



**COMMONWEALTH OF AUSTRALIA**

# **SENATE**

**FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE**

**Reference: Australia in relation to Asia Pacific Economic Cooperation (APEC)**

**CANBERRA**

**Monday, 20 October 1997**

**OFFICIAL HANSARD REPORT**

**CANBERRA**

SENATE  
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Members:

Senator Hogg (Chair)  
Senator Lightfoot (Deputy Chair)

Senator Cook	Senator Quirke
Senator Eggleston	Senator West
Senator Sandy Macdonald	Senator Woodley

Participating Members

Senator Abetz	Senator Colston
Senator Bolkus	Senator Faulkner
Senator Bob Brown	Senator Ferris
Senator Brownhill	Senator Harradine
Senator Calvert	Senator Margetts
Senator Chapman	Senator Schacht

Matters referred for inquiry into and report on:

Australia in relation to Asia Pacific Economic Cooperation (APEC) with particular reference to:

- (a) APEC's progress towards Australia's economic, trade and regional objectives and the domestic implications;
- (b) the benefits of 'open regionalisation' versus a free trade bloc;
- (c) the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia-Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Closer Economic Relations Agreement (CER); and
- (d) future directions of APEC.

## WITNESSES

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SENATE  
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

*Australia in relation to Asia Pacific Economic Cooperation (APEC)*

CANBERRA

Monday, 20 October 1997

Present

Senator Hogg (Chair)

Senator Cook                      Senator Sandy MacDonald

Senator Eggleston                Senator West

Senator Ferris

Participating members

Senator Harradine                Senator Quirke

The committee met at 9.11 a.m.

Senator Hogg took the chair.

**FAYLE, Ms Pamela Jean, First Assistant Secretary, Market Development Division, Department of Foreign Affairs and Trade, R.G Casey Building, Brisbane Avenue, Barton, Australian Capital Territory**

**FEENEY, Ms Julia, Executive Officer, APEC Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, Canberra, Australian Capital Territory**

**GREY, Mr Peter Charles, Deputy Secretary and Ambassador for APEC, Department of Foreign Affairs and Trade, R.G. Casey Building, Canberra, Australian Capital Territory**

**HELY, Mr Anthony John, First Assistant Secretary, Department of Foreign Affairs and Trade, R.G. Casey Building, Canberra, Australian Capital Territory**

**SCHICK, Ms Elizabeth Ann, Director, APEC Economic and Technical Cooperation Section, APEC Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, Canberra, Australian Capital Territory**

**SPARKES, Mr Philip John, Assistant Secretary, APEC Branch, Department of Foreign Affairs and Trade, R.G. Casey Building, Canberra, Australian Capital Territory**

**CHAIR**—I declare open this public meeting of the Senate Foreign Affairs, Defence and Trade References Committee, which is inquiring into the matter of Australia and APEC. Today the committee will hear evidence from officers of the Department of Foreign Affairs and Trade. I welcome Mr Peter Grey and other officers of the department.

The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. You will not be required to comment on reasons for certain policy decisions or the advice which you have tendered in the formulation of policy or to express a personal opinion on matters of policy.

The committee has before it a submission from the Department of Foreign Affairs and Trade dated August 1997. Are there any alterations or additions you would like to make at this stage?

**Mr Grey**—No, not in terms of additions to that particular document. We have several other documents which we would like to tender at some stage today.

**CHAIR**—That is fine. The committee has already made the submission a public document. I would now invite you to make an opening statement and then we will proceed to questions.

**Mr Grey**—Thank you, Mr Chairman. The department obviously welcomes the opportunity to appear today to talk about APEC and Australia's role in APEC. In preparing the submission to the inquiry, DFAT sought to address each of the terms of reference of the inquiry but against the background of a broader examination of APEC's evolution since it was established in 1989.

As I just mentioned, we are following up with three papers covering areas of interest identified by committee members at the earlier informal meeting. The first paper outlines the various forms of dissemination of information on APEC issues, the second paper provides some background on the APEC study centres and the third paper outlines the coverage of non-economic issues on the work program of APEC.

By way of further background on our own involvement in APEC, the Department of Foreign Affairs and Trade has the central coordinating role, but it is important to note that, as APEC's agenda has developed, a wide range of agencies with particular expertise are now involved with APEC.

APEC of course remains the key component of Australia's regional trade policy and it is also an important element of our overall trade policy, which includes bilateral and multilateral regional and domestic elements. Each of these strands of trade policy complements and reinforces each other. For example, market access concerns may in fact be taken up on a bilateral basis in APEC and also on our agenda for the World Trade Organisation.

APEC's agenda is now very wide ranging, covering the so-called three pillars of trade facilitation, trade and investment liberalisation, and a broad range of activities involving economic and technical cooperation. I thought it would be useful to explain briefly the aims of each pillar.

Firstly, the trade and investment liberalisation agenda of APEC has as its objective free and open trade investment by 2010 for industrialised economies and 2020 for developing economies. These are the Bogor goals as established by Leaders in 1994. The second pillar relates to trade facilitation. This agenda has progressively broadened to comprise a wide range of activities which look beyond traditional border protection to other administrative, regulatory and structural impediments to trade and investment. It seeks, in effect, to lower the transaction costs of doing business within the APEC region.

The third pillar is economic and technical cooperation. The goals of this pillar are to achieve sustainable growth and equitable development, reduce economic disparities amongst APEC economies, improve the economic and social wellbeing of the people, and deepen the spirit of community in the Asia-Pacific region. These economic and technical cooperation goals complement APEC's broader trade liberalisation objectives, including by recognising that liberalisation will not be effective unless developing economies have the systems to meet these obligations.

Much of the work carried out in APEC since 1994 has represented an attempt to come to grips with the very ambitious goals determined at Bogor. This transition towards the implementation has been marked by two key events—firstly, the endorsement by Leaders of the Osaka Action Agenda in 1995, and, secondly, the acceptance of the Manila Action Plan for APEC by the Ministerial and Leaders meetings in the Philippines last year, 1996.

The approach to trade liberalisation, incidentally, endorsed at Osaka was a unique mixture involving actions by individual economies, on the one hand, and collective APEC processes, on the other. This approach was designed to fit in with the loose structure and informal approach of APEC, which does not have a formal legal basis. It is important to note that APEC members have only just begun to implement the free trade and investment goal, with the 1996 Individual Action Plans presented in Manila representing a modest but credible start to the process.

The recent shift towards implementing APEC's trade and investment liberalisation and facilitation goals has also been accompanied by a closer engagement of the regional business community. The APEC Business Advisory Council was formed as a permanent business advisory body following a Leaders' decision in 1995, with Australia being represented by Imelda Roche, Malcolm Kinnaird and Michael Crouch.

While much of the public attention on APEC has been on the trade and investment liberalisation and facilitation agendas, there is an enormous amount of activity taking place with respect to economic and technical cooperation, with over 300 activities being managed by the various working groups and the committees of APEC.

While APEC has made excellent progress since its formation in 1989, it is not without challenges, particularly given the difficult task of implementing over an extended period of time a very ambitious set of objectives. Perhaps I could leave it at that at this stage, Mr Chairman.

**CHAIR**—If no other people from the department wish to make opening statements at this stage, I invite Senator Macdonald to ask questions.

**Senator SANDY MACDONALD**—Mr Grey, you mentioned that APEC has no formal legal arrangement. Could you expand on that. Could you also indicate how you determine how additional countries become members. Thirdly, what sort of oversight do other countries give of the action plans for the free trade investment goal? I see that Chile has described itself as an economy whose action plan indicates that it will substantially meet the 2010 deadline. Who determines that Chile is meeting its obligations under its undertaking?

**Mr Grey**—In terms of structure, it is probably useful to compare APEC with the World Trade Organisation. That organisation was a negotiated organisation with a treaty

basis, with legal rights and obligations written down in a variety of international legal documents. In the case of APEC, it operates on a consensus basis. It is a voluntary organisation, and in effect both the agenda and the modus operandi of the organisation is set by Leaders, Ministers and officials by consensus.

There is no fixed agenda. The agenda is what officials, Ministers and Leaders agree. There is no fixed way of doing business. That is what officials, Ministers and Leaders agree amongst themselves. At this point in time, a loose form of precedent has started to develop, and that obviously makes the task a little easier—a little more convenient. But it is not an organisation where you can refer back to a founding legal charter; what you refer back to in the main are statements which have come out of Ministerial and Leaders' meetings which set the course for APEC.

In terms of questions relating to members, as with all issues in APEC, the membership issues have to be decided by consensus, and at times there have been loose criteria established for questions relating to membership. Indeed, one of the tasks set by ministers for officials this year is to develop specific criteria on which a basis for membership could be decided; but the criteria would not be expected to determine it absolutely. At the end of the day, it is essentially a political process of determining by consensus what the membership should be.

In terms of the action plans, the way action plans are developed again goes back to the voluntary informal nature of APEC. It was decided that one of the main means of proceeding to try and achieve the Bogor targets was to ask each economy to set out in an action plan for how they would start to proceed to do this.

Certain guidelines were developed and principles were developed. For example, there is a principle of comprehensiveness which meant that all sectors of the economy were covered by action plans and by the liberalisation process. That was designed to avoid a sensitive sector like agriculture, for example, being excluded by North Asian economies. There is another principle which relates to comparability, which basically says that economies should seek to move ahead on a roughly comparable basis, taking into account the different starting points and different levels of development.

Having developed action plans, there is then a process of annual reviews of action plans which start with officials and work up to ministers. Indeed, Leaders themselves will tick off or otherwise on action plans this year, as they did last year; so in a sense the ultimate oversight of all action plans is at the level of leaders.

In terms of an individual economy's progress to 2010 or 2020, it was accepted back in 1994 in Bogor that there would be a degree of flexibility as to how each economy achieved that goal. In theory, some could go more quickly now and slower later on, and some could take a steady regular path. This was simply acknowledging the reality that within APEC you had economies with vastly different economic structures and vastly

different levels of development.

