

TRADING WITH ASIA: THE ADVANTAGE OF PROXIMITY

Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs, to the Business Leader's lunch organised by Garrie Gibson MP, Brisbane, 22 April 1994

Ten years ago, there were all sorts of signs that the "Lucky Country" was running out of luck. Agricultural markets, strong for most of our history, were under increasing stress with new kinds of export subsidies being granted by the United States and Europe, and long term price slides were evident in a number of key agricultural commodity areas. And our minerals and energy producers, which had sustained us in the 1960s and the 1970s after our traditional agricultural markets in Europe collapsed with the advent of the Common Market, faced stiff new competition as the 1980s began in a number of other parts of the world. It was not at all clear that we would be able to rely on the luck of our resource endowment to see us through.

A decade ago we were just coming out of a very severe domestic recession: employment was picking up, but we were still carrying a very high inflation rate. The measure of our comparative overall economic capacity, the GDP tables, had us visibly declining. Internationally, we had been gradually dissipating that respect which was won for Australia by the breathtaking foreign policy achievements of the Whitlam Government from 1972 to 1975, which had shaken us out of the torpor and irrelevance which had previously characterised the conduct of Australian foreign policy in the 1950s and 1960s. Overall, there was a feeling that Australia was a geographically-isolated Caucasian outpost: a pleasant enough place in which to live and raise children, but gradually sinking into a fair degree of irrelevance and facing a fairly inexorable long term decline, at least in comparison to other countries in the region and elsewhere in the world.

The task the Labor Government set ourselves when we came into office in 1983 was to try and reverse all that, to create some new luck for Australia, and to do so through nothing less than the internationalisation of Australia. There are three main dimensions to that internationalisation we have been pursuing in the eleven years we have now been in government. First, there has been the internationalisation of domestic policy, to make ourselves competitive, not just in our traditional commodity



markets, but in manufacturing and services as well – so as to be able to do better both against imports and, more particularly, in overseas markets, especially the rapidly burgeoning ones in our own Asian region.

Second, there has been the greater internationalisation of our external performance – so as to reposition ourselves, through our economic and political diplomacy, as significant players in the region and the world, seen and respected as such.

The third dimension of our internationalisation agenda was to internationalise our outlook, to change the way not only that people thought about us, but the way we thought about ourselves as a nation, so that we became more comfortable and more confident when dealing with our own region and the world at large. In a business sense, this meant not only developing an export culture, but in particular an Asian export culture.

That was the agenda that we set for ourselves, becoming ever more clearly articulated as the decade wore on. Looking back over the decade, I think it is fair to say that we have been extraordinarily successful on all three fronts, and that we can now afford, as a result, to be more confident about our future than we have, as a nation, been able to be for a very long time.

I don't need to spend a lot of time on the internationalisation of the domestic economy because you know what we went through during the 1980s. Some of it was painful; most of it was very difficult. But we did succeed in making ourselves lean and taut and competitive in all the areas that I mentioned, turning ourselves upside down and inside out economically in the process: by deregulating the financial system; relaxing controls on the entry of foreign banks; assaulting systematically tariff walls and residual protectionist sentiment; restructuring quite fundamentally the tax system, in particular for business; corporatising and then privatising the major government business enterprises; creating real competition in the transport, communications and electricity sectors; and freeing up labour markets, in particular by encouraging enterprise and productivity bargaining.

And we have been doing all this in a context where we were simultaneously introducing all sorts of encouragements for business to behave more adventurously and creatively, in particular by reaching offshore. Thus we worked through the 1980s to develop a National Trade Strategy, bringing together the Commonwealth, the States, the industry associations and the unions, to coordinate our export and investment promotion, country by country and region by region. We fundamentally

re-shaped the Australian Trade Commission (Austrade) to make it lean and sharply focused, much better geared than in the past to helping Australian exporters, particularly small to medium size exporters, and particularly in high value-added, high technology areas of manufacturing and services. We developed strategies and programs, like the International Trade Enhancement Scheme (ITES), which gives basically low interest loans to businesses to encourage them to expand their operations overseas and the Export Market Development Grants scheme (EMDG), which met the costs of businesses, under clearly defined criteria, in getting out and establishing bridgeheads offshore.

