INTERNATIONAL MONETARY AGREEMENTS AMENDMENT BILL 1998

Address by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition, to the House of Representatives, Canberra, 26 March 1998.

Second Reading

Mr GARETH EVANS (Holt-Deputy Leader of the Opposition)(10.46 a.m.)-This International Monetary Agreements Amendment Bill 1998 comes before us as a very direct result of the Asian economic crisis. Were it not for that crisis we would not be debating it today. That crisis is already having a profound impact on the Australian economy and will certainly dominate economic developments both domestically and internationally over at least the next year-probably rather longer than that. The wider political and social as well as economic repercussions of this are going to be felt for many years not only in the Asian region in general but also certainly in this country. This bill provides us with an overdue opportunity to debate all these things, and I will come back to them.

The particular purpose of the bill is to amend the International Monetary Agreements Act 1947 to enable a framework to be put in place for Australia to provide financial assistance to a country that is undertaking an economic adjustment program with the support of the International Monetary Fund, the IMF. In the first place, it makes specific, in effect retrospective, provision for appropriations to fulfil Australia's pledges of financial assistance that have already been given to South Korea and Indonesia last year. These pledges involve loans or currency swaps of up to $US1 billion for both countries.

The bill does not specifically mention the third contribution that Australia has announced, that is, the currency swap, also of $US1 billion, that has been negotiated for Thailand through the Reserve Bank of Australia. That is not in the bill because it will not involve an appropriation from consolidated revenue. It is, rather, an inter-bank arrangement.

The bill is also significant because it provides a framework for future Australian financial assistance in support of IMF programs in as yet unknown and unanticipated situations. It provides what is in effect a standing appropriation to enable the government to supply this assistance from the consolidated revenue fund. While it is expected that such assistance will only be required in very rare and exceptional circumstances, this legislation could eventually involve quite significant future appropriations. I make it clear at the outset that the Labor opposition supports this bill, just as we supported the announcement by the government of Australia's participation in the programs for Korea, Thailand and Indonesia.

IMF-sponsored adjustment programs of this kind are vital to restore confidence and stability in countries experiencing financial crisis. It is particularly important that Australia participates in these packages when they relate to countries in our region or countries with whom we have strong economic links. We certainly support the government's action in ensuring that Australia is in fact the only country beside Japan to have participated in each one of the three IMF-sponsored packages for our Asian neighbours.

When so much else has gone wrong in Australia's relations with our region over the last two years under this government, it was very important for us to re-establish our credentials in the region; and this coming to the assistance of our neighbours has certainly helped to do that. As Paul Keating, a former Prime Minister, said in his very interesting speech-which I will refer to again-to the University of New South Wales:

Some of the old brigade obviously think Asia's recent economic problems mean that Australia can heave a sigh of relief and head for the safety of old friends and familiar geography.

He goes on to say:[1669]

This is dangerous nonsense . . . Australian engagement with Asia is not a temporary enthusiasm.

. . . .

If we know anything about dealing with Asia it is the importance of building relationships for the long term. That is the business Australia needs to be in now.

The extent to which this particular willingness to come forward with these loans and currency swaps is an example of exactly the kind of commitment we ought to be continuing to make to the region. There is no question but that we in the opposition give this wholehearted bipartisan support.

I should also say that we agree with those parts of the bill which refer not just backwards to what has happened so far in Asia but which do provide an explicit framework for Australian participation in future IMF-sponsored adjustment programs, not necessarily confined to our own region-in this context, building in a capacity for a standing appropriation allowing the Treasurer to make the relevant loans or currency swaps. It certainly does not seem appropriate to us that pressure be put on the Reserve Bank to assume the responsibility for managing Australia's contribution in these circumstances when the decisions involved are essentially those of the executive government.