**Senator SANDY MACDONALD**—What level of urgency would there have been on the Australian government to continue its tariff reductions with respect to TCF and motor vehicles if there had never been a Bogor declaration? There is a desire for countries to move to lower tariffs, and that is a big argument that all governments face. But particularly with our commitment to move to lower tariffs in those two areas, what sort of added weight does our commitment to the APEC undertakings put on the government?

**Mr Grey**—The original decisions in terms of the tariff reductions up to 2000 were taken prior to the Bogor declaration being made, so in that sense, the existing program—

**Senator SANDY MACDONALD**—Were they taken in response to any international undertakings or international agreements?

**Mr Grey**—No, they were taken at the same time as the Uruguay Round negotiations were under way, but they were not a specific negotiated part of that outcome. It was not a case of negotiating internationally and then translating that back into a domestic policy, it was a case of the domestic policy having been decided for macro and micro-economic reasons, and then seeking to use the outcome of that to secure improved access for Australian exporters overseas rather than the other way around.

In terms of the level of urgency, the government has made it clear that it is committed to meeting the Bogor targets and both the PMV and TCF decisions mention that as a specific part of the outcomes. It puts pressure not just on Australia but on all other economies to meet their Bogor targets. It is an additional element of pressure on all economies in APEC to move further in all their areas of trade liberalisation.

**Senator SANDY MACDONALD**—You mentioned with agriculture and the North Asian economies that they may find the 2010 target very difficult to meet—for instance, with Japan and beef. What do you think will happen there? Will they meet their undertakings across the board, or will they somehow find some way of excluding particular sections of their economies?

**Mr Grey**—Obviously, Japan has also signed on to the commitment. Agriculture is, for them, a difficult area—most economies have difficult areas. With beef, incidentally, I do not think they will have so many problems. The Japanese beef market was liberalised in 1988, and a tariff-only regime operates there, set at about 50 per cent at this point in time. So that particular sector is probably more capable of meeting the Bogor target readily than rice in Japan, for example, which is still heavily protected.

It is a bit hard to tell what they will do. The Japanese government will say, and has said, that they intend to meet the Bogor targets between now and 2010. As well as APEC, there are a lot of other factors impacting upon Japanese agriculture and

liberalisation. For example, we would expect that there would be another major multilateral trade round in the early part of the next century. In fact, another multilateral round on agriculture is due to start at the end of 1999.

One of the important things with respect to APEC and trade liberalisation is that it is an important part, but it is only one part, of the overall trade policy dynamics which are taking place. In an area like agriculture, what happens in the WTO context and in the multilateral context will also be extremely important in terms of pushing forward towards the Bogor targets.

**Senator SANDY MACDONALD**—You mentioned rice importation into Japan. Previously there was a blanket prohibition against rice being imported into Japan, and now it is tariffed. Is that the position?

**Mr Grey**—It is tariffed at a very high level, with a minimum access volume provided. I seem to recall that that access volume is four per cent of production, but it increases over a period of time.

**Senator SANDY MACDONALD**—Would it be fair to say that that change has occurred because of a commitment to APEC or a commitment to other undertakings that the Japanese government has made?

**Mr Grey**—That was very much the result of pressure during the Uruguay Round negotiations. That was very much the result of that.

**Senator SANDY MACDONALD**—Thank you.

**Senator COOK**—In the briefing papers it starts by saying that in January 1989 the then Australian Prime Minister, Bob Hawke, proposed in a speech in Seoul a meeting of senior ministers from economies in the region, and it goes on and explains that this was the beginning of APEC. Where did the initiative come from for the then Prime Minister to make that speech. Was it a political decision? Was it something the department recommended? Where did it come from?

**Mr Grey**—I was not around in Canberra at that time Senator. One of my colleagues, Mr Hely, was an APEC original so he might have a better feel for—

**Mr Hely**—There was some international dynamics going on at that time. Actively in Australia, we in the department were looking at the prospect of closer regional economic cooperation at the government level. As I recall, at the time the Japanese government was doing the same, as was the US government. In some respects we took the initiative in recommending to government that we had behind us a lot of interest from other regional economies as well. It tended to bring together what was in a sense mushrooming up in the region anyway.

**Senator COOK**—That is my recollection too, but where did the initiative come from to actually propose this?

**Mr Hely**—The initiative came from within the Department of Foreign Affairs and from within the Prime Minister's department at the time.

**Senator COOK**—The original proposal was not to include the United States, was it?

**Mr Hely**—The original proposal was not to include the three Chinas, it was initially confined to 12 member economies. The intent always was to include the three Chinas, but it was felt at the time that the sensitivities would have been difficult to immediately bring them in. The idea initially was to win the support of ASEAN which we thought was the most sensitive issue and then move outwards from there.

**Senator COOK**—What about the United States? What was the role of the United States in the original proposal?

**Mr Hely**—Initially the United States had their own initiative running, so it was a question of working out how we melded our own initiative in with theirs. There was some thought at the time as to whether APEC might become just a third force in multilateral trade negotiations or whether it was something that need to bridge the Asia Pacific regions. The judgment we took was that it should be the latter, so quite quickly we had the United States coming in.

**Senator COOK**—Can you just walk me through the choreography? The Prime Minister made a speech. Why in Seoul? Why not somewhere else?

**Mr Hely**—Korea also had a strong interest in regional economic cooperation and it just turned out the timing of these various international initiatives, including our own, made the timing of his visit to Seoul just an appropriate one.

**Senator COOK**—It is frequently said that the founders of APEC are Australia and South Korea. Was there a preliminary discussion with South Korea about this initiative so that there would be a positive response, or did that flow after the speech was made?

**Mr Hely**—We expected a positive response from South Korea because they had expressed interest in regional economic cooperation.

**Senator COOK**—Can you just take us through how they were drawn together to create APEC?

**Mr Hely**—Initially there was the announcement by the Prime Minister, backed by some initiatives and some thinking in the department and the Prime Minister's department.

We initially started out by not trying to in a sense set the menu or pre-cook the idea, we wanted to quickly translate the APEC initiative to one that had broader regional ownership. We did not try and go out and sell a very specific set of detailed blueprints but rather just some general areas for focus on regional economic co-operation.

As I recall, Dick Woolcott, Secretary to the department in those days was selected as the Prime Minister's special envoy and his task was to gradually sell the process, initially throughout ASEAN and then wider. That was a process that took from the beginning of 1989 and culminated in the first ministerial meeting in Canberra in November 1989. It was a very gradual process of just building up support and generating ideas as we went along. We were trying not to pre-cook and try to sell fixed ideas but taking on board what the regions' thinking was.

**Senator COOK**—After the January 1989 speech by the then Prime Minister, Bob Hawke, was the then foreign minister, Gareth Evans, delegated the task of trying to draw this together resulting in that November meeting in Canberra during Melbourne Cup week in—

**Mr Hely**—In pouring rain.

**Senator COOK**—Yes. I think the Filipino foreign minister won the sweep.

**Mr Hely**—No, it was the Malaysian foreign minister.

**Senator COOK**—Thank you. Can you describe briefly what the obstacles were, what the nature of the task was, to move it from a speech in which an idea is floated in January to an actual meeting in November?

**Mr Hely**—The task really was the task that in some respects still confronts APEC: how do you bring together, into a coherent way, so many regional economies that have so many different stages of economic development? How do you weld them into a force that has a common objective?

Obviously, the initial challenge, the initial sensitivity we faced, was how to bring ASEAN on board because naturally ASEAN felt that they were at the centre of the region. That was the first task to bring about. We were helped there by the fact that when ASEAN was first formed back in the mid-1960s its role was very much a political role, but by the time we got to the late 1980s, ASEAN was focusing much more on its regional economic role and its broad links with North America. There was a much stronger sense of interest by ASEAN in being involved in cooperative arrangements. That was one of the main tasks.

Then it involved settling on what would be the objectives and the rules of the game, basically. The objectives were economic and trade ones. They were designed to

look at impediments to regional commerce. We wanted to look at how to build stronger support behind the multilateral trading system against the background of some stalling in the Uruguay Round at the time, and how to look at building stronger economic goals in the region. The rules of the game, as Mr Grey said, started out fairly flexible and have remained fairly flexible since.

**Senator COOK**—This task of talking to ASEAN—bringing them ‘on board’ was your term—was obviously a task carried by the department but led by the foreign minister. Was that what he was doing during most of 1989, talking that around to set up the conference for Canberra?

**Mr Hely**—You are pressing my memory now. Obviously, Mr Woolcott was doing a lot of the detailed travelling but quite clearly Senator Evans, at the time, was playing quite a strong role in oversighting the way the strategic direction of the conference was shaping up. My recollection was that it was Mr Woolcott and departmental officials who were doing some pretty extensive travelling around the region trying to engender some support.

**Senator COOK**—Under the direction of the foreign minister?

**Mr Hely**—Yes, under the direction of the foreign minister.

**Mr Grey**—The 1980s was a time when, certainly in respect to trade policy, we were seeking much more actively to try and develop coalitions. That came out of a perceived inability in the late 1970s and early 1980s to achieve some of our goals and led, for example, in 1986 to the formation of the Cairns Group. So this was part of a broader way of thinking that if Australia was going to achieve its trade goals and its broader foreign policy goals, developing coalitions amongst similar minded economies or economies in which on particular issues there was a common interest, was an important and useful way to go.

**Senator COOK**—Given that the original proposal did not include China, at what point was the decision made to try and involve the three Chinas?

**Mr Hely**—It was always the original intention to involve China, Taiwan and Hong Kong, but the idea at the time was to settle the organisation down and then look at expanded membership. I think it was about 1991 when the decision was taken to involve China, Taiwan and Hong Kong.

**Senator COOK**—One of the big obstacles was the question of the recognition of Taiwan by the PRC, or the agreement to participate in the same forum as Taiwan. That was a quite large diplomatic obstacle. It was resolved by styling APEC as economies rather than as countries, by removing national flags and just dealing with entities as economies. How was that brokered?