The results of that combination, of rigorous deregulatory discipline on the one hand together with encouragement programs on the other, have been spectacular. The record speaks for itself. We have increased our international competitiveness by something like 30 per cent over the last decade. We have reduced industrial disputes to their lowest level in 42 years. We have achieved the highest rates of growth among all the OECD countries (ie the 24 most developed economies in the world), and are now running at a growth rate of 4 per cent, the top of the table. We have brought inflation down to 2 per cent and it looks very much like staying down. We have achieved what has been described as "the best conjuncture of economic fundamentals in thirty years", and we believe that the fiscal and monetary policy that will be outlined in the Budgetary context will demonstrate how we're going to lock that in over the period ahead.

Moreover, that domestic economic performance has translated massively into improved export performance, and in particular, effective export performance in the East Asian marketplace where we now sell over 60 per cent of our exports. South East Asia eighteen months ago overtook Europe as our second largest regional market after North East Asia. Most importantly of all, we have succeeded in making a fundamental, crucial structural shift in our export base – away from commodities towards, now, high growth, high value manufactures and services – which has seen us in the last year exporting for the first time more manufactures than we export rural products.

Export performance of that kind doesn't just happen, doesn't just occur automatically, even with all the kinds of incentives that I have described. There is a need for a domestic policy support base of the kind that I have described. There is also a need for a change in psychology, and I'll come to that point in a moment. But there is also a need for something else as well – and that is a perception in the international marketplace that your country is a serious economic player in the international market

system. Australia, in this sense, coming into the 1980s, had an emerging image problem. We were seen in many places as nothing much more than a farm, a quarry and a tourist beach – an easy-going, low-key, lightweight backwater. That kind of imagery has been very hard to shake off. And it is not very helpful imagery when you're dealing, for example, with governments abroad who are seeking tenders for huge infrastructure projects and have to make decisions at the margin as to which companies from which countries they are going to entrust them. And it is not very helpful when you are trying to break into markets at the level of highly sophisticated services or high technology, high value-added manufactured products: a country's "brand image", not only with governments but business and consumers as well, can mean a great deal in terms of your effectiveness in mounting that sort of penetration.

And that is what a lot of our diplomacy – our economic diplomacy and our political diplomacy – has been about – through the 1980s. It has been about not just pursuing the traditional security objectives and not just pursuing the traditional economic diplomacy objectives of negotiating reductions in access barriers, country by country multilaterally, but about repositioning Australia, and generating new kinds of images of Australia, as a sophisticated, mature, independent, active and attractive player in the world's markets. That diplomacy, to be successful – and I think so far it has been – has to operate at three levels simultaneously, global, regional and bilateral.

Globally, we have to recognise our limitations. Australia is not a superpower and we are not a major power. We are very much just a middle power in terms of the kind of clout that we can exercise. We cannot rely on intimidating anyone into following a particular policy objective. We can only rely on the power of persuasion. We cannot do that across a wide front: we have to be selective in the sort of issues we run with. But we have had a number of successes on that wider global stage by doing just that. In the economics and trade sphere, obviously we were very important players – central players in fact, through the whole course of the Uruguay Round of multilateral trade negotiations, not least through the role we played – by establishing in 1986 the Cairns Group of like-minded agricultural trading nations, which positioned itself as very much an effective third force, arguing and fighting against the objectives and policies of the US on the one hand, and the Europeans on the other.

