COMMONWEALTH OF AUSTRALIA

SENATE

Official Committee Hansard

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

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

MONDAY, 2 FEBRUARY 1998

CANBERRA

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CANBERRA 1997

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SENATE

Monday, 2 February 1998

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Members: Senator Hogg *(Chair)*, Senators Cook, Eggleston, Lightfoot, Sandy Macdonald, Quirke, West and Woodley

Participating members: Senators Abetz, Bolkus, Brown, Brownhill, Calvert, Chapman, Colston, Faulkner, Ferris, Harradine, Margetts and Schacht

Senators attending the hearing: Senator Hogg *(Chair)*, Senators Lightfoot, Sandy Macdonald and Quirke

Matters referred by the Senate 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

Committee met at 9.38 a.m.

HUNT, Ms Janet, Executive Director, Australian Council for Overseas Aid, Private Bag 3, Deakin, Australian Capital Territory 2600

ROSS, Dr Edna, Director, Advocacy and Public Policy, Australian Council for Overseas Aid, Private Bag 3, Deakin, Australian Capital Territory 2600

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 in relation to APEC. I welcome Ms Janet Hunt and Dr Edna Ross from the Australian Council for Overseas Aid to this hearing.

The committee prefers all evidence to be given in public, but should you at any stage wish to give part of your evidence in private, you may ask to do so and the committee will consider your request. The committee has before it a written submission from the Australian Council for Overseas Aid dated 7 October 1997. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Ms Hunt—No.

CHAIR—I now invite you to make an opening statement, and then we will proceed to questions.

Ms Hunt—Thank you very much. The Australian Council for Overseas Aid is the peak body which represents some 90 non-government aid organisations in Australia working on international development and development education. Obviously our interest in APEC is part of a wider interest in trade policy and the impact of trade policies on the poorest people in developing countries. We have been involved in the four non-government APEC meetings—the forums around the leaders meetings—from Jakarta through to Vancouver. Dr Ross, my colleague, has personally participated in two of those: the Kyoto and the Manila ones.

I should say at the outset that ACFOA wholeheartedly supports international and regional cooperation and we recognise the potential benefits of reducing trade barriers, particularly agricultural protectionism in the EC and the US which has had a serious effect on developing country producers. However, we believe that there is a risk that the potential benefits of trade liberalisation will not be realised. We see two reasons for this. Firstly, the rules of global free trade, of which APEC is a particular part, have been drawn in favour of the world's richest countries, so it is not a level playing field that we are operating in. Secondly, there are some negative as well as positive effects of liberalisation and these have not been acknowledged or addressed by the World Trade Organisation, APEC or our own government.

We argue in our submission that the failure of negotiations in the World Trade Organisation and in APEC to explore mechanisms to address the negative social and environmental impacts of trade liberalisation and the inequitable distribution of the benefits of such liberalisation is likely to result in a political backlash against trade liberalisation. We believe that signs of that backlash are already evident both in developing and in industrialised countries, including Australia.

We draw attention in our submission to the Leaders' Declaration at Subic in 1996 strongly stating that the purpose of the endeavours of APEC was to enrich the lives and improve the standards of living of all citizens. We certainly believe that as a consultative forum APEC can do that. It operates on two tracks. It has the trade liberalisation and facilitation track and a second track which is about technical and economic cooperation. We think that second track is very important because it is about intensifying development cooperation in the region, trying to address some of the social and economic inequities between countries and promoting sustainable development. However, from what we can see, the main focus of APEC's work to date has been on the first track: trade facilitation and liberalisation and reducing impediments to trade and investment in the region.

Our submission argues that if APEC is to meet the objectives identified in that Subic declaration, then in its future—and it is your term of reference in relation to the future directions of APEC that we are really addressing—there will have to be changes incorporated in two main areas. Firstly, APEC needs to broaden its agenda to incorporate discussions which will explore mechanisms to address the negative social and environmental impacts of trade liberalisation and the growing social and economic inequity, both between and within countries. In order to do that we believe—and this is the second area that needs addressing—APEC will have to broaden the sources from which it receives advice and make its decision making processes more transparent and more democratic.

We think there is need to develop mechanisms which would systematically incorporate advice from a broader range of academics than is currently drawn upon and from community based organisations interested in environment, development, labour issues, consumer issues and human rights issues. Those should be brought in to complement the advice that is being taken from the business sector.