**Mr Hely**—I should not have referred to three Chinas—China, Taiwan and Hong Kong. There is obviously only one China. The main brokerage, as I recall, was basically done by South Korea, which was hosting APEC that year. They were involved in some diplomacy involving China and also Taiwan and Hong Kong. That led to some, I think, unwritten rules about the proceedings of how the three economies would participate, of which you have just mentioned the main elements.

**Mr Grey**—If I can just add again—I have been passed a note reminding us that it was brought to completion in Korea's period as APEC chair. So it was at the Third Ministerial Meeting in Seoul in 1991 that this process reached its agreement.

**Senator COOK**—What was the Second Ministerial? Whose view was that?

**Mr Hely**—I think it was Singapore or Bangkok.

**Mr Grey**—I think it was Singapore.

**Senator COOK**—Australia, Singapore, Seoul, Bangkok.

**Mr Grey**—Yes.

**Senator COOK**—What role, if any, did Australia play in the resolving of this complex piece of diplomacy about involving the so-called three Chinas? I am using that for shorthand, not for any other reason.

**Mr Hely**—My memory does not serve me, I am sorry. Others may recall.

**Mr Grey**—We might be able to find some background from others who were more directly involved than most of us here. We were not involved in that particular year.

**Senator COOK**—It sat there as a big problem, did it not? It was obviously desirable to involve them and obviously they are keen to be involved, but there are major questions of protocol, diplomacy and recognition involved. We were sort of—if I can use this term—mothering APEC along at the time. So we would have had a role of some sort, but I think it would be worth while just to get down what that role might have been.

Turning to the present day, we recently had the World Bank IMF conference in Hong Kong. One of the issues that arose in the context of the Asian currency crisis was whether or not there should be an Asian form of the IMF. I understand Australia took a view that we would not support that development. Is that an issue for APEC this year, in view of the ongoing crisis in Asian currencies?

**Mr Grey**—On the general question of the currency issue and currency instability, our expectation is that it will be an issue which leaders will want to talk about in

Vancouver. It is not formally on the agenda, but the way the APEC Leaders Meeting works is that basically any leader can raise issues. We would assume that two or three would certainly want to raise this issue.

There is also a separate Finance Ministers process within APEC, all the details of which I am not aware of, but I understand that at least with the deputies and at the working level issues related to the currency problems in South-East Asia are being talked about. Where that is going and how it will come out at the end of the year, it is probably too early to say at this stage. It is certainly the expectation—and we are comfortable with that expectation—that this issue will be discussed at the end of the year.

**Senator COOK**—And then next year it is Malaysia's turn to chair?

**Mr Grey**—That is correct, yes.

**Senator COOK**—I should not speculate about what discussions on the currency crisis might ensue during the Malaysian year, although it is a richly speculative vein to engage in at this stage. I am sure the gallery would be delighted to hear your insights, but I will not take that matter any further. Has Australia changed its view at all about the idea of an Asian IMF?

**Mr Grey**—Not that I am aware of. It is something which might be better directed at Treasury than at ourselves.

**Senator COOK**—I have no further questions at the moment.

**Senator FERRIS**—I would like to go back to the issue of IAPs that Senator Macdonald raised. On page 13 of your submission, the second paragraph refers to uncertainty about the final outcome and questioning by some members about APEC's unilateral approach to liberalisation working against a uniformly strong result in the first year for the IAP process. Which countries were less than enthusiastic about the process and what sort of arguments did they use?

**Mr Grey**—There are two broad camps in APEC, in terms of the economies, which reflect the recent historical approach they have taken to trade liberalisation. In South-East Asia the emphasis has been on unilateral tariff liberalisation. They have tended to do relatively little of their liberalisation as a result of, for example, multilateral negotiations. Most of the liberalisation which has been quite substantial has been done, in a sense, at their own pace.

On the other hand, if you take the other extreme, those in the Western hemisphere—particularly the United States and Canada—the United States has tended to achieve all its liberalisation through negotiations. There is very little unilateral liberalisation of any substance undertaken by the United States: they do deals with Japan,

they do deals with the EEU, they do deals in a multilateral context. So last year, and in the preceding years, there was an underlying difference of emphasis in approach as to how much, in a sense, APEC central control there should be, how much guidance there should be over the individual action plans and how much should be left to each individual economy. At one level there were a number of economies which would have preferred greater autonomy, that is, many of the South-East Asians. Those who come from a different tradition wanted more rigour and more detailed guidelines to apply to the individual action plans.

**Senator FERRIS**—Have any countries implemented any part of an action plan above the WTO commitments?

**Mr Grey**—Yes, there have been some. There are really three sorts of commitments in action plans. One has been the WTO, the Uruguay Round commitments. Secondly, there is a range of commitments which reflect decisions made unilaterally but which are not bound by or reflected in the WTO. For example, most of the South-East Asian economies have gone well beyond their Uruguay Round commitments in what they are going forward with. The Philippines, for example, in its existing tariff reform program is, of their own volition, going down to a general tariff rate of five per cent in 2003. My recollection is that that is not reflected in their Uruguay Round commitments. Indonesia has a binding tariff commitment in the Uruguay Round of something like, across the board, 25 to 30 per cent. The general tariff rate in Indonesia in 2005 is going to be a maximum of about 10 per cent. So all those economies have already gone a long way forward and they are reflecting those ongoing tariff reform deregulatory measures in their action plans.

The third area is a number of areas, which have been included, which go beyond and are very clearly identified with APEC in a specific sense, and there have been a number of measures which have been put forward. We can provide details if you like. We have always said they are relatively modest. One of the aims of the action plan process is to keep dripping away and using leaders to try to extract more out of the trade liberalisation and deregulatory processes than would otherwise happen in any particular year. By having it on an annual basis, each leader and each minister from each APEC economy has to turn up each year and most, if not all of them, are going to want to have something new in their action plan. It is a process to force out more liberalisation than might otherwise occur in the absence of APEC.

**Senator FERRIS**—You have said in your submission that you think there might be some short-term backsliding in some countries in response to short-term economic difficulties that they might have. You went on to say that you were expecting that they would be short-term deviations rather than any long-term lack of commitment. To what extent do you think that will be a difficulty? Do you expect members will try to backload in that way to delay changes and change the timetable?

**Mr Grey**—There are two separate issues there: backsliding and backloading. I guess there would be very few economies in which there has not been some risk of backsliding in terms of commitments, particularly APEC commitments, which are voluntary commitments—as opposed to WTO commitments, which are binding legal commitments with a very clear price to pay if you seek to back away. In real life, there will be some, but there is no particular evidence of any substantial or major backsliding from APEC commitments. The whole process of producing each year an individual action plan is partly designed to minimise the possibility of that happening. Again, no leader and no minister particularly wants to go along and have an action plan which is clearly less good than it was the year before.

A degree of backloading is allowed for by the APEC process. As mentioned at an earlier stage, the APEC process in itself is very flexible. It is a voluntary process. If an economy chooses to backload some of its commitments, it can do so. The risk of course is that, if it does, other economies in areas of interest to it will do the same. Again, it is a bit of peer pressure. There is also the set of principles which would seek to encourage economies to keep moving forward across the board progressively. There is the ability for individual economies to structure their liberalisation process according to their own domestic needs.

**Senator FERRIS**—I take it you are saying you are not concerned that this short-term difficulty could be used as a tool for a more permanent delaying of the timetable.

**Mr Grey**—Sorry. I see what you mean. No, I do not think that is a major risk.

**CHAIR**—I have a couple of questions. The first relates to a statement which appeared in the Australian Chamber of Commerce and Industry submission to us. It is from Dr Joan Spero, US Under-Secretary of State for Economic, Business and Agricultural Affairs. The statement reads:

APEC is not for governments. It is for business. Through APEC, we aim to get governments out of the way, opening the way for business to do business. The litmus tests for APEC's success will be whether its work has practical relevance to the business community.

I would expect that that is a view that, whilst it is expressed by Dr Spero, is probably also accepted out there. Where then is the role of government in the future of APEC? Is there a role? What part will it play?

**Mr Grey**—Joan Spero's comment probably applies, in a sense, to all trade policy efforts. The aim of APEC is to get rid of unnecessary regulatory measures. There will always be some regulatory measures which will be necessary for human health, safety and whatever, but the aim is to minimise those to only those which are necessary and are not being used for protective reasons—and similarly with tariffs and other non-tariff measures. What she is probably saying there is that the more we get rid of unnecessary government

involvement and distortions in the trading scene the less role there is for government. That, of course, is a long-term aim. We are talking about 2010 or 2020, at least, in respect of APEC.

**CHAIR**—So you are doing yourself out of a job.

**Mr Grey**—I do not think it is going to be me personally who will be out of a job on the trade front. The credibility of APEC with the business community will depend on APEC being able to produce and show practical results. APEC has given itself in some ways a more ambitious agenda than has the World Trade Organisation, by looking at issues like standards, customs procedures and a range of so-called facilitation measures where there is inevitably a heavy government involvement and there will continue to be government involvement.

Joan Spero takes it a little further than probably would be the ultimate situation. If you are going to have mutual recognition arrangements, for example, between countries and economies, you are going to need to have governments involved. The ideal situation is to have mutual recognition arrangements which work so well that once governments have signed them they may update them from time to time, but there will be no need for other ongoing involvement.

**CHAIR**—In your response, you spoke of relevance to the business community, just as Dr Spero spoke about relevance to the business community. Surely one of the broader aims must be relevance out there to the wider community. On Saturday a week ago, I was meeting with a local rural city council in Queensland, and they expressed their concerns to me about APEC. I did not raise it; they raised it with me, saying that they felt it had no relevance to them out in the bush. I am sure that they are not the only people who feel that way. I am sure that there are a lot of ordinary Australians who see APEC as having no relevance whatsoever to them. They see it as an impost on their life—those who see jobs being lost—and yet one of the things that APEC has undertaken is to explain its charter and its purpose, but the message does not seem to be getting out there. What is going wrong?

**Mr Grey**—It is always a very difficult job explaining an organisation like APEC, particularly a new organisation. It is an area where we, in fact, put in quite a lot of effort not just with the business community but down to the level, for example, of school children. There is an APEC CD-ROM which is being prepared by the APEC study centre at Monash and which the Minister for Trade will launch in the next day or two. This will then get APEC issues on to the agenda for high school students in Australia.

