as motor vehicles, beef, fresh fruit and pharmaceuticals. On the basis of success already achieved, such as the resumption of wheat sales earlier this year, I am optimistic. I have been encouraged, too, by the results of the private and unofficial visit made to Taiwan in October by my colleague Alan Griffiths, accompanied by a high-level delegation. That visit secured an assurance that Australian companies will no longer be excluded from tenders to supply projects in Taiwan and that a ban on the importation of tyres from sources including Australia will be lifted next year.

Taiwan is now our sixth largest export market, taking \$2.5 billion of Australian products last financial year and with the potential to become even more important to us as a trading partner. But it has a highly protected and discriminatory trading regime, limiting imports to protect its domestic producers and to resolve its trade problems with other countries. Our difficulties have been complicated by the need to deal with Taiwan within the

framework of our one-China policy and by the fact that Taiwan is not yet a member of the GATT.

We have used a two-pronged approach to improve our access to the Taiwan market. In the first place, we have given strong support for bringing Taiwan as soon as possible under the discipline of the GATT. We will use the process of accession to the GATT to address the barriers we face to the Taiwan market. We have also pushed hard for Taiwan's participation in APEC, so that the development of mechanisms of regional cooperation, including measures to liberalise trade, will encourage Taiwan to open its markets to Australia and other regional economies.

Taiwan also provides a good example of the efforts we are making to develop the structures of our Asian trading relationships. The Government is supporting work on a better framework for our expanding commercial links including bilateral arrangements on investment promotion, the avoidance of double taxation, the protection of intellectual property rights and the recognition of commercial arbitration.

Indonesia, where last week I and four other Australian Cabinet ministers participated in the first Australia-Indonesia Ministerial Forum, is another good example of bilateral trade diplomacy at work. The forum was agreed on during Prime Minister Keating's visit to Indonesia, his first overseas visit as Prime Minister. Its primary focus on bilateral trade and investment is a recognition of the rapid growth of commercial relations between Australia and Indonesia over the last four years. In that period trade has grown by 125 per cent and Australia has become the fifth largest foreign investor in Indonesia. And almost a quarter of our \$1.5 billion of exports to Indonesia is made up of elaborately transformed manufactures.

The forum is part of our effort to establish the structures for further development of the economic relationship. Ministers at the forum signed agreements on the promotion and protection of investment and the protection and enforcement of copyright which will provide a more predictable business environment. We signed memorandums of understanding on cooperation in education and training and customs administration. And, most importantly, we agreed to set up bilateral working groups, including business representatives wherever possible, on cooperation in: agriculture and food; and trade, industry and investment more generally. A great deal of very specific discussion took place at the Forum on emerging new strategic complementarities in areas such as fibre and food processing and environmental technology.

As this catalogue makes clear, Australia's economic engagement with Indonesia, as with other Asian markets, is becoming broader. This broadening brings with it the need for a greatly expanded framework for the economic relationship. And as the pace of economic development in Indonesia and South East Asia accelerates, new areas for Australia

engagement will open up.

We have seen the need in this context to prepare specifically focussed and targeted national strategies for our economic engagement with the different countries and sub-regions of Asia. The Government, in cooperation with business, is doing this across a wide range of markets and sectors. As part of work on the National Trade Strategy, which brings together Commonwealth and State governments, business organisations and unions better to coordinate trade and investment promotion activities generally, my Department has prepared strategies for 25 key markets, and these are continually being refined.

I will also be launching shortly a major report on Australia's Trade and Investment Links with South-East Asia which has just been completed by the East Asia Analytical Unit in my Department. This will, I believe, make a major contribution to the understanding in Australia of economic developments in the countries of South-East Asia and the opportunities there for Australian business.

Among those opportunities are those flowing from the development in South-East Asia of a prosperous middle class with a taste for western goods and services as well as, to some extent, the institutions and norms of western democratic governance. Australia, at the level of government and business, has to be alert to the growth of this middle class and its economic and political implications. I don't want to compare the apparent appetite in Thailand for more democratic government with that for Mars Bars, but the fact is that both have implications for our relations with Thailand and we must be ready to respond to them. Similarly, Australia's interests in Indonesia, commercial and political, will clearly be affected by what, according to one estimate, is a middle class of 20 per cent of urban Indonesian families, or 11 million people, in the sense that they are likely to own a car and a television.

It is not only in South East Asia, of course, that massive internal economic and social change is demanding a new kind of response by Australian government and business. South Korea is now our third largest export market, with an economy of a size expected to shortly overtake our own and an energy which puts it in the front rank of a formidable list of competitors; there is something almost eerily impressive about an economy which triggers anxious complaint when the growth rate drops to 7 per cent! It was against this background that we chose Korea for the first comprehensive promotion of Australia - involving trade promotion exhibitions, cultural events and business seminars and conferences - that we have ever staged overseas.

In this promotion, which I launched in Seoul on 5 November, while in no way seeking to break down Australia's image as a tourist destination for increasingly affluent Koreans and as a supplier of industrial raw materials, we nevertheless sought to compliment this image with views of Australia as a more sophisticated, culturally diverse and above all,

technologically advanced regional partner. To the extent that we can assess reactions at this stage, the promotion was an unqualified success. It is a pity, however, that no more than a handful of Australian companies were prepared to contribute to that success; I hope we will do better in Japan next year and in Indonesia in 1994, our next promotion targets.

It must be acknowledged that accelerating structural change in North-East Asia and what amounts to an industrial revolution in South-East Asia call for nothing less than comprehensive and continuing economic reform in Australia. The flip side of the coin of economic engagement with Asia is that dependence on Asian markets locks us into the broader process of regional adjustment. If we don't keep up, we lose markets.

Improvements on the Australian waterfront, such as faster cargo handling rates, reduced vessel berth time and better management skills show that we can make headway. But the difficulty in translating these manifest improvements into more competitive export prices show what more we can do.

The breadth and variety of our economic links with Asia mean that the Government's encouragement and support of these links must be correspondingly sophisticated. It must be aimed at projecting a modern image of Australia in Asia, as we sought to do in the promotion in Korea I mentioned earlier and as we will hopefully be doing through the new ABC International satellite television service which will be beaming into Asia from early next year.

And it must also aim at continuing to promote a better understanding by Australians of Asia. That process has to start with the Australian school system, and here we are focusing particularly on encouraging Asian Studies, including the teaching of six priority Asian languages. In the business sector, we have also created an Asia Pacific Fellowships program, managed by Austrade, to encourage business people to build their Asian expertise through language and business training on the ground. My colleague, Kim Beazley, Minister for Employment, Education and Training, will shortly be launching another Asia-focused initiative - the Asia in Australia Council (ASiA) being set up by the Australian Chamber of Commerce and Industry. The Council will advise the Government, through Mr Beazley and myself, on employment, education and training priorities and strategies for fostering more effective links between Australia and Asia.

By initiatives such as these, we are better placed to take advantage of openings at the global, regional and bilateral levels. What I have said today should make it clear that openings do exist, provided that we use the various elements of our trade policy together. The Uruguay Round negotiations, for instance provide us with an opportunity for bilateral and sub-regional discussions with our Asian trading partners, which can in turn support the efforts at regional trade liberalisation through APEC. The important point is not to have an inflexible blue-print of what our trade policy should be, but to use the resources we have flexibly and realistically, with a clear idea of our long-term interests. That is the best path to sustainable and profitable economic engagement with Asia.

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