

'THE BENEFITS OF OPEN MARKETS FOR THE ASIA PACIFIC REGION'

Address by Senator The Honourable Gareth Evans QC, Australian Minister for Foreign Affairs, November 13, 1994, Jakarta, Indonesia

Business always thinks that governments move too slowly when it comes to things like trade liberalisation and clearing the room for you to do your best, or worst, as the case may be. Certainly there has been quite a lot of sentiment, I know, around the business communities in our respective countries, that APEC has moved a bit slower or has delivered less than some of the rhetoric that led people to think it might. I think that criticism is quite misconceived and people know the business community around the Asia-Pacific area is really beginning, for the first time, to grasp the magnitude of the task on which we are embarked with the APEC vision, and the APEC community concept. It's hard to argue objectively with the progress that's been made over the five years since APEC came to fruition, and if what we hope happens in a few days time in Bogor does indeed come to pass, then I don't think there will be too many sceptics left.

Let me just trace for a moment where we have come to over those five years, because I think that story is a fascinating one. I recall very vividly the origins of APEC, because I was the minister who chaired the inaugural meeting in Canberra in November 1989 when we brought together foreign affairs and trade ministers from the then dozen economies around the region that were the founding members of the organisation. The process by which we got to that inaugural ministerial meeting, following the speech of Prime Minister Bob Hawke in Seoul in January 1989 which set the whole thing moving, was by no means painless nor automatic. Prime Ministers tend to think that their speeches are self executing. It's a view that they are always coming up with and we lesser mortals, foreign ministers, trade ministers, constantly bear the pain of translating these large and visionary statements into some kind of working reality.

Certainly that was the case in 1989. It wasn't easy to move from a concept to

any kind of reality. In particular, it was not easy to persuade the ASEAN nations to participate in the creation of a larger working forum on topics as potentially large and as sensitive as this. They all felt that there was a danger that the institutional momentum and credibility that ASEAN had been itself generating over the years since its creation, might in fact be prejudiced by the creation of a larger organisation of this kind within the larger Asia Pacific region. They were concerned that the ASEAN dialogue process, which then had both an economic and a political security dimension to it, might be overtaken, as it were, by this type of organisation, so they were nervous about it. Similarly Japan and the United States, each with their own perspective and their consciousness of the economic leadership role they were playing, were not altogether sure that they wanted to subsume themselves in this particular way, in a multilateral process, as distinct from continuing their dialogue bilaterally, where they were slugging it out in the context of the global round table negotiations through GATT.

There was a degree of caution. It was really quite difficult to bring everyone together. I remember constantly emphasising the nature, at the time in 1989 as Chairman, in what we were doing was creating not an institution, but a process. What we were doing was creating a process, not institution-making; we are just in the business of creating a consultative opportunity for dialogue and all the rest of it. It was in that context that we came up with this odd name, Asia Pacific Economic Cooperation, which I described in Seattle last year as "four adjectives in search of a noun", because there wasn't at that stage any real agreement about having an institutional framework created for this. But the potential was there and I think over the course of those last five years we have seen bit by bit that potential being realised. There was never any real scepticism I know, so far as this audience and this organisation PBEC was concerned, because you have been visionaries about the concept of Asia Pacific Economic Cooperation. You've been visionaries about the concept of free and open trade in the Pacific since the time of your formation back in the 60's, but there were plenty of sceptics elsewhere.

I think if we briefly trace the states in the evolution of APEC, you can get a clearer sense of what we have done, and what we have achieved. It began at the outset as nothing more than an OECD-style forum for policy dialogue, for technical cooperation, and for a degree of business support. Economic

cooperation in the looser sense, involving policy dialogue, technical cooperation, business support. Data compilation was one of the things we first focused on, and that is continuing of course with the efforts that are now going into establishing among other things, a common tariff database. Getting common statistical basis for information about trade and capital flows was something that was needed, as a basis for further decision making hadn't really happened except in the limited OECD context. Policy dialogue about a whole range of macro-micro economic issues, sector by sector, was something that was perceived as worthwhile and has been happening to a significant extent through the working groups that were established in 1989 or 1990, and have been continuing ever since. Cooperative strategies have been gradually evolving through different sectoral areas, through again working groups on energy, infrastructure, telecommunications, and so on, and more recently some the thematic work that is being done on issues such as human resources development and small and medium enterprises. The concept of business support started out with the idea of APEC playing a role in facilitating trade promotion activity; now that is getting a bit more momentum as people start to focus, with the help of things like the recent PBF Report, on APEC being used as a vehicle for the delivery of various forms of government assistance for business networking activity, small and medium enterprises again, processes of that kind or equivalent at work.