There is an ongoing effort, and probably an expanding effort, to try to get out into the broader community the message about what APEC means and why it is important for Australia's future and the future of all Australians, right down to the level of school children. It is a difficult task, but quite a lot of effort is being made. The paper which we

will get to the committee later today will explain in a little more detail some of the efforts which are under way to do that.

In terms of benefits, to the extent that Australian exports—whether they are agricultural exports from regional centres or from capital cities—are able to penetrate overseas markets and do it better, that means more jobs for Australians. Australia is already well along the path of trade liberalisation, compared with many of our competitors in the region. Any gains that we can make through APEC or through other means are a plus, from an Australian perspective.

I do not believe there are any measures which we have taken at this point in time in the context of APEC which would have the effect of reducing employment. Because we are well advanced ourselves, we have not needed to make any significant new commitments in the name of APEC or for reasons of APEC in its own right. In a sense, the other APEC economies are under a lot more pressure to do more and do more quickly than Australia is. The more we can get access for Australian products and Australian people in the form of consultants or whatever into economies in the region, the better off all Australians are going to be as a result.

**CHAIR**—I understand what you say, but the difficulty is selling that to the public. In your submission, at pages 266 and 267, there is a document that seems to have been prepared by Foreign Affairs and Trade. It seems to me that that document was an attempt to explain trade liberalisation. How widely spread was that document in the community, and what was the response to the document?

**Mr Grey**—The primary author of that particular document was Pamela Fayle. Perhaps she could explain a little more about it.

**Ms Fayle**—There are now about 12,000 copies of that brochure distributed throughout Australia. Most of those have been distributed in the states of Queensland, New South Wales and Tasmania. The reaction has been a very positive one. People have phoned up and asked for bulk copies to be sent to them so that they can circulate them to businesses in their community. There have been a number of questions about the relationship between jobs and trade liberalisation that is discussed in the brochure. People have generally been very positive about having something that is easy to understand and that fairly simply explains the positive benefits of trade liberalisation.

**Mr Grey**—This is part of an ongoing effort to do what you are explaining is a problem. It is recognised as a problem, and it is not just a problem in Australia. At the Australian end we are doing more. One of your colleagues, Senator Brownhill, for example, has produced a document which is more targeted to the rural sector, explaining the benefits of liberalisation and pointing to some of the successes we have had in terms of opening markets of interests to the rural sector in recent times.

It is a common problem across virtually all economies. Certainly within APEC it is a common problem, which is why we have embarked upon a modest initiative this year which will seek to have all APEC economies work harder, and help all APEC economies work harder, at explaining the benefits in their own countries of trade liberalisation. It is a theme and a concern which is common across pretty well all economies. My own ministers, whenever they meet with their colleagues, tell me that, when they start talking about the problems of selling the benefits of trade liberalisation, when they put that on the agenda, all their counterparts around the region all say, 'Yes, we have got a similar problem.' It is a very difficult issue to explain and to sell.

**CHAIR**—When I read this document, I feel concerned. I am not being critical of it; I am just trying to tell you how I believe the average person in Australia would view this. The document says:

. . . estimated to have added an average of \$1000 to the annual income of each Australian family.

Further on it says:

Research shows that the highest benefits go to those countries that liberalise first.

The average person out there just cannot relate to that. If you tell them that their annual income has increased by \$1,000 per annum I am sure they will be sceptical, to say the least, and I would not like to use what other terms they might use if you or I came face to face with them and said that to them. They just cannot relate to it.

If we are going to continue down the path of the likes of APEC, trade liberalisation, then surely one of the largest problems that has got to be overcome is not just to convince the business community but also to convince people out there. Most people do not want to listen to the message. That is the problem that you have got. It seems to me that the challenges are as much on your own home front as they are external. Do you put this sort of information on the Internet as well?

**Ms Fyale**—Yes, Senator, that information and some more detailed information is on the Internet. As Mr Grey has said, there is also a CD-ROM which has been developed by the APEC Centre and which is, perhaps, aimed at a lower common denominator than the brochure, in the sense that it goes down to explaining things in a fairly simple way for school children about how APEC affects their lives, how trade liberalisation affects them. The brochure is only one part of a communication strategy; it is not the entire strategy being pursued by the government.

**CHAIR**—I would accept that, but it was the thing that I was able to lay my hands on. I will just keep going on this item of \$1,000, because I do not think people would relate to that. We have just had Senator Macdonald raise before the issue of the tariff on TCF and motor vehicles, for example. If you have lost your job in the motor vehicle

industry because tariffs have been taken off so that we can meet some individual action plan that we said we would meet with APEC, then you sit back and you say, 'A thousand dollars has been added to my income? No way. I have lost my job.' This seems to be the difficulty that we have with trade liberalisation. Not everyone can relate, necessarily, to the extra additional income that is claimed there.

But are there any costs for us as a nation as well, as a result of liberalising our trade? It is nice to project the nice side, that everyone's income is going to be improved or there are going to be additional jobs. Are there costs to us? If so, what costs are there?

**Ms Fayle**—I do not think that that is suggesting that everyone's income goes up by \$1,000. It is an average figure. It has long been known that there are winners and losers in a trade liberalisation process. There is no doubt that some firms will close in a country, some industries will be lost, some jobs will be lost. Any modelling exercise or any qualitative examination of the experience of countries that go through liberalisation processes, however, does show that the overall effect on nations is a positive one. I think you have to be careful not to confuse the effect on individuals with the overall effect on an economy. That, of course, is what makes it a very difficult communications exercise, because you will be talking to individuals who are badly affected, who are losers in the process.

**CHAIR**—It is stated in this document that, if we do not do something about trade liberalisation, then the people who are going to be worst affected are those in lower income households. What is the evidence for that? Is there any hard, empirical evidence that shows those in low income households are the people who are going to be affected worst?

**Ms Fayle**—Sorry, affected by our not liberalising?

**CHAIR**—Yes.

**Ms Fayle**—I would think that, if you grow at a slower rate, then those are the ones who are usually affected first, the first cabs off the rank in terms of experiencing the hardship of lower economic growth in an economy. I think the evidence is historical as much as anything else.

**Senator SANDY MACDONALD**—I think the chair is touching on one of the great challenges that all governments face, the question of free trade and protection. It is all very well for us to argue that a freeing up of tariffs provides great benefits to Australia, when you are talking to a citrus grower who is seeing his livelihood being undermined by a cheap product coming in from overseas. I guess this is not a new problem we face, but it is an intensely political one—of all political persuasions, of all governments everywhere. It is an immensely difficult communications barrier that we have to face and we need all the help that we can get, not in a party political sense but in a

government sense that we have to fight this wherever we go in terms of the people that we talk to and meet—as you do, I guess. I know the document that Senator Hogg is quoting from. It is a useful one, but it is a very small armoury that we have and we need more assistance in that respect.

**Ms Fayle**—Senator, I think part of the problem is that the job losses are very visible, particularly in the media. The job creation that results from trade liberalisation tends to be fairly diffuse and spread across an economy. We hear a lot at the moment about citrus growers. We do not hear a lot, for example, about dairy farmers in the Murray-Goulburn valley where the unemployment rate has fallen from 13.2 per cent to 6.6 per cent since 1992.

**Senator SANDY MACDONALD**—We do not, and we use those arguments out there when we are on the stump. It is cool comfort to a citrus grower who is losing his livelihood to say, ‘We are now getting rice into Japan’—or we are losing a job in Lithgow, as Senator West says—‘because of changes to the TCF.’ I know that we are winning the battles out there in terms of what is actually happening on the ground, but it is an immensely difficult problem for us.

**Mr Grey**—We understand that. Our own ministers, of course, point out the difficulties. We actually had a series of seminars earlier on in the year in which we sought to get ideas from the academic community, the business community and other commentators as to how better to communicate the benefits and how to get the message across that it is in our overall interest, even if there are particular losers. There were some useful suggestions which came out of those seminars. But, again, there was no simple solution and it seemed as if it was as much just hard slog in terms of having to keep on explaining—

**Senator SANDY MACDONALD**—Do you think, Mr Grey, that when we get towards 2010, in the APEC context, there will be a lot of finger pointing and saying, ‘You have got a long way to move if you are going to meet your Individual Action Plan in line with what we have done,’ or in line with what Japan or Malaysia or whatever the other countries are that have moved along their Individual Action Plans but have had a bit of backsliding along the way? Do you think there will be a lot of finger pointing and saying, ‘You are going to have to move pretty quickly over the next two years’?

**Mr Grey**—I am sure there will be. I am not sure about finger pointing; but obviously the closer you get to the date it will become easier to assess whether individual economies are going to make it or not, or the ease with which they will make it will become easier to assess, and that will be a major topic for discussion, I imagine, once we get into 2003, 2004, 2005—well before 2010.

**CHAIR**—Just following on from Senator Macdonald’s question, has any consideration been given to the implementation of programs to alleviate some of the

suffering of people and businesses who will be affected adversely by APEC liberalisation measures?

**Mr Grey**—Are you talking about within Australia?

**CHAIR**—Within Australia.

**Mr Grey**—At this point in time I do not think there are any measures which frankly, as a result of APEC, have caused that, simply because those measures which are now affecting levels of tariffs and other protective measures are measures which were taken some time ago. So there is no particular direct relationship between APEC and current trade trends.

**Senator COOK**—I have a few questions on the currency crisis. But it seems to me, if I can add a comment on the discussion that has just been engaged in, that this is a classic political dilemma. The beneficiaries of free trade are widespread but thinly spread; the opponents are highly visible and concentrated; and the arguments stand out more in terms of the opponents or the people who are negatively affected rather than the beneficiaries. The issue, I think, is always one of how you manage the adjustment pains best. That is a political debate which we need not have here, but which seems to me to be really where the debate is on maintaining momentum for free trade.