In the political and security areas of international global diplomacy we have had, again, our successes, by focusing on particular areas such as the Chemical Weapons Convention. Bringing to successful fruition the negotiation of that a year or so ago, after twenty years of fairly fruitless endeavour before, I think counts as an unequivocal success. What we are doing now on the question of a comprehensive nuclear test ban

treaty (CTBT) and the renewal of the Nuclear Non-Proliferation Treaty (NPT) has made us one of the half-dozen or so most active and influential countries in terms of those policy objectives. That is also perhaps true in the whole area of UN reform as we try to re-shape ideas about how the UN should carry out its peace and security role in the post-Cold War environment – with the success of Cambodia, for example, as a demonstration of what can be done, but with the very problematic outcomes of Somalia and, even worse, Bosnia, a demonstration of what can go wrong.

Bilaterally, it has been a matter of working very hard to build effective relationships with all the key countries in our own region, and also in many other parts of the world, given the increasing degree of interdependence of countries around the world, not only in neighbourhood security terms, not only in trade terms, but also because of the political negotiations consistently conducted in multilateral forums like the UN, it is crucial that you have comfortable, effective working relations with all sorts of people. The importance to us of countries like Japan, China and Indonesia speaks for itself. But there are many other countries where we have been working just as hard, e.g. Vietnam where our relationship was consolidated so well by the Prime Minister in his recent visit there. This was a function not of just six months worth of effort, but an effort which was sustained right through the 1980s. In the early days after 1983, as Australia recognised the Vietnamese government, established diplomatic relations and, ahead of the rest of the world, initiated a development assistance program, made us very unpopular with a number of other countries in the region, but are very warmly remembered in Vietnam itself. And the relationship now, in terms of the very active involvement by many Australia companies, not least BHP, speaks for itself.

The centrepiece of our diplomacy in recent times has been regional diplomacy. The basic theme has been to build an Asia Pacific community – with a small 'c', not a European clone – in which Australia is seen unequivocally to be a part and partner at this stage and not just standing outside with its nose pressed against the window like an urchin outside a tart shop trying to get in. We want an Asia Pacific community in which we are active, engaged, visible, involved, and accepted players.

There has been two particular vehicles through which we have pursued that objective. On the political-security side, we have sought the creation of a regional security dialogue process. Our credentials to advocate that were very much enhanced by the success we had with our Cambodian diplomacy, particularly over the period 1989–1991, when the peace plan was being conceived and put in place. But beyond that, we have been seen as influential, perhaps a little more so than anyone else, in stimulating a new way of thinking about how we should approach security issues in the post-Cold

War era: cooperatively, through multilateral dialogue, rather than simply relying on the old group of bilateral alliance relationships which worked very successfully during the Cold War years, but which are much less relevant and resonant in the much more fluid environment we now confront.

On the economic side within our region, the institutional vehicle for movement has been APEC – the Asia Pacific Economic Cooperation process which we initiated in 1989 as a response to the stark realities of this part of the world now accounts as it does for 40 percent of world trade and 50 percent of global production. It has been very important to develop cooperative strategies to take advantage of that, and move the regional economic game forward even faster, and more substantially, than might otherwise be the case.

APEC has become accepted both within the region and around the world as the Asia Pacific region's pre-eminent economic forum. It not only embraces the 17 major economies of the region (18 when Chile comes in later this year), but builds a very firm institutional bridge across the Pacific in a way that operates as a very useful counterweight to some of the dangerous pressures for division between North America and East Asia, particularly between the United States and Japan.

We see APEC, in its present and future development, as involving, essentially, three bands, or streams, of activity. "Band one", which has operated – more or less – from the outset in 1989, is OECD-style economic cooperation – in data compilation, policy dialogue and in the development of cooperative strategies in particular sectors.

"Band two", which only recently has begun to gather real momentum following decisions at last year's Seattle Leader's Conference and Ministerial Meeting, is trade facilitation – in areas such as technical standards, mutual recognition of qualifications, customs harmonisation, phytosanitary and other non-tariff barriers and investment guidelines.