The rest of our submission goes on to elaborate on that argument. We look particularly at the impacts on developing countries and the issue of the unequal playing field. At the World Trade Organisation meeting in Singapore, there was extreme concern among developing countries about the slow pace of liberalisation by the EU and the US. Concern was expressed about their continuing support for export subsidies in agriculture and the absence of significant reductions in quotas on textile exports from developing countries.

We draw on a major study by UNCTAD, the UN Conference on Trade and Development, that demonstrates mounting evidence that slow growth and rising inequalities are becoming more permanent features of the world economy. It makes the point that, contrary to a lot of current economic thinking, increased competition is not automatically bringing about faster growth and development nor is growth and development automatically bringing about a reduction in inequality. We are concerned about that widening gap and the growing inequalities resulting from current economic policies and trade liberalisation in particular.

We elaborate on that at some length in the next part of our submission, again drawing on the UNCTAD report and noting the details of the widening gap. We also look at the impact of trade liberalisation on subsistence farmers. Contrary to expectations, the report found that agricultural price liberalisation has not resulted in improvements in the domestic terms of trade for agriculture in many countries which implemented reforms. In fact, liberalisation has boosted the incomes of traders rather than farmers.

We also draw on a study undertaken by Oxfam, UK, of maize farmers in the Philippines and note that their household income is likely to be reduced by as much as 30 per cent over the next six years as cheap imports from the US drive down prices in their local markets. When you have a situation where one-quarter of those maize farmers already are lacking sufficient income for adequate nutrition, this is of serious concern. The OECD estimates that each US farmer receives a subsidy of about $29,000, which is about 120 times the income of an average maize farmer in the Philippines.

We argue that unless these inequalities and these problems are addressed there will be a very strong backlash in the developing countries—indeed, in the industrialised countries—against trade liberalisation. We believe that those matters have to be taken very seriously. We also believe that in the technical cooperation stream of APEC there must be a greater effort to go beyond simply technical assistance for trade facilitation and liberalisation and a more cohesive strategy undertaken to address some of those inequalities and market failures.

The rest of our submission—I will not go into it in detail—addresses some of the concerns we have about the human rights situation and labour conditions in many of the APEC countries and that unless those are addressed there will be growing social unrest as unemployment and job insecurity increase and labour standards are pushed down. We look at the impacts on environment, health and safety standards and the concern that they will harmonise down. We look at the impacts on people of that.

The last part of our submission looks at the decision making processes. We have provided you with other material, particularly from the Canadian government, on some of the benefits that we believe could accrue from a widening of those processes to involve representatives from civil society in some of the mechanisms of APEC. We are not recommending precisely how that should happen, because we believe there needs to be some sort of study undertaken for that to find out in which areas it would be most efficacious for civil society to be involved and how exactly they should be involved in a cost-efficient way.

CHAIR—Thank you. Dr Ross, do you wish to make an opening statement?

Dr Ross—I think Janet has summed up, more or less, the gist of our submission, so I do not really have anything to add. I think the current crises in the financial markets in South-East Asia really just highlight some of the points we are making. There is a growing body of opinion that is saying that there is a need for increased international cooperation on working out a system of rules to regulate investment. I think the financial crisis bore out that the analysis suggests that too little government intervention rather than too much led to the private sector over-exposing itself, so to speak.

If there is agreement that there is a need for a rules based international cooperation, then APEC is a very suitable forum to start to negotiate and discuss that sort of thing precisely because of the way it is made up. So you have a forum which is not legally binding where decisions are made by consensus and where there is lots of room for discussion. I guess one of our arguments is that it is a very suitable vehicle because it has meetings of ministers of different portfolios and meetings of senior officials as well, and then you have exposure of many levels of government to discuss ideas. So it seems to us a very suitable vehicle for starting to negotiate any sort of cooperation on regional regulation that you might need.

The financial crisis demonstrated the need for that in terms of liberalising financial investment. It also showed that if you liberalise too quickly, without some of the countries having the organisational institutional infrastructure in place, it does not really work. So APEC seems to us to have a perfect opportunity to do that. Similarly, with environmental agreements about the fires in Indonesia and the excessive resource extraction that is going on, everybody competes to export and earn foreign currency by using up resources at a non-sustainable rate. Hence you need to have some sort of regional agreement because no individual country wants to give up its competitive edge by itself.