As far as the US President's fast track bill is concerned—and let me just come back to this point—my understanding is that the US Congress is to rise on the eve of Thanksgiving which would mean that if the fast track is through the US Congress, it would be through there by the time he goes to the APEC Leaders' Meeting. Is it still the case that the Congress intends to rise on Thanksgiving or, as next year is a congressional election year, will they try to complete their program and sit longer?

**Mr Grey**—I am sorry, I am not sure that we can get that advice to you. Generally, in terms of fast track, it is going reasonably well. Fast track bills are now being passed out of the Senate Finance and House Ways and Means Committee and some of the reporting which we have had shows that it is now fairly optimistic that there is a reasonable chance that it could be overall voted on by Congress by about late February or March next year. There is some pressure both on the Administration and Congress to do it by then because—as I mentioned on previous occasions—there is a meeting in San Diego of the free trade agreement at the head of government level. Obviously, it would be preferable from the US President's viewpoint to be able to go there with negotiating authority. Traditionally, US Congress has been fairly sympathetic to ensuring that their presidents are not unduly embarrassed by, for example, not having authority.

**Senator COOK**—Yes, I understand that. I might say, on the other side of this argument, that US political opinion says to me that next year, being a congressional election year, congressmen will want the bill through by Christmas so that when they go

back to their constituencies over the Christmas break and start looking at how they are going to get re-elected, they do not want any so-called free trade protectionist arguments hanging over their heads. That is a matter of what will actually unfold. We can speculate about that, but that is not what I really want to talk to you about. On that timetable it is not likely that when President Clinton goes to the Leaders' Meeting in Vancouver he will have in his hip pocket the fast track approval.

**Mr Grey**—At this stage, that seems unlikely.

**Senator COOK**—Regarding the currency crisis, we have seen the value of Asian currencies fall up to 30 per cent in some cases, and perhaps more. Last week Thailand put forward its package for IMF approval to help rescue the Thai economy, and the week before we saw Indonesia put itself in the hands of the IMF.

With falls in currency values of about that amount, that acts as a huge non-tariff barrier to imports, doesn't it? The economic effect is to say that the cost of imports is a lot higher than it would otherwise be and the ability to sell into those markets is decreased accordingly. It also pushes up inflation in those economies and pushes down living standards. If we are talking about the ASEAN economies—which we are—of Thailand, Indonesia and Malaysia, we are talking about economies that have quite large levels of tariff protection for their own economies. Given that everyone now in hindsight says that they could have predicted what has largely been an unpredicted crisis in Asian economies, does the department think that this alters the game as far as opening up those economies to free trade is concerned?

If tariff levels were reduced—they may well be part of an IMF rescue package that those economies be opened up to freer trade sooner than 2020, like almost tomorrow—is there any view by the department that Australia should raise this at APEC to see if it is possible to renegotiate some of the goals of the Bogor declaration, as a way of getting a vote of confidence from the international community in the strength of these economies?

**Mr Grey**—I am not sure whether the question of renegotiating the goals is something which is likely to come up. There is a certain sacrosanct element attached to those goals. We have often thought that, once the process is under way and there is some history of other trading arrangements, once goals are set and some progress is made towards them, you tend to speed up the process and they are reached earlier rather than later. The classic was the Australia and New Zealand CER where the pressure was on not to delay. In fact, once we got past a critical period a critical mass of changes had been implemented. There was pressure to do it quicker rather than later because it is always factored into the plans of business people.

In terms of the pressures within the ASEAN economies, clearly from our perspective it would be desirable that trade liberalisation and further re-liberalisation and deregulation was to proceed and, if possible, intensify. I would assume there would be

pressures and concerns within many of those economies at the political level that they are already under a lot of pressure, having a lot of difficulties and not wanting to exacerbate it. Ms Fayle might like to make some comments. She has been following the currency situation closely within the department.

**Senator COOK**—Before she does, could I first say that I have the view that the crisis has rearranged the economics of the region to a large extent. It has put back their growth levels. One might argue to what extent that has been, but certainly at least one percentage point and maybe more. It seems to me that all of the international economic institutions are saying to these economies that they have to open and deregulate. This is a classic case. Whether you renegotiate the goals of APEC is one thing, but certainly you ratchet up the debate about opening up and reducing the levels of protection in these economies as a means of helping them cope with the crisis. It is not as if we are being opportunistic and saying, ‘Here’s a chance to batter down their levels of protection.’

What we would be doing is working to assist those economies ride through the crisis and come out at the end of it in far better shape than they currently are. We would be doing it with the support of international economic institutions like the IMF and the World Bank. Has any thought been given by the department—certainly none appears at ministerial level—to proposing that the government move in this direction in some way?

**Mr Grey**—We certainly have not in the context of APEC, although I have no doubt that those sorts of views will be put forward in the bilateral meetings and all the associated activities which go on with APEC between now and the end of the year.

As you mentioned, the trade policy direction in which the country should move seems to us to be fairly clear. My own feeling is that it would be more likely to be done through informal contacts generated by APEC rather than through any particular APEC initiative in the course of the next few months.

**Senator COOK**—Although APEC offers itself as a forum through which some of these things could be finally resolved.

**Mr Grey**—That is correct. In some respects, it is a little early. I think the economies which are affected are having enough difficulty obviously deciding on the immediate actions which they are going to take on decisions as to how next best to proceed. We might need to wait a little longer, I suspect. One or two test cases will come up before the APEC Ministerial Meeting or around the time. One will be the financial services negotiations in the WTO, which are due to come to conclusion on about 12 December.

**Senator COOK**—And ASEAN has pronounced on its financial services as far as AFTA is concerned, hasn’t it?

**Mr Grey**—It has talked about the framework in general terms.

**Senator COOK**—On the surface.

**Mr Grey**—In terms of the actual negotiations on the financial services front, it and the WTO have some way to go. How that develops in the next few months will be a pretty interesting example of whether or not it leads to more radical, rapid liberalisation and opening up of markets for financial services or whether there is a more cautious response from the countries.

**Senator COOK**—Mr Grey, do you agree that the effect of the currency crisis is to erect even higher barriers of protection for these economies by virtue of the higher cost of money—the greater disparity in the exchange rate?

**Mr Grey**—You are right. The relative cost of imports has clearly increased into those economies. As you said, to the extent that demand is less than it would otherwise have been in the short to medium term, that will also dampen down import demand. In the short term, the impact on Australian exports will be to dampen them down relative to what they would have otherwise have been. Clearly though, the process has not involved any new structural impediments to trade. It is part of the financial system working its way through the present crisis.

**Senator COOK**—Yes. What you are saying about Australian exports to this region is true. I was not thinking of it only in national terms; I was thinking of it in international terms. As far as the point of view of these economies is concerned, all exports from countries that are not affected by the currency crisis—where the exchange rate has increased prices of exports—will dampen demand in the Asian economies. This will then push up inflation and probably lead to higher unemployment, as expansion costs become greater. Do you agree, as well, that the actual line of advice by the international economic agencies like the IMF is for these economies to open up their economies in the face of this, rather than close them up?

**Mr Grey**—I have not seen the IMF advice, but I assume it would be. They would normally argue that, as does the World Bank. I assume that they would be seeking further liberalisation in the medium term.

**Senator COOK**—Leaving aside the best forum, whether APEC or any other forum, or what the means are, whether public announcements followed by negotiations or private representations, there is an opportunity here for Australia to argue in whatever way that this is a time in which levels of protection should fall. We have a bargaining opportunity here.

**Mr Grey**—It is correct that protection should fall. We would want to be fairly careful about how we push that at this time, because obviously the economies have a

fairly complex task on their own hands, as you mentioned. They are getting advice from a range of international agencies—particularly the IMF. We always seek greater liberalisation from those economies. We certainly will continue to do so. Hopefully, if not in the very short term then in the medium term, the present situation might lead to more internal pressures in their own economies to open up further and faster. To be fair to them, they have already opened up a great deal. The levels of liberalisation are really quite significant and often not well understood within Australia itself.

**Senator COOK**—Can I underline the fact that I agree with that point? It is not well understood in Australia how far they have gone, but the objective fact is that the barriers are still quite high by our standards and by world standards. In fact the President of the United States, in putting up his fast-track legislation, cited the barriers in the ASEAN region as one of the reasons why he wanted fast-track approval to engage in trade negotiations.

I agree with you about complexity. I agree with you about sensitivity. What I am asking you, though, is, in terms of the circumstances, isn't there an opportunity to press this case?

**Mr Grey**—Yes. There is certainly an opportunity being created by APEC and other forums to put the view to the economies that one of the components of their policy response would be to further liberalise, including liberalise trade in goods. I do not know if Ms Fayle has anything to add to that.

**Ms Fayle**—I would add perhaps one thing. There is always a good opportunity in APEC, both formally and informally, to push for the momentum of trade liberalisation to continue. There are probably two forces at work in terms of these economies. On the one hand, they will be feeling a little bit that they have got their fingers burnt from the opening up that they have already done, having been exposed to international financial movements. On the other hand, at the moment, as you point out, there is a natural barrier to sucking in imports because of price changes and also a bit of a boost to their own export growth. It is the ideal time for them to liberalise further because of that natural barrier. Any reduction in tariff barriers or non-tariff barriers will not produce a short-term sucking in of imports that could be damaging. However, that argument is likely to be a difficult one—yet another economic argument that is difficult to pursue at the current time—because they will be in the process of suffering from some indigestion in terms of the liberalisation that they have already taken.

**Senator COOK**—I do not want to continue this endlessly, Mr Chairman, but the point here is that, for example, in a car assembly plant in Thailand the component parts, by and large, are manufactured in Japan and the vehicles are assembled in Thailand. The cost of importing those manufactured components does not matter if the whole vehicle is then re-exported, but if the vehicle is for sale in the domestic market, then the price has just gone straight up and in big licks. To the extent that manufacturing in this

geographical area of the world is reliant on the supply of sophisticated components or inputs of intermediate goods going into a final product, then the cost of that final product in these economies has gone up too.

**Ms Fayle**—That is correct.

**Senator COOK**—I am not putting this on the basis of, ‘Here’s an opportunity to exploit Asia.’ I am putting it on the basis of, ‘This is the right and proper approach for Australia to take as a partner to the economic development of these countries in this region,’ and to assist them to correct their economies so that the currency crisis is dissipated. That is the context in which I am putting it. Does the department have any analysis of what the economic impact of the crisis on Australian exports is?