In explaining and justifying these contributions to the Australian public it is important for us all to make clear that the bill does not provide in any way for grants or donations in support of these programs but rather for loans which must be repaid in the future. Either it is a matter of the currency swap running its course and us getting back into our own reserves the US dollars or other international currencies that have been swapped for Thai baht, or it is a matter of the loans being repaid in such a way as to immunise them from any currency changes that may have occurred in the meanwhile, with an appropriate interest component for the opportunity cost of the particular loan.

Short, then, of complete financial catastrophe in the countries in question making it impossible for them to repay the loan or to give back the relevant currency entitlement, there is every reason to anticipate that there

will be no financial risk and no financial loss at all. You cannot remove every possible element of risk from these situations because, by definition, we are talking about situations of economic and financial crisis, but I certainly am confident, and I think all of those who have participated in this enterprise from the government are confident, that Australia will not suffer in any way financially from coming forward in the way that we have on these occasions and that we can be similarly reasonably confident about the future.

The bill does contain some conditions that have to be satisfied before these arrangements or agreements are entered into. The Treasurer can only agree to provide Australian assistance if at least one other country or international organisation is participating or has agreed to participate in the program. In addition, the Treasurer can only agree to provide assistance to a recipient country at the IMF's request. The bill also requires that any agreement by the Treasurer on behalf of Australia must allow Australia to demand early repayment in the event of the suspension or premature termination of the fund program. All of those, in our judgment, are appropriate conditions.

There is one obvious deficiency, however, in the bill in its present form, that is, it does not impose any explicit disclosure or accountability requirements on the Treasurer of the government of the day. While this may be unlikely in practice, the bill would, in its present terms, allow the Treasurer to commit very substantial amounts of public money to an IMF program without making any public statement at all about that assistance. More seriously, the bill would allow the Treasurer to commit substantial sums of taxpayers' money to such a program without having to justify or explain his decision to the parliament.

The lack of explicit provisions requiring the Treasurer to publicly announce the size of any loan or currency swap under the bill and the reasons why it is in Australia's national interest is a clear shortcoming in the bill as it is presently drafted. So the opposition will be moving amendments to this bill, which I think have already been circulated. They will [1670] require the Treasurer to issue a public statement detailing the terms of any currency swap or loan to be provided in support of an IMF sponsored program in as much detail as is practicable, given the realities of international confidential negotiations. That statement should provide reasons why this assistance is in Australia's national interest, in particular taking into account our foreign policy, trade and economic interests.

The particular national interest statement to be tabled in the parliament in this respect is also required by our amendments to be referred to the Statutory Joint Standing Committee on Foreign Affairs, Defence and Trade for inquiry and report. That is just a further means to ensure that there will be proper scrutiny and proper accountability but, hopefully, always delivered in a responsible way.

The opposition believes these are important amendments. The government has given some indication that it may be prepared to accept them and we hope very much that that will be the case.

There are three important general issues thrown up by this legislation which do need to be debated: the nature, causes and course of the Asian economic crisis itself; the question about the role of the IMF and the international monetary system in reacting to the crisis; and the question of the domestic impact of the crisis in Australia. I want to say a few things about each of those issues.

As far as the crisis itself is concerned, there is no doubt that it is of spectacular magnitude. It is certainly Asia's worst crisis in three decades. On an international scale, the speed and magnitude of the contagion effect of the crisis from country to country has really been unprecedented. Mr Eisuke Sakakibara, the very influential Vice Minister for International Relations of the Japanese Ministry of Finance, has described it as really the first crisis of global capitalism. That is, I think, an apt description of the scale of the problem that we are now witnessing.

In terms of analysing the causes of it, a great deal has been written, some of the best analysis of the situation coming from our own Reserve Bank in the papers that have been delivered by Governor Ian Macfarlane and

Deputy Governor Stephen Grenville. There are, of course, a legion of other commentaries and analyses around the place, including a particularly useful presentation I heard from Saul Eslake, the Chief Economist of the ANZ Bank. In what I say now I will draw quickly on a variety of those sources, in particular Mr Eslake because he does seem to me to summarise very succinctly my own understanding derived from wide reading, travel in the region and talking to many people about what has been going on.