What is becoming clearer is that liberalisation has huge advantages. It has definitely stimulated economic growth and improved the living standards of very large numbers of people, but if it is completely left to the market it can also have rather dramatic negative impacts. As Janet and our submission have said, our concern is that the benefits of liberalisation will not be realised because the political opposition is quite evident. In Australia, we have seen it only on a small scale. Where there is a tendency—when job insecurity increases, labour conditions go down—to call for increased protectionism, et cetera, that means that any advantages and benefits that have been achieved so far by moving the world towards reducing barriers to trade and investment will be lost, because in democracies governments will have to respond to that, and we have already seen some backtracking on liberalisation.

In developing countries, and at the NGO forums that I have attended, the resentment and hostility to globalisation overall—and it is expressed by opposing APEC and the WTO, which are seen as the institutions pushing the globalisation agenda—is overwhelming. Whereas in Australia there would be a small number of people who really care or know about or are interested in trade policy, there are huge numbers of people in the developing countries. The reason is that there are such vast numbers of people who are experiencing the negative impacts. So 70 per cent of a lot of those countries is rural and their livelihoods depend on growing their own food and selling the surplus. Large majorities of them are very badly affected.

Janet mentioned the maize farmers in the Philippines and the uneven playing field. The United States obviously has the power to force anybody to do anything they want because everybody wants to sell to the United States. If you have a gun at your head, you relent. The Philippines opened up their agricultural trade to US imports, but the level of reform has not gone at the same pace so the United States have not reduced these subsidies to their maize farmers.

Imported corn can be sold in Manila at 30 per cent less than the local producers can even hope to sell it for, so, of course, they go out of business. That affects two million people; the number is not small—that is just maize growers in the Philippines. It is estimated that two million people associated with maize growing have had their income reduced by 30 per cent.

Since a lot of them are already on the breadline, that is not very good. That leads to social unrest.

In democracies you have a problem of how you deal with that, and in countries where it is not so democratic you have a different problem with how to deal with it. You get military powers being brought in to suppress opposition and so on. You get riots. You frequently hear about them in Indonesia. It is a similar situation with labour conditions. As each country competes for foreign investment and their competitive edge is the lowest wages and the worst labour conditions or environmental conditions, the pressure is to sink to the lowest common denominator—or even lower. That then leads to social unrest.

Our argument is that it really would be a great tragedy if a whole lot of the benefits that are to be had by increasing trade and reducing trade barriers by cooperation in international agreements on how trade and investment should be conducted are thrown out because political opposition will increase if the negative impacts are not addressed and if liberalisation is conducted in such an uneven way so that the stronger countries are not really opening their doors to products from Third World countries. If that is not addressed along with the growing inequity, which is continuing to increase hugely, it is a recipe for the whole thing to unravel.

CHAIR—In your statement you describe the strength of APEC as being the fact that it is not a binding organisation in a sense. But that has also been described as its weakness, so its strength is also its weakness.

Dr Ross—Yes, that is true.

CHAIR—People say that where there are individual action plans there is nothing binding about those plans and one needs to formalise APEC more. How does one overcome the competing interest there of the strength and the weakness that is brought about by the fact that it is not binding or do we leave that to broader organisations such as the World Trade Organisation?

Dr Ross—You could argue that APEC is a good forum for having those issues discussed and debated where countries can start to make, through negotiations, voluntary agreements and that that does push the pace at institutions like the WTO where binding agreements come into place. Just having a look at the way it operates, it would be a mistake to make it more binding. I do not think you would get agreements. I think it is more consistent with the Asian way of addressing issues to discuss them at great length and to reach consensus and to negotiate.

I agree that when looking back it might look as if we are not achieving very much. Probably the IMF's packages that are now being imposed on a lot of those countries are going to lead to the liberalisation in six months of what has not been achieved in APEC for the last six years. Maybe APEC offers an opportunity for negotiating broader economic development in the wellbeing of the region, which is what our submission argues too. Liberalisation was really meant to be only one leg of it. The fact that the different countries taking part in APEC also have different agendas and are trying to push different things also makes it move very slowly. I think it would lose a lot of its advantages if it became a binding organisation.

CHAIR—That leads to the next issue that I have noted from your comments and that is in respect of the pace of reform agenda in APEC itself. I wonder if the pace is too fast. We have heard in evidence before this committee that we would be far better served by having a narrower and more focused agenda than the broad agenda that we have because the broad agenda that we have leads to fairly uncontrollable rates of change, with the consequences that you may well describe as being social unrest and so on. Where are we at in your view?