**Ms Fayle**—We do have some. We have looked at the next 18 months to two years and we believe that there is likely to be some impact on the growth in our exports to the four markets that are most affected: Philippines, Indonesia, Malaysia and Thailand. However, we do believe that we should temper that assessment by looking at the fact that those four markets take only about 10 per cent of our exports and that about two-thirds—over 60 per cent—of what we export to those markets are intermediate products that are inputs to their export production.

To the extent that their export production is likely to be one of the first things that picks up because their exports are a little more competitive as a result of devaluation, then Australia is likely to suffer less than some other suppliers to the market such as the United States or Japan who supply a larger component of consumer items, finished products. So there is likely to be an effect. There is also likely to be a secondary effect to the extent that Japan suffers some ill effects from the slower growth in South-East Asia.

**Senator COOK**—I will come to Japan in a minute. Do we know what the impact of the currency crisis in Asia will be on growth rates in Australia?

**Ms Fayle**—We have not done a quantitative calculation of that. It is a very difficult thing to assess.

**Senator COOK**—Do you know whether Treasury have?

**Ms Fayle**—I do not believe Treasury have done that assessment either. I think there are some assessments around using various models, but there is no official assessment of that.

**Senator COOK**—It has implications for the level of economic growth in Australia in the next year. Japan is in recession at the moment. Do we know what impact the Japanese recession is having on the Australian economy?

**Ms Fayle**—The Japanese economy, rather than being in recession, has growth which is a little bit ambivalent, and the South-East Asian issue does not help in looking at future growth in Japan over the short term. The slower growth in Japan is likely to have much more of an impact than the current issues in South-East Asia, despite the fact that South-East Asia is on the front page and Japan is not. Japan, of course, takes well over 20 per cent of our exports. So if there is next to no growth or very slow growth in the Japanese economy, it means that the potential for us to derive any growth in exports has to come from companies working harder to penetrate the existing market rather than there being a natural growth dividend.

There has also been a declining trend in what we export to Japan because of restructuring and movement of some of their industries to other parts of Asia. We have been exporting the same things which we used to export to Japan to those other markets.

**Senator COOK**—A so-called hollowing-out effect.

**Ms Fayle**—There has been a natural falling off in the growth of our exports to Japan.

**Senator COOK**—But we do not have any figures on what the recession in Japan will do to growth in Australia?

**Ms Fayle**—There is a great deal of uncertainty about the future growth in Japan over the next year or two and virtually every month those growth forecasts are reassessed. In that sort of a context, it is very difficult to make an overall assessment about the impact on Australia.

**Senator COOK**—But we do know that we are selling them less.

**Ms Fayle**—Yes, that is correct.

**Senator COOK**—Do we know what is the impact on the Australian economy?

**Ms Fayle**—We are not selling them less in an absolute sense. In an absolute sense, our exports are growing. In a relative sense, we are losing market share in the Japanese market.

**Senator COOK**—Are we losing prices as well?

**Ms Fayle**—If you look at the value of our exports to Japan, they continue to increase, as does the volume of our exports.

**Senator COOK**—In summary, are you saying that there is a negative impact on the Australian economy from the Japanese recession but that it is too hard to calculate?

**Ms Fayle**—It is too hard to calculate and it is likely to play into the growth of our exports rather than that we will see an actual decline in our exports.

**Senator EGGLESTON**—One of the issues you mentioned was that some countries are proceeding towards trade liberalisation at a slower pace than we are. You have stated in your own submission that comparability—the idea that liberalisation plans should be roughly comparable, taking into account the level of liberalisation already achieved—was seen by the active proponents of liberalisation as essential if its unique approach to trade and investment liberalisation was to succeed. Why is comparability so important for trade and investment liberalisation in the broad sense? Surely you have to look at it in a global sense rather than in an individual country sense.

**Mr Grey**—I think that last point is correct, but it is more the political reality that in order to maintain momentum in many economies for liberalisation, it is important to be able to point to the fact that other countries, other economies, are doing the same or doing something comparable. So the comparability issue is more a political economy rather than a straight economic question.

It is particularly difficult in the context of APEC because you have two sorts of comparabilities in that you have some economies starting right up there with levels of protection which are actually moving down in a percentage sense much more rapidly than others, say Canada and the United States. In percentage terms, in reduction and protection levels many of the South-East Asian economies are doing much more than, for example, Canada and the United States, to take two developed countries.

On the other hand, the reality is that the United States and Canada are already at low levels. Hence, what is left to liberalise is more difficult and inevitably it is just going to go slower than a country which starts maybe with an average tariff level of 25 to 30 per cent and can get down to 10 per cent and show enormous percentage gains. But even at that point they are still well above the absolute levels of a country like Australia, United States or Canada. Comparability is an important concept to help the political dynamics.

**Senator EGGLESTON**—Professor Drysdale said in his submission that some APEC countries hold back on liberalisation as a negotiating technique or ploy. Is that a problem in negotiations, that some economies are holding back on liberalisation to get more concessions from other countries such as ourselves?

**Mr Grey**—I have heard that argument made. It is not an argument I agree with, frankly. I do not think the facts show it out. To give an example, the opposite happened during the Uruguay Round where many of the ASEAN countries started to liberalise and were liberalising unilaterally but were giving away or were doing relatively little in the negotiating process. In other words, the reverse was happening. They were doing more liberalisation. In effect, they had created for themselves a lot of negotiating coin, but they

were not so active in using it. I do not believe it is a problem. In a technical sense, because what is being done in the name of APEC is unilateral, is voluntary, there is no requirement to bind it in a legal sense in the WTO. The way WTO negotiations are carried out, you can then claim credit for what you have done in APEC in a future multilateral negotiating round. You get credit for binding what you have done unilaterally or on a voluntary basis. Personally, I do not think it is a problem.

**Senator EGGLESTON**—Is Japan difficult to negotiate with, in these terms in particular?

**Mr Grey**—Sorry, I do not quite follow.

**Senator EGGLESTON**—What is the flavour of negotiation with Japan in terms of trade liberalisation?

**Mr Grey**—Japan is a mix really. It is a mix of undertaking their own internal deregulation and liberalisation, the sort of activities, I suppose, that Australia has undertaken over the last decade or so, particularly on the deregulatory front. At the same time, as a major trading partner, a member of the international trading system is also keen to ensure that it gets benefits from other non-APEC members, particularly the EU. In that extent, it shares some of the objectives of the United States where they are more reluctant to do something in the context of APEC which would give a free ride to the EU, for example.

**Senator EGGLESTON**—Going back to the discussion which was held earlier about the long-term net outcomes of the APEC process, one of the criticisms I have read of APEC is that it is possible that Australia may undertake broad trade liberalisation and end up being worse off than it is or has been in the past in terms of where our economy stands. One of the comments is that we will return to a 1930s style economy and be a mine and a farm for the industrialised economies of North Asia and that one of the net outcomes of APEC may be the de-industrialisation of Australia, so that we lose the industrial base that we built up post-World War II. Would you like to comment on that?

**Mr Grey**—Certainly. I suggest that Ms Fayle might also want to make some comments because she has done research in this area. If you look at where our major barriers to exports are and what would be the result of achieving the Bogor targets, all sectors of the economy would benefit including the manufacturers. For example, we have strengths in areas such as processed foods for obvious reasons. Processed foods are heavily protected in many South East Asian economies.

There is no doubt that, if barriers in South East Asian economies for processed foods were to be reduced, Australia would significantly be able to expand its manufacturing base in the food sector. Similarly, the chemicals industries and

pharmaceutical industries will all state that, if we were able to significantly reduce barriers, including in South East Asia but in other APEC economies, then their export potential would be greatly increased.

South East Asia is already a rapidly growing market for small and medium enterprises and for manufactured products. So lowering the barriers into those markets must, it seems to us, increase the capacity of our industry to export into those markets and strengthen those sectors of the manufacturing industry. Ms Fayle might want to add some comments as well.

**Ms Fayle**—I have just one comment. If we look at the history of trade liberalisation in Australia—whether it is to do with GATT, WTO, APEC or just unilateral liberalisation—history shows that manufacturing exports have grown faster at times when we were liberalising than ever before. Manufacturing output and manufacturing exports are at an all-time high. In fact, as a result of the liberalisation that we have undertaken, people confuse sometimes the fact that manufacturing jobs are not there to the same extent that they were before. That is partly because the sort of manufacturing we are talking about is capital technology, that is, knowledge intensive manufacturing not labour intensive manufacturing that has grown.

Also a lot of the jobs that were in the manufacturing sector have now moved into the services sector as outsourcing sees companies hire accountancy firms, transport firms or marketing firms rather than doing it in-house where it would have been counted as a manufacturing job. The actual output in exports have grown. You only have to look at our automotive industry, very contentious though it is. At a time when it was under high levels of protection we did not export automotive products from Australia and, of course, now we do to a significant extent.

**Mr Grey**—Outside of TCF and PMV all the rest of Australian industry, including the manufacturing industry, already has only tariff protection in the range of zero to a maximum of five per cent. That would suggest that there is very little damage—if that is the word—that could be done through further liberalisation here in a situation where we have got potentially major reductions in tariff levels to take place in the rest of the region. In other words, we have got very little further to go, whereas if the APEC process continues to work, other countries have got a long way to go and so the benefits will become disproportionately greater for our manufacturing sector in that process.

**Senator QUIRKE**—Following on from Senator Cook's previous line of questioning, in terms of the current crisis in some of the South East Asian countries, it seems to me that one of the things that was brought out by Ms Fayle when she answered one of Senator Cook's questions was that in fact some of these economies are concerned that in the progress they have made towards liberalisation so far they have perceived that they have burnt their fingers. In fact, this may well be a deterrent for them to go any further down. I note the remarks of the Malaysian Prime Minister in respect to this. That

seems to indicate very strongly that that is his thinking on this particular issue. I just wonder if there is any comment on that?