The point to understand at the outset in terms of appreciating the causes of this crisis is that they were really very different from those of earlier developing country crises, which have not been unusual. We did not have here, driving the crisis and being the fundamental cause of it, public sector profligacy. Certainly that was a partial element in the equation but, overwhelmingly, the crisis was driven by developments in the private sector and in the institutional and regulatory structure of government bearing upon private sector activity.

There were what can now be seen in retrospect as excessive levels of investment in the sense that very little attention was being paid to potential profitability, creating a massive oversupply of investment product, particularly building. There were excessive levels of private sector debt being accumulated, resulting either from so-called directed lending or from inadequate supervision and regulation of the financial systems of the countries in question. There were certainly inappropriate exchange rate regimes in place-fixed relationships between the local currency and the US dollar, which tended to foster a boom-bust economic cycle through a tie in first instance of the fall and then the rise in the US dollar against the yen. But, more particularly, what was encouraged by those fixed rates and people's belief that they would be maintained come what may was a massive accumulation of unhedged foreign exchange borrowings.

There was a search around the region for higher yielding alternatives to low United States and Japanese interest rates which sucked in a lot of lenders who should perhaps have been a bit more cautious. There was [1671] certainly an insufficiently critical scrutiny both inside and outside the region of the character of the Asian economic performance in the 1990s and, in particular, the extent to which it was being fuelled by unsustainable levels of unhedged borrowing for poorly risk evaluated projects.

In understanding what is actually going on in general terms, I think it can be said that the Asian crisis will pass through four phases. The first one, which we have seen unfolding before us, is that of financial market meltdown with some dramatic overshooting on the downside being very much part of that-a very unhappy part of it. Secondly, we have seen the beginnings of the policy response and the external account correction that is a crucial component of that response-higher interest rates, tighter budgetary policy, the establishment of machinery and procedures for financial system rehabilitation, and the slowing down of the economy very sharply in response to these contractionary and tightening measures, leading to a lapse into actual recession, with the current account moving into surplus, remarkably rapidly in a couple of cases, as imports in fact collapse in response to those developments internally which I have just described.

The third stage, which we have not yet seen but we all hope we will see pretty soon, is that of sustainable external account improvement through a recovery in exports, through a resumption of voluntary private capital inflows, through domestic activity still remaining weak enough not to be sucking in a great heap of imports and with inflation and interest rates beginning to decline.

The final stage, which we all look for with enormous hope and hope will be achieved sooner rather than later, is a recovery in domestic economic activity in the countries in question with the recapitalisation of the financial system and a recovery in consumption and investment.

Even if it is the case-and it is arguable that this is now so in the region, particularly so far as Korea and Thailand are concerned-that the worst of the financial crisis has passed, the economic effects-the real economy effects as distinct from the financial

economy effects-are still to be fully felt. There are a great deal of corporate bankruptcies still occurring, restructuring going on with consequent employment losses and declines in capital expenditure. There is a significant destruction of wealth occurring through asset price deflation and losses of personal savings. There are interruptions to economic activity through lack of access to credit or trade finance. There is an obvious erosion of purchasing power going on through increased inflation and unemployment, and a number of government policy changes are also having their negative effects on the real economy, including higher interest rates, tax increases, reductions in subsidies and the deferral or cancellation of infrastructure projects.

There is still a lot of downside risk, it also has to be acknowledged, for the Asian financial markets and economies. Whatever is going on by way of recovery could be turned around again by breakdowns in relationships with the IMF-and it is a particularly acute concern for Indonesia. A further devaluation by China is something that would be alarming if it were to occur. Frankly, I think the jury is still out on whether some of that will occur-if not sooner, perhaps in the last quarter, or the first quarter of next year-in response to an erosion of China's competitive position with some South-East Asian economies, which is being vigorously denied by Chinese leaders and officials. But, as I say, there is a degree of scepticism about whether that position can be maintained.