Dr Ross—I think the Australian government has argued since the inception of APEC—certainly when we have met with government officials and ministers of both the previous Labor government and the current government—that if any other issues were introduced into the agenda they would distract from the main debate which, from our government's point of view, was to get agreements to reduce tariffs, et cetera and to liberalise. If you have a certain amount of time and a certain agenda, the more you put on it the less time you have to get to what you want.

On the other hand, I think you could argue that the failure to address the broader agenda of APEC, which is expressed in its objectives and goals, rather than what is on the agenda at actual meetings, is what has caused the unrest. It is the fact that the Anglo-Saxon countries in particular within APEC—Canada, the United States, Australia and New Zealand—have been so concerned to get markets to open up to their exports in the region, and they have got a lot of the political and economic clout, that they have pushed the liberalisation agenda too fast without taking on board the quite legitimate concerns of different governments, and certainly not of civil society.

If you go to the NGO forums, a lot of them want to abolish APEC. So there is huge opposition to what the agenda is, and it is the trade liberalisation agenda that there is opposition to. If there were any sign that APEC meetings were genuinely looking at how to improve the living conditions of people in the region, which is what it says it is meant to be doing, then I think the opposition would be reduced.

Secondly, if the processes were open to other voices, then the opposition would also be reduced because the opposition is based on pushing ahead with a single agenda which is not taking into the account the negative impacts of that agenda at all. It is only pushing ahead with the agenda which serves multinational companies, large business and, in a lot of the developing countries, the elites, but the bulk of the people see themselves as having been left out.

CHAIR—You alluded to the fact that the IMF had come into the Indonesian situation in particular and brought about reforms which APEC was not able to bring about, or more quickly than APEC was able to bring about. Does that go to show that APEC really is not what it is cracked up to be, that it is not really achieving what it could, and that we are going to see in the end the likes of the IMF or the WTO coming in over the top of APEC and making APEC irrelevant? Is this one of the prospects that faces APEC? If so, do we need to manage APEC better to ensure that we control the agenda rather than allowing others to control the agenda for us?

Dr Ross—I think it is quite possible that it will become irrelevant. The jury is out on where it is going, and in a way it has been out all along. Someone—I think it was Gareth Evans—described it as four adjectives looking for a noun, and where it is going to go really is an open question. Someone has suggested in material I have read that now that the IMF has really pushed the liberalisation agenda, the United States will lose interest. That is possible too.

If you are taking into account the Australian national interest point of view, the question is: does the Australian government see it as a useful vehicle for building on regional cooperation? We would say that the way it is structured, with those ministerial leaders meetings, et cetera, it has a lot of potential. But for long-term negotiation, increasing understanding and increasing economic cooperation in the region, it needs to broaden its agenda.

I think that if Australia moved away from pushing the trade liberalisation agenda as the only thing—I think you have to go on with that, but if that is seen as the only thing, which the Australian position has been, more or less—then it will be just aligned with the United States, et cetera, and seen as pushing self-interest only. It is a difficult thing in a globalising world, because nations tend to come together and obviously they want to push the national interest. It takes a little courage to step back and say, ‘In the long term the national interest depends on regional wellbeing,’ so sometimes you have to slow down pushing your national interest and say, ‘If they do not get what they want, then in the long run we will not get what we want either.’ I think APEC does offer that opportunity but it is not easy—I am not claiming that it is easy. For that reason, the advice and the mechanisms that need to be set up at the national level, as well as at the regional level, need to bring in more sources of opinion and expertise.

We are very much in touch with the grassroots organisations in all the APEC regions. In Vancouver there were 700 people from 25 countries at the NGO forum. I was not at that one but at the Manila one there were hundreds and hundreds of NGOs represented—human rights, trade unions, development, environment, consumer groups—from all over the region, with a massive objection to what globalisation is doing.

Decisions that affect people’s lives are obviously going to have to be made at regional and global levels and what is happening is that whereas they feel they have got some say in what decisions their national governments make, they do not have any say in what is done at this level. So unless it is opened up, the resistance is going to continue growing.

Ms Hunt—Can I add a couple of other points to the IMF question? What has happened just reinforces the unevenness of the liberalisation because the developing countries of the region are the ones that have been forced, out of this crisis, to open up further; and again there has been no reciprocal response in the US or Japan, for example. I think what is likely to come out of this crisis is an intensification of the resistance, and Edna has certainly come back, and Jeff Atkinson, who represented ACFOA in Vancouver, also came back saying we in ACFOA are out of step in our position with our colleagues in the region, because the anger that is being expressed by them is simply articulated as total opposition to APEC, the WTO and so on. Our position of trying to say, ‘Let’s negotiate with them. They exist. Let’s try and open them up and have some participation' is seen as terribly reformist and out of step with the anger that is being felt by colleagues in the region.