**Ms Fayle**—I cannot comment on his particular thinking, of course, but I would point out that some of the other leaders in the region have taken slightly different positions. Goh Chok Tong and President Ramos have both made public statements to suggest that what has happened in the region is really a bit of reminder to their countries that they need to pursue liberalisation faster and they need to take remedial action.

I think the reactions are probably very different depending on which leader you are talking about. What I was alluding to is really what might happen within some of those economies from various players, business people, et cetera. The sort of track that leadership takes may be a very different thing.

**CHAIR**—I have a series of short questions which I think will lead us towards the end of today's session. The first question goes to the issue raised earlier, Mr Grey, about the 300 activities. In the submission that we had from ACCI they maintained that the 320 activities was just too great a number. They exhorted us in their submission to put forward the idea that the number of projects should be cut down to a cap of about 40 or 50. They said that no more than that at any one time, with priorities being in the area of customs, business movement, transport and small business. What is your view on that submission on their part?

**Mr Grey**—We have some sympathy with that general concept. The economic and technical cooperation part of the agenda is the original part of APEC. That is how it started off and the working groups were established. Frankly, in the early days if an economy wanted to put up a working group and it seemed to make reasonable sense, then it was usually grabbed because we are in the process of building a new institution or a new process. Similarly, activities tended to be added in the early days in a less structured way than they would be now.

So you have a very large agenda out there which needs to be better focused and there has been a couple of ways of doing that. The Philippines last year sought to start that process by grouping economic and technical cooperation activities or priorities under six headings. The Canadians have taken that a bit further this year, but we think there is probably still more pruning and focusing of activities. I do not know about just 40 or 50. It is not the numbers so much as making sure that the activities which are added to the agenda or on the agenda are going to deliver some practical results within a reasonable time frame and are also focused towards some of the main aims of what APEC is all about. Some of the more peripheral activities could probably be dispensed with.

So we have some sympathy with the ACCI general comment that there needs to be more focus and more results oriented activity in ECOTECH. I am not sure about 40 to 50. I think we could have more activities than that frankly, but the general point is well taken.

**CHAIR**—How would that focus be delivered given the nature of APEC? This is one of the difficulties.

**Mr Grey**—It is a good question. One reason why it has not happened probably as quickly or as easily is the fact that you have these 10 working groups and some ad hoc committees in APEC which have grown up for historical reasons, but now, like any other institution or set of institutions, have somewhat of a life of their own and they are chaired by different economies. There is always a significant constituency which wants them to be retained and support the activities fully which are there.

There are various ways of doing it, but I think the initial drive will come from Leaders and Ministers who will basically be instructing officials to come up with a more streamlined approach. It is something which we will continue to take up and have taken up this year with the Canadian hosts and will next year.

There has been talk of having for example an Economic and Technical Cooperation Committee reporting to Senior Officials which would act as a sort of a sieve for activities and run the ruler over all the activities of the working groups. The only difficulty there—and it is not a particular problem for us—is that in some other economies the ministries represented on the working groups are powers in their own right and it is not for Foreign Affairs and Trade officials or even in some cases Treasury officials to tell them what to do and what not to do.

There are some bureaucratic constraints in terms of getting the process more focused. I am reasonably confident that there is now enough support at the Senior Officials level and increasingly at the political level to provide more focus on the activities and get them more streamlined.

**CHAIR**—That raises the issue of whether there is an optimum size for APEC. One of the hallmarks of APEC is the fact that it operates on a voluntary consensus basis. Consensus is reasonably easy to obtain whilst one has a reasonably small collective of people. I am not asking about individual memberships. I am asking whether you see an optimum size for APEC to operate effectively and efficiently. Or is there a size beyond which we will see it grow and therefore become just a bureaucratic nightmare in itself?

**Mr Grey**—I think there certainly is a size beyond which APEC, acting on a voluntary basis and still retaining the aim of getting some concrete practical results at the other end, would become largely unworkable. Obviously we have not reached that now, and it may well be that a couple of other new additions would not change that dramatically but it should, in our view, be kept as small as possible—in some respects, the smaller the better. Certainly a major expansion in membership, adding five or six new members, for example, in the short term, would create major problems for APEC in delivering the agenda.

**CHAIR**—What is Australia's role going to be, therefore, in the future of APEC? What is our niche? Previously we were seen as the initiator and then as the broker of APEC. Where does our role lie in the future?

**Mr Grey**—Both those roles will continue to be important for Australia in APEC as they are in a number of other organisations. I think that, being a small to medium sized player in the system, we can often play a brokering, supportive role. We do not have maybe quite the same sensitivities attached to us while pushing particular issues, which might be the case if major countries were pushing particular issues. I would like to think that at least we would be able to continue to provide, in a sense, the drive and the policy innovation which will keep us as a major player in the APEC context. In a range of organisations we have shown an ability to punch above our weight, and that has largely been because of focus, activity and trying to be innovative.

**CHAIR**—We have gained a lot of kudos in the Asian market as a result of our leadership in APEC over time. Is that being diminished in any way by the race debate that has emanated in this nation over the last 12 to 18 months? Has that impacted on Australia's standing in APEC as such?

**Mr Grey**—No, I do not think so at all. Australia's role in APEC is still well recognised and still well regarded. The race debate really has not entered APEC at all. We continue to put forward initiatives and to take the lead on certain issues. We are still recognised and appreciated for taking a major constructive role in APEC.

**CHAIR**—The next issue I want to briefly cover is the issue of non-tariff barriers because it was raised here earlier today. Whilst it is always fairly easy to identify tariff barriers, non-tariff barriers can be a little bit more insidious. How does APEC approach this issue, in your view, and what are the sorts of non-tariff barriers that need to be fleshed out and agreed upon in that forum? We have heard here today of the debate about the currency issue as one of the non-tariff barriers.

**Mr Grey**—I am not sure whether we would put the currency issue as a non-tariff barrier as such—not traditionally, anyway. But in terms of the sorts of issues you are right, there is a full range. They range from issues related to mobility of business people, to the ability to enter readily other economies and do business; they range through customs issues—problems in terms of getting your product off the wharf or across the wharf in APEC economies.

The standards issue is probably one of the issues which business will most often mention as being a non-tariff barrier—either standards which cannot be met, standards which are variable, or standards which are higher or simply different for no particular reason. It is an area where APEC, I think, has a comparative advantage over other organisations. The GATT-World Trade Organisation tends not to address these. We call them now trade facilitation issues but in other contexts they are being described as non-

tariff barriers. APEC is in fact quite a good body, partly because it has a smaller number of members, to focus on these issues.

There is a lot of work being done on standards to get people to align their standards with international standards, to encourage the development of mutual recognition arrangements. The customs work in terms of trying to have again common standards for customs work across the region, common EDIFACT standards—electronic commerce standards and whatever—is a good example of the sorts of what are often seen as non-tariff barriers but which can be addressed and are being addressed in APEC.

There is, of course, almost an endless stream of potentially non-tariff barriers. That is one of their problems. What we seek to do is to go out and canvass industry and industry associations and keep a reasonably up-to-date list of all those measures.

Some of the measures can best be resolved bilaterally. They are a particular problem in a particular country occurring for a particular reason, and you can discuss that bilaterally with the country and get a resolution. Others are ones which relate to some systemic issue or an issue which goes across the region, and those sorts of issues we will keep trying to put onto the APEC agenda. They are issues relating to transparency of regulations, for example—simple issues. APEC is trying to do a lot in that area by requiring and encouraging countries to publish their regulatory arrangements and having them make them transparent.

**CHAIR**—Do you have many recent examples where, say, a bilateral arrangement has overcome one of these non-tariff barriers?

**Mr Grey**—What would be the best of our examples? There was a problem, I think, of standards on cricket helmets at one stage in recent times. There have been problems in getting perishable products across the border in another ASEAN country quickly enough before it perished; that was resolved. We would be happy to provide the committee with some recent examples, if you like, of successes or outcomes in this particular area.

We do monitor it fairly closely now. We have a so-called market development task force which is chaired by DFAT but which draws all other relevant departments, particularly DIST, DPIE and Austrade into the process. We prioritise problems and issues in various markets and then have a whole of government approach, with a focused activity for six months, trying to do all that we can do to remove the particular problems. As I said, there have been some successes. There have been successes in some of the plant quarantine type areas, for example—the regulatory issues associated with quarantine. I am happy to provide a list if that would be helpful.

**CHAIR**—It would be. Also, during your response you mentioned electronic commerce. I am aware that there is another hearing this morning about the Internet and

trade and commerce—which I should be at but I have chosen to be here, for obvious reasons. Where does this issue fit in the discussions within APEC? It is new, it is an emerging area; it seems to me it is an area which very few people have come to grips with. There is growing trade on the Internet, there is growing commerce on the Internet, and it would seem to me that, whilst it may well be addressed in other forums, APEC is ideally a forum where it could be addressed as well.

**Mr Grey**—I agree with that, in terms both of its growing importance and also of the fact that APEC is a useful forum for it. Firstly, to back off a little bit: there are already some discussions in some of the working groups of APEC on electronic commerce related activities. For example, the small and medium enterprises grouping has been looking at ways of, basically, providing advice to small and medium enterprises on how they can best use and benefit from electronic commerce. The Telecommunications Working Group, I understand, has been involved in some of the technical issues. But what there isn't in APEC at this point in time is a high level policy focus. We are hoping that this might be an issue which leaders could talk about—they are obviously going to have a busy agenda anyway—and give some impetus to in Vancouver.

The way APEC works, if things are mentioned in Leaders' statements or referred to in Leaders' statements and Ministerial statements, that then tends to set the work agenda for next year. We have been working closely with a number of other APEC economies to try and ensure that the profile of electronic commerce is raised in APEC and maybe some further work follows on next year from that. You are right: APEC is a terrific forum for looking at a lot of these issues. A lot of work is going on in the WTO, a lot of work will go on in the OECD, but that is mainly involving developed countries, certainly in the case of the OECD. So having this part of the world looking at it as well is very desirable.