Violent political and social unrest is a potential problem in a number of countries, particularly Indonesia. A continued policy failure in Japan to be unwilling to give the kind of fiscal stimulus the whole region needs, as well as the domestic Japanese economy, can contribute to some further downsides ahead. Also-and this is one of the many points that is articulated by Mr Eslake-a protectionist backlash in Western economies cannot be ruled out which, if it occurred, would seriously exacerbate the global impact of all of this.

The overall picture is a disconcerting one when you pull it apart and look at the causes [1672] and the likely course of future events. The current situation, I repeat, has pretty much stabilised in Thailand and Korea, very much as a result, I think, of democratic institutions proving robust and resilient, much more so than might have been expected. We just have to cross our fingers and hope that that will continue.

The other Asian economies have so far been dealing with the situation reasonably well. Although there is lower economic growth in the Philippines, Singapore, Hong Kong and Taiwan, there is quite a bit of domestic cleaning up still to occur in Malaysia in its economic response to what is going on, and there is the situation in China I have described where we are all holding our breath as to whether or not devaluation can be avoided.

Most of the uncertainties are concentrated and focused on Indonesia at the moment, with a very real doubt in just about everyone's minds as to how events are going to unfold. One scenario is that the IMF reforms are in fact implemented in a way that satisfies everybody and we get a reasonably rapid stabilisation of the situation, as has occurred in Thailand and Korea in that context, with the IMF activity being matched by an equally concentrated effort by private sector banking institutions and other creditors to work together to get rollovers of the private debt, which is one of the biggest problems in Indonesia at the moment.

The other scenario is that doubts persist about Indonesia's capacity or willingness to follow the IMF prescriptions, and there is continued total erosion of international confidence and a continued destabilisation of the internal economy as a result of the failure of the external situation to stabilise, leading to inflation, food shortages and all the rest of the negative effects of unemployment and so on in the real economy worsening with the consequences, all too unhappily real, of rioting and major civil breakdown.

The situation is nothing like as intrinsically serious as it was in 1965 when there was massive poverty, massive inflation and a massive political confrontation between right and left also going on as a backdrop to the

chaos that did then eventuate. To that extent, those who say, like Paul Keating, that this is not a case again of a revisiting of the so-called year of living dangerously may well be right-and I certainly hope they are-but it is a volatile and very dangerous situation, and anyone who tries to trivialise or downplay the potential consequences of it is I think misreading the situation.

One of the biggest issues thrown up by the situation in Indonesia and also thrown up generally by a recent course of events has been the response of the IMF and, indeed, the whole international monetary system to the crisis. We have had a pretty lively debate going on about the way in which the IMF has in fact handled itself and the situation. There have been two kinds of criticism essentially of the IMF's role. One that was more current in the earlier stages of the crisis was that we saw from the IMF nothing much more than the old one size fits all approach, in which the IMF reacted to the Asian crisis in exactly the same way in which it had reacted to many other developing monetary crises in the past and saw it as essentially a situation of public sector profligacy and a situation to be addressed as a result by imposing the usual set of IMF strictures with redressing big, exploding, ballooning current account deficits and high inflation environments by contractionary measures. There was a lot of that in the initial IMF reaction requirement of budget surpluses being achieved and so on in situations where to do so rapidly was going to have an accelerating, negative impact on the capacity of the domestic economy to cope.

I think the current criticism is less in those terms than of a different kind-that is, the IMF, in its current round of packages that it is requiring people to sign up to, is overdoing the emphasis on structural and institutional reform, overdoing the micromanagement of the patient economies in a way that would be absolutely unacceptable in dealing with a crisis anywhere else and which really is requiring not only an economic revolution but also in some cases a political revolution to occur.

The arguments here are really quite finely balanced. Those of us-and I am among [1673] them-who have had a lot of reservations about the overreach of IMF programs and demands, particularly in Indonesia, do of course also frankly acknowledge that there are many structural and institutional problems that remain to be addressed, having at their heart the problem of crony capitalism, excessive influence from high places and so on and having a lot to do with an absence of transparency, accountability and basic democratic process in the political system.