Senator SANDY MACDONALD—When you questioned the benefits of trade liberalisation, which is substantially facilitated by APEC, both in your submission and in what you have both said today you cite the experiences of the Philippine maize farmers. You say that their average household income will be reduced by as much as 30 per cent over the next six years as cheap imports from the US drive down prices in local markets. You argue that such problems arise because trade liberalisation is not being played on a level playing field—and you made that very clear—and you cite the access of the US farmers to subsidies. I acknowledge that and that is a debate that we have everywhere.

Dr Ross—Sure.

Senator SANDY MACDONALD—It is the biggest economic debate that we face in this country of ours. But doesn't APEC provide an appropriate forum for such matters to be resolved and discussed? At least it provides that.

Ms Hunt—Absolutely, it provides that. But I suppose what we are concerned about both in the Australian government's response here and at the regional level is that there are no systematic studies being done of who are the losers out of all of this and what mitigation measures could be taken, and must be taken, if the agenda is going to be advanced.

We would like to see, first of all, the acknowledgment that not everybody is a winner out of trade liberalisation and then some study undertaken of who the losers are in the different countries and what measures could be put in place, again through regional cooperation, that would address some of the concerns of the losers. For example, obviously there are some small sectors who will be losing in Australia. Our concern there is that the Australian government is not acknowledging that. The response to concern about trade liberalisation in Australia is to simply promote the benefits.

Whilst those benefits need to be promoted, we think it is really important that the downside is acknowledged and some response is made to that in a clearly articulated way. I suppose what we are seeing here in Australia is just a microcosm of what we think ought to be happening at the regional level. At this stage we would acknowledge that a lot of the evidence that we have about who is losing out is anecdotal but there is no doubt that it is there, and we think more—

Senator SANDY MACDONALD—It is much more newsworthy of course. If you are a citrus producer that is being forced out of business on the basis of imported Brazilian concentrate, it is cold comfort to be told, 'We are exporting four times more citrus than we are importing.'

Dr Ross—That is right.

Senator SANDY MACDONALD—And that we are exporting navels into California, the home of navels. But they are the facts.

Ms Hunt—That is right.

Senator SANDY MACDONALD—It is part of the discussion process that you must say that. You must say that we import $40 million worth of citrus, but we export $160 million worth of citrus.

Ms Hunt—That is right.

Senator SANDY MACDONALD—The poor old citrus grower who is going broke does not like that and he is newsworthy; he is extremely newsworthy. But the benefits of trade liberalisation are there on balance; it is just how we manage it.

Ms Hunt—Exactly, and what measures are put in place for the particular poor old citrus grower or the poor old maize farmer or whoever who really is suffering as a result of it.

Dr Ross—I guess that in Australia, the citrus grower, if he can see the writing on the wall, can diversify and start growing other crops and so on and they have got some capital. The problem with the maize farmer is that the theory is that they will diversify and they can grow cash crops or do something else, but they do not have any capital. They are on the breadline anyway, so they cannot. APEC has to take that into account. That is all we are saying.

What you are saying is dead right. Liberalisation has meant huge increases in our exports and similarly for the Philippines and other countries—they would not be in there if there was nothing in it for them—but they have to address that downside, and the economic and technical cooperation strand probably allows them to do that. In that way, again, APEC has got much more potential than WTO, which is just a straight down the track trade organisation.

Senator QUIRKE—I guess the guts of what you are saying is that your organisation is lukewarm about trade liberalisation at the best of times and that there are a number of hidden victims out there of trade liberalisation in most of the Asia region. Can I put to you that one of the reasons some of the societies which are taking the worst buffeting right now, namely Indonesia, Thailand and to a lesser extent Korea—because Korea does have a much more modern developed manufacturing economy and is more likely, I suspect, to get out of the present situation faster than some of the other societies—have got themselves in the situation that they are in is precisely because they have resisted at every turn trade liberalisation?

In fact, they did not take the attitude that they really needed to change a number of things; all they wanted to do was to pick certain things. They were quite happy to access foreign loans and they were quite happy to have their corporations develop unsustainable debt levels. Even some of the governments there have developed unsustainable debt levels, particularly with the drop in the currency that has taken place in Indonesia and Thailand. Their government debt levels have either doubled or tripled. Could it not be said that this resistance and this conservatism that they have shown over the last 25 years or so is why they are in the mess they are in now?