**CHAIR**—Is there a particular group within DFAT who are looking at this?

**Mr Grey**—It cuts across. Again the Economic and Trade Development Division, which Ms Fayle heads, is pulling it together, but it is also across the bureaucracy. The Department of Communications, DIST and so on all have a role to play in this area. What we are focusing on, obviously, is the trade elements of electronic commerce, the trade policy implications of electronic commerce. Pam Fayle's area tends to pull it together within the department.

It has got implications for some of our existing GATT-World Trade Organisation implications. Suddenly, issues related to intellectual property and barriers to services trade are potentially turned on their heads by electronic commerce. If you can download products and services from the Internet, what does that do to your international commitments? You may find yourself having refused to give a commitment in the context of a regular negotiation but find that it has been bypassed by product or services being accessible on the Internet. So it raises a whole range of issues.

**CHAIR**—There are just two other issues. The second last one is the environment, which is important for our region. I raised this specifically in respect of the fires that we have seen in Indonesia in the last few months, with the impact on the economy. Where once that would not raise its head, necessarily, because of the sensitivity of the issue of the environment in APEC discussions, one is now seeing governments there taking leading roles in the issue of the environment because it is impacting not only on their economies but on other economies as well. What is the place for issues such as that on the APEC agenda? Where will the driving force for that agenda come from, in your view?

**Mr Grey**—Firstly, on the environment issues generally in APEC, the aim has been to integrate them into all APEC activities. So if there is a working group looking at energy issues, then environment issues related to energy are included in that program. In other words, rather than having a distinct, discrete, separate environment program, the idea was to integrate environment issues into the broader agenda. That has made for a more pragmatic, practical orientation to those issues. Marine pollution and getting better and cleaner cities have been the sorts of issues which have been talked about in APEC, as opposed to climate change, for example, which as a global issue was seen as one which APEC did not have a particular comparative advantage in discussing.

The specific issue of the fires is an issue which has been of interest, certainly, to Mr Downer and one or two other ministers in APEC. There have been some bilateral discussions which have taken place dealing with that issue and I would expect there would be some more. What would eventuate from that is not clear at this point in time, but it is certainly an issue which our ministers are very aware of.

There is, I have to say, quite a lot of activity elsewhere within the region. In other words, there are other regional organisations and agencies which are involved in issues related to national disasters. One of the issues which has to be addressed is what role APEC would have vis-a-vis these other organisations. There is a UNDP organisation, for example, based in Bangkok, I think, which has a role in regional disasters, for example. One of the questions which needs to be looked at is the extent to which APEC can add value in this area, versus other proposals.

I think there was reference in the Ausmin declaration to this issue and the question of whether there should be possible APEC involvement in the result of the discussions between Australia and the United States.

**CHAIR**—DFAT submitted:

Modelling work by Australia's Productivity Commission and private agencies has generally confirmed that there are only limited 'free rider' benefits from economies outside the region as a result of APEC's own liberalisation. In spite of the weight of this argument, it is also true that obtaining reciprocal benefits from APEC trade liberalisation is important for many economies. The United States, for example, would find it difficult to liberalise in areas where it sees the European Union as likely to benefit substantially without offering up concessions of its own.

That is from the submission, at page 24 of volume 3. Would you please elaborate on your statement that modelling work confirms that there are only limited ‘free rider’ benefits from economies outside the region as a result of APEC’s own liberalisation?

**Mr Grey**—I think that result stems from the fact of the extent of intra-APEC trade which now takes place. A high percentage of the trade of APEC members takes place amongst other APEC members and hence the question of free riders tends not to be as dominant as it would be if you had a smaller grouping, for example.

In terms of the other qualification to it, for some major countries—including the United States, who have strong particularly strong trading links with the European Union—there are at least political sensitivities over the concept of giving a concession to APEC, which is then able, through the MFN principle, to be also taken advantage of by the European Union. It is not an issue of particular concern to us, but for one or two members of APEC it is of significant concern—mainly the major countries such as Japan and the United States, who still have large trades in particular products, particular sectors, with the EU, which they are concerned about giving the EU a free ride on. I do not know if Pam wants to make any further comments on the modelling elements of it.

**CHAIR**—What about the modelling?

**Ms Fayle**—I believe the modelling was done by the Centre for International Economics, but in this case I think the modelling has only shown up what we would expect just by looking at the pattern of trade. As Mr Grey has said, the bulk of the trade of APEC countries is within APEC. Therefore, the bulk of benefits from liberalising trade goes to the APEC countries, regardless of the fact that you might liberalise for everybody else as well.

**CHAIR**—I come to the last issue that I want to take up today. We have had some submissions on the social consequences of APEC policies and programs. Although the objectives of APEC have been to assist business through liberalisation and facilitation of trade and investment, do you agree that the ultimate beneficiaries of APEC and its work program should be the people of the region? If so, does APEC have a formal mechanism for assessing the benefits or otherwise of its policies and its work programs on the lives of the people of the region?

**Mr Grey**—I think the first part of the question is something which is fairly non-controversial. In other words, the benefits of it should flow through to individuals within the society. APEC itself has some mechanisms to assist that process. That is really one of the purposes of the economic and technical cooperation pillar of APEC. It acknowledges that assistance will be necessary in some economies to ensure that the benefits from liberalisation and facilitation measures are in fact able to be taken up.

The nature of the technical cooperation tends to be trade related, though—for

example, training of customs officers or installation of new customs equipment to improve the customs operations, training of intellectual property people in developing countries so they can better enforce intellectual property. It is technical cooperation, economic cooperation, but supportive of the other elements of the APEC agenda.

The more difficult issue is the extent to which APEC should be involved in basically determining income distribution patterns and social welfare patterns within an individual APEC economy. That is generally considered to be not part of APEC's objectives. It is up to an individual economy how they decide or what actions they take to decide how to divvy up, in effect, the benefits of economic growth. I do not think we would take too lightly other countries telling us how to do that. You start getting into issues relating to taxation systems and how regressive they are or otherwise, to social welfare systems and whatever, which is generally considered to be outside the scope of the APEC agenda.

**CHAIR**—I am thinking more of some formal mechanism of assessing the benefits or otherwise that flow from the policies and work programs of APEC. It is easily identified for the business sector what the benefit to the business sector might be—and it gets back almost to where I was at the very start. Is there a mechanism for assessing what individuals in the community will benefit by the policies and programs of APEC, or is there some sort of hope that something will filter down to people at some stage as a result of this happening? Therein may lie the lack of credibility for organisations such as APEC and other trade blocs.

**Mr Grey**—I think it is more the latter, in the sense that what APEC is about is, in effect, facilitating economic growth. It is based on an assumption that improved economic growth will filter down and lead to improved conditions for individuals within an economy. But how that process is undertaken, and the policies which individual governments choose to implement, is not something which APEC is involved in.

I do not think we get involved in assessing the effect of APEC measures on individuals across the board in all APEC economies. It would be, I must say, a fairly difficult exercise to work out. Apart from anything else, there is clearly a whole range of factors other than APEC which are going to be interacting at the same time, perhaps much more important than APEC in terms of determining the welfare of the individuals in an economy.

**CHAIR**—I understand the difficulty that you are putting to me but, equally, this is the difficulty that I tried to express earlier that most people in the street have of relating to the likes of an APEC. The people who looked at NAFTA, for example, sat back and said, 'All the benefits are up there, none of them are down here, therefore NAFTA of itself is something that is evil, unwanted, unwarranted. Let's get rid of it. It has done nothing but cause us pain and angst.' That is the problem that the likes of an APEC run into, in my view, in the longer term. Whilst people may discuss APEC within fora such as this, where

there might be an acceptance of what the program and the delivery of an APEC program will be, the problem is the translation of that into real benefits for people. I am not talking now about a distribution policy, but it is where an analysis can be done of the real benefits to people that the social problems arise.

**Mr Grey**—I think I understand the point. Realistically, I think, it needs to be left to each individual economy to decide how best to solve that particular issue. In a sense, that is one reason why we ourselves are being involved increasingly in this public communication activity. If possible, we like to be able to say, as a result of some market opening or trade facilitation activity, that it leads to benefiting some people in a particular industry and a particular part of the region of the country. Rather than just that it adds, say, 0.24 per cent to GDP, we would say that it means the prospect for an additional 10 jobs in a factory in the Latrobe Valley or whatever. In other words, we would try and trace the impact back down to the level of the individuals if at all possible.

Obviously, that is something which can only be done by each government in each economy, rather than across APEC as a whole. We are trying to do that a little bit more, however. We have got some case studies going, for example, on the impact of liberalisation of the electronics industry across the region. That will try and show that the net impact has been beneficial. But again it does get difficult then to track that back down to what it means for an individual in a particular part of the country. It is an ongoing dilemma and a very difficult exercise.

**CHAIR**—When will those case studies come to a conclusion in the electronics area, do you know?

**Mr Grey**—Later on in the year, I think. Before the Leaders Meeting is what we have in mind for that.

**CHAIR**—Are there any case studies being conducted in other areas as well?

**Mr Grey**—I think we are doing one on TCF as well. There are two or three which are being done. I have got one here.

**Mr Hely**—Electronics, I think—the electronics industry and TCF.

**Mr Grey**—This background paper stated that, in a second project, researchers from Australia, China, Indonesia, Malaysia and the Philippines were to collaborate in examining the effects of liberalisation on the electronics and textile sectors in China, Indonesia, Malaysia and the Philippines. The reason why we were funding that was to try and get more work done within APEC as a whole within the region on examining the impact. We have to do more ourselves domestically as well, but what we do domestically is helped, frankly, if others are doing similar things as well.

**CHAIR**—There being no further questions, I believe that at the outset there was some comment that there may be extra material that you wish to give the committee. Do you want it to be formally tabled before the committee, or is it something that you will just pass across for our information?

**Mr Grey**—It came out of that earlier informal discussion we had. We could do whatever you would like. We have two of the three papers ready at the moment; the third should be ready later today.

**CHAIR**—We will just receive them in due course. I wish to thank you, Mr Grey, and the officers of your department, for appearing before us this morning.

**Committee adjourned at 11.25 a.m.**