The trouble is that you also have to temper your recognition that there are these problems-and they are problems that need to be addressed, certainly for the long haul-with a recognition that the reaction to too robust an attempt to impose solutions is likely to be counterproductive. Certainly, when it is accompanied by the kind of arms folding performance we had from Michel Camdessus at the time of the signing of the IMF treaty, you create a situation where the strictures, sensible as they may be in terms of getting the economy right for the long haul, are not likely to be capable of actual implementation and do in fact undermine the capacity of the international community to see the stabilisation of the currency and access to foreign capital restored. So it is a matter of achieving the balance between, on the one hand, taking the steps which are in fact necessary to maintain a flow of foreign funds by recapturing the confidence of the international financial markets and investors and at the same time not acting in a way that is counterproductive.

The IMF has certainly had a pretty rough and tough record over the years. I remember vividly talking to the then Hungarian foreign minister Gyula Horn in 1989 when he was on the receiving end of a very tough IMF restructuring package. He said to me, `I have a very wistful dream that one of these days Michel Camdessus will be coming towards me on a red carpet on his knees begging me to bail out the IMF from its particular current economic crisis.' That is a reaction, of course, that one hears from many people around the world who have been on the receiving end of these strictures. The task is to somehow steer a course through all this that will in fact

recognise the necessity for these bailout operations to occur and recognise the necessity for the IMF to preserve its credibility but not to operate in a way that is ultimately counterproductive.

I did want to mention in passing one other major policy issue in international finance that is being generated by this crisis and the international financial system's contributions to its causes as well as to its solution, and that is the renewed debate about the scope of the Tobin tax. I would like to incorporate in Hansard if that were permissible-I have discussed it with Hansard and they say it is technically possible-a two-page document which is quite difficult and complex in its layout and certainly much too long and complex to read into the record. I would hope that I might have permission to incorporate that.

Leave granted.

Mr GARETH EVANS-I think that will be a useful contribution to the debate. Finally, I wanted to say a few words about the impact of all this on our own country and our own economy. This is really an issue for a longer debate on another occasion, but just let me make some very quick points by way of conclusion. The first thing to say is that the economic impact on us in general terms is going to be big. The estimates from most commentators is an order of magnitude of around one per cent off our GDP directly attributable to the crisis.

There is some very interesting analysis around the place, including a piece by Stephen Kirchner in the Australian Financial Review last week, suggesting that, given that the United States analysts are saying the impact on the US economy will be of the same order of magnitude and given that the US economy is much less trade exposed to Asia than we are, with only around three per cent of that economy being directly exposed as compared with some 12 per cent of the Australian economy, maybe there is a significant underestimate of the impact upon us.

Certainly we are already seeing the impacts beginning to accumulate in a collapse in tourist numbers, a dramatic decline in live cattle exports, falling world commodity prices [1674] in response to the Asian crisis and reduced demand for Australian university education by Asian students. We have seen the car industry already being affected with Mitsubishi requiring 3,000 of its factory workers in Adelaide to take annual leave for a couple of weeks in order to reduce production of cars or car parts destined for the Asian market. No government could ever possibly have anticipated this crisis, its nature and magnitude. Of course, it is a problem for any government in dealing with it.

I simply make the point in conclusion, however, that for the present Australian government to claim as it is that it has acted brilliantly over the last two years to insulate the Australian economy from the impact of this crisis is simply hogwash. The truth of the matter is that unemployment remains a massive problem for us, with a growth in both youth and long-term unemployment. We have had a rise in the current account deficit even before the Asian crisis hit. We have had a rise in foreign debt similarly. We have had an average rate of economic growth of just three per cent compared with the average 41/2 before we left office.

We have got a manifest decline now in both business and consumer confidence, developing at a very rapid rate. That is a product of a recognition by the business and consuming community that we simply have not got the kind of insulation of the Australian economy that would protect us from these further downside effects. (Time expired)