"Band three" activity, dialogue on which has barely begun, would involve actual trade liberalisation, in the traditional tariff reduction sense, on a GATT-plus basis. It has been speculated that the ultimate outcome, some years hence, might be some kind of Pacific Free Trade Area, but there is an unresolved conceptual debate here as to whether such a free trade area should be constructed on a strictly non-discriminatory "open regionalism" basis or on a more familiar preferential model.

My last theme is the internationalisation, over the last few years, of Australian consciousness. In all of the areas I have mentioned – developing economic relationships, and developing more comfortable and confident political and security relationships, particularly in our own region – governments can only do so much. Only so much can grow out of good domestic policy; only so much can grow out of active, creative external policy. Ultimately, the activity itself, the drive and the achievement, has to be at the level of individual businesses and ordinary members of the community. For a long time through the 1980s, it did seem as though we were bashing our heads against a brick wall. I remember John Button, in speech after speech through the mid 1980s, talking about the need to develop an export culture in this country, to get businesses to think more positively about moving offshore, chancing their arm, trying it out, exploring the art of the possible. It took a long time for that to take hold, but I think that, particularly over the last five or six years, taken hold it has.

A key watershed in developing a sense of our own regional environment and our place in it was the immigration debate that we had in 1988, initiated by John Howard, in an ill-fated and misconceived attempt to resurrect some notion of anti-Asian immigration policy. The fact that that foray was so comprehensively routed – not least within this conservative side of politics itself, represented the last twitch of the White Australian dinosaur. Over the subsequent period, there has been an absolute explosion of what I call "Asia-consciousness" – the perception and understanding in the Australian community of the immediacy, the reality, and the relevance of our relationship with the countries of our own region.

That evidence is before your eyes daily in the contents of the media (or at least the classier end of the media). It's evident in the way in which schools are now full of kids studying Asian languages. It's evident in the way in which the cities and streets are full of Asian students and tourists, with the immigrant population of Asian origin expected to constitute fully 10 percent of the Australian population within a generation. It's evident in the fact that the business sector, by and large, is falling over itself to analyse and understand and take up the Asian market opportunities. It's evident in the fact that arts festivals, like the Adelaide Festival just concluded, are now finding themselves with over 50 percent of their events, functions and programs coming from Asia. It's evident in the fact that Labor won the last election with the whole theme of "Australia's engagement in Asia" being absolutely central to Paul Keating's campaign. The whole notion of Australia's future being inexorably bound up with the region in which we live has, now unquestionably, become part of now just the Australian political consciousness, but of community consciousness.

Let me conclude by saying this: it's a very exciting time to be Australian. For the first time in our history as a nation, we really are right at the heart of world activity, certainly world economic activity, and in all sorts of other ways, political and diplomatic activity. Australia is increasingly being seen regionally and internationally in the way in which we want to be seen: as a modern, innovative, socially and economically advanced multicultural society which takes an independent line in pursuing our national interests, but is willing to work cooperatively with others. This will open up even greater opportunities for us to build partnerships and arrangements which allow us to create a more peaceful and prosperous region in a more humane and interdependent world.

As some of us have said so often, the "tyranny of distance" which used to haunt us so much as a nation, has now become the "advantage of proximity". We do need more jobs in this country, but the perception has very rapidly taken hold that the growth that is necessary to produce those jobs is there for the taking in increased exports; and that increased exports are there for the taking right on our own doorstep in the Asian marketplace. So the message, if any is needed, for the many representatives of the business community that are here today, is simply this: if you haven't already got with the export game, if you haven't already embraced the potential that is there – and it still is the case that only some 10 percent of Australian manufacturers have, and even fewer service providers – then it's time to do just that. You'll be doing yourselves a very considerable service in terms of the vitality and profitability of your own enterprises. And in terms of the jobs you'll be creating, you'll be doing your future Australia a considerable service as well.

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