So far so good. Just relatively low-key useful activity, not frightening the horses, not setting the world on fire, but things that are worth doing. And that activity, that foundation layer activity that we did find it possible to agree about in 1989, has continued and will continue on into the future.

I think the real watershed in moving APEC forward from an organisation devoted to that kind of activity to an organisation with a potential to do something rather more dramatic, did occur in Seattle last year with the agreement to adopt what we now call a trade and investment facilitation agenda. Here we now are talking about specific agreements being negotiated between member countries to produce cost saving movement forward on issues of a quite specifically targeted business relevance like standards, like conformance, testing procedures, the adoption of regimes whereby you can test in one location and have the product accepted everywhere else. The investment guidelines as well - sure we are talking about a non-binding code

at the moment, but the hope and expectation is that in the not-too-distant future we will be able to get some of that down in a more sharp-edged way still. We are talking now in the same context about the creation of task forces, which was recommended I think in the PBF or the EPG report, to focus specifically on anti-dumping regimes, restrictive business practices with the possibility, perhaps ultimately, or harmonising actual competition policy right around the region in a way that exactly Australia and New Zealand have done just as two countries. We are talking about harmonising customs processes and procedures and dialogue in the form of an APEC customs code. That's an important item on the agenda and there is a lot of movement now towards that.

The whole point about trade and investment facilitation is that we are talking about a range of strategies or programs which move you further forward just from cooperative consultative activity, technical cooperation, into the realm of actual hard-edged negotiated agreements. It is no longer possible since Seattle to argue, as some people have wanted to do, that APEC is just a consultative forum: "it is not a negotiating forum." We have passed that watershed. The results are still to appear, but the momentum is there, the commitment is there, and that kind of culture change with APEC I think is already being achieved. And that created really the foundations for the next big culture change we are hopefully about to embark upon right now, this week, with the move to adopt a third layer in the APEC cake if you like, a third level in the APEC agenda, and that is moving up from trade and investment facilitation to trade liberalisation. Actual straight-on, head-on assault on tariffs and quantitative restrictions. And here of course we are all hoping that, as Fred Bergston was saying, the leaders in Bogor next week will make the political commitment, pull the trigger without which nothing else can possibly happen. We hope that thereafter will be followed by a detailed process of negotiation, spread out inevitably over quite a substantial period of time, certainly no less than a couple of years, maybe a bit more than that, in which we address systematically the questions of coverage, of product coverage, and policy coverage; we address the question of timing; we address the questions of treatment of outsiders issues which you have heard sketched by Fred Bergston this morning. There is no inevitability about an embrace by the APEC countries of the precise terms of the Bergston EPG agenda, but it certainly has given us all a hell of a lot of food for thought. It is an intriguing set of suggestions, that when it comes to this so-called dilemma between non-

discriminatory MFN on the one hand, and discriminatory preferentialism on the other, that maybe the choice won't need to be as stark as that. Maybe we can in fact have our cake and eat it too. Well, that remains to be seen. It's going to be fascinating negotiation. The point is that I think the will is now there to step up the effort, make a whole new quantum jump into a new sphere, a whole new level of activity, and move forward on trade liberalisation.

The politics of this are clearly not going to be easy within any of our member countries; they never are. And you know as well as I do the reasons why that's so. Whenever you move down a trade liberalisation path the pain that follows from it is always specifically focused and it is always more or less immediate insofar as particular sectors or particular industries, particular firms within sectors, are concerned. The benefits by contrast are invariably much more widely shared and invariably take rather longer to in fact be felt. So you are constantly as politicians, political leaders, faced with the task of selling this particular story to often very sceptical domestic audiences. But this story is a tellable one. This product is a very saleable one, and I think our experience in Australia over the last decade has shown that as clearly as is the case anywhere else in the world.

At the beginning of the 1980s we had to confront the reality, in my country, that the days of making our living out of commodity supplies to the rest of the world, first agriculture, then minerals and energy, were over. The days of limping along as a second order manufacturing country sheltering behind very high tariff walls leading a thoroughly protected life, were only going to be a recipe for a really systematic and endemic decline in our standard of living over time if we let that continue to happen. So we, my government coming to office in the early 1980s, made the hard decision to go down the unilateral liberalisation path. We did that in a big way. We are now at the stage where we have removed all quotas completely for any product in our system; the general tariff rate is down to between 0 and 5 now in every sector of the Australian economy except two, textiles and automotive, and here the tariff rates, although they are still higher by a considerable margin than 5%, represent a very dramatic drop from the rates that were prevailing in the late 70s and early 1980s. By the year 2000, the average trade weighted tariff in Australia will be down to 2.9%, and we acknowledge the reality, we accept

the APEC agenda that we have got further to go even than that.

But the truth of the matter is that despite the political difficulties that all this engendered for us, despite the predictions of the doom sayers, that this would simply be totally unsaleable to an Australian electorate, we won five elections over that period, and we have managed to maintain the commitment and we have produced some dramatic results. Australia's manufacturing industry found a dramatic new lease of life as a result of this effort. The average effective rate of assistance to manufacturing fell over the period 1987 to 1993/94 by around 50%. At the same time manufacturing output increased by 11.5% in real terms and that was despite the economic downturn of a really quite severe kind that we experienced in the early 1990s.

Over the same period OECD manufacturing output rose by less than 8% in real terms, so we are doing a darn side better than the OECD were doing through the recession. There is a dramatic growth and, more particularly, in terms of guaranteeing our future, most of that growth started to occur, and is now occurring very dramatically now, in the area of elaborately transformed manufactures where there is a lot of high-tech value being added. And the results are dramatic to witness in terms of the market penetration we have been able to succeed in achieving, particularly of course now in the Asian region, as a result of these changes. So this is a story that no longer has to be sold in Australia. The runs are on the board, the evidence is there, and we are prepared to go on further with the effort as a result.

Similarly when you look at the benefits that will flow from this kind of trade liberalisation exercise in the region as a whole, I think the story really will tell itself, and the need for a high degree of political nervousness we are witnessing in some quarters really will diminish as a result. The economic modelling that we have been doing on the implications of this kind of liberalisation agenda I think demonstrates this in significant measure. My wife is a professional econometrician (I must say I have never understood the mystery by which they produce the results that they do) and the particular model that we are working with in Australia, the Salter model, put together by the Industry Commission with my own department, has been giving us figures like this. If member countries in APEC are going to do well out of the Uruguay Round, they are going to do one hell of a lot better out of the kind of

liberalisation we are talking under the auspices of APEC.

The annual gain, as we estimate it, to APEC aggregate national income from the Uruguay Round will be around \$112 billion by 2002 when those Uruguay Round effects have flowed through fully. But that figure at \$112 billion will in our estimate rise to \$366 billion by the year 2010 if APEC free trade were able to be achieved by then. Really quite dramatic numbers. Under APEC free trade we estimate that our own real output in Australia would rise by an estimated 3.8%, real national income by 1.2% - in our terms that is nearly \$7 billion annually - and that would more than double the projected real income gains for Australia from the Uruguay Round.

Well everybody is doing their sums around the region and depending on the models that are being used, whether they are static or dynamic, different assumptions and so on, these numbers are jumping around a bit. But the orders of magnitude are visible, they are dramatic, and the tale is one, as I say, that I think can be readily be told. The anxiety that we are hearing a little of in the United States, about too long a period of differential access, of a limited ability by the US to get free trade results in developing country markets while they will have access to tariff reduced markets in the US and other developed countries; I think essentially that is a non problem. The nature of the free trade barriers that exist already in most of the developed countries is so low that, by comparison to the barriers running the other way, it is unlikely to make any significant difference in practice to the degree of market penetration. What it will mean is a heck of a difference to the capacity of developed countries to get products into the developing ones. That is the sort of story that we will have to be telling to our respective constituencies. It is important that we tell a common tale because the stakes are very high.

A final word. We are poised now, here in Jakarta, with an opportunity, an historical opportunity, that might not be easily repeated. To have a developing country like Indonesia, and a President of the stature of President Suharto, prepared to grasp this issue and make the running on it in a way that is dramatically different from the way in which most developing country leaders in the past have been prepared to view this issue of trade liberalisation, is a heaven sent opportunity to establish this political agenda and to really set it moving. We've got, even if we succeed in getting this political commitment

next Tuesday, as we think we will, still of course a very long and very difficult negotiating road ahead. But it is crucial that we do grasp that opportunity now; it's crucial that we have maximum support from the business community right around the region in doing so, because, as I say, we have a conjunction of circumstances right now that may never give us this chance again.

Thank you.