Dr Ross—Certainly some people argue that, and to some extent there would be some truth in that. Anwar Ibrahim said, in the weekend paper, that one of the benefits of the crisis is that it has shown them that they have to open up their financial sector and make it more democratic, transparent and accountable. I think that is certainly true.

I do not think that anybody would support crony capitalism, which has been a feature of a lot of those economies. From that point of view, the crisis will, hopefully, cause change and build stronger financial institutions. What we are saying is that to force countries to open up their financial sectors before they had transparent, accountable, democratic financial institutions was the problem. You can argue that it was their lack of liberalisation that caused the crisis, but it is really much more complex than that. Opening up the financial sector is important, but the rest of the stuff is still on the table. APEC has not really been put into effect.

So, while certain tariffs have dropped and there is increased trade in some commodities and so on, the major effect of liberalisation is demonstrated in liberalising investment and deregulating investment. That did not really come out very well because of the speed with which it was done and the lack of readiness in those countries to deal with it.

What it shows is that those things have to go hand in hand. When you liberalise, those things have to go at a pace at which countries can absorb change and make sure that the institutions are in place and the capacity is in place to equitably distribute the benefits of liberalisation, otherwise they just benefit a very small group, and then you get that growing chasm again. So Korea is an interesting one and Taiwan have not because of the way liberalisation occurred there and the way they have moved their economy. In the 1950s there was massive land distribution. There was a huge amount of education so that they have got a very highly educated population. The liberalisation took place on a more equal base and it has benefited more people. You have got less resistance to it and you have got more beneficiaries. In countries where that did not take place the benefits are much more skewed and the losers are greater.

Senator QUIRKE—Is it not the case though that in, for example, Indonesia, the government has decided that it was going to build its own car? In Malaysia there was massive tariff increases put there to attract car manufacturers to that particular country. All those schemes have had a number of problems. In fact, in the Indonesian instance, one of the conditions of the IMF loan was that this non-market approach to the whole thing would be abandoned.

I think the basic premise of what I am putting to you is that the movement towards trade liberalisation has been resisted by many of the societies, it has been resisted tooth and nail—except for the bits that they want, except for the bits that suit the people who run these places, except for the bits that might suit some of their relatives. But at the end of the day I see it from a slightly different perspective than you people do. I obviously accept the fact that there are going to be winners and losers in every equation, but one of the problems these societies now have is that they have an absolutely unsustainable debt level because they cannot export, because they have not been able to build up their export sectors. It is easy for us to say that in the Western world we have put up a lot of tariff and non-tariff barriers. The reality is that these societies have much, much higher barriers and they are quite happy to stick them up overnight to try and protect some local sectional interest, whereas they are not prepared to bring them down. It is predominantly these sorts of decisions that have brought them into the present situation.

Dr Ross—I think the argument is that the Asian miracle was due exactly to joint cooperation between business and the government. Whereas now you might look at the financial crisis, and I think that is what some people are doing, and you are arguing that it was the lack of liberalisation that caused it. I think that equally there are commentators who are saying that is not the case. What we know is that when particular industries are nascent—when they are in their infancy—there is some point in government protecting them so that they can get up to a certain level before you then open them up. I think that was more or less the model that was used in those countries and that it was responsible for extraordinary economic development in a very short period of time. They basically did the industrial revolution in 30 years instead of 200. So they did quite well, really.

On the question as to why the financial system has now collapsed, our argument would be that it was not because they did not liberalise enough. Certainly supporting family things does not work, but it was really things such as a lack of regulation of the financial markets, the interest of foreign investors in quick returns, huge investment in real estate—which is non-productive—rather than not opening themselves up. They do need to liberalise, they do need to expose themselves to market forces, but it is a question of timing.

Ms Hunt—We belong to an organisation called the International NGO Forum on Indonesian Development, and that has been arguing for some time that the national car project was a completely non-viable project and that it was just bolstering up, as you say, the President's relatives—

Senator QUIRKE—I did not say the President's relatives. I was careful with my words.

Ms Hunt—Relatives, we will say. They would. I think there is a lot of opposition. It is difficult to voice opposition in Indonesia, obviously, but there certainly has been a lot of civil society opposition in Indonesia to that sort of development. I think that strengthens the case that there has to be greater transparency and greater accountability, both at a national level and at a regional level. That is what our colleagues in Indonesia would say, that the current crisis is not simply a financial or economic crisis but that it is a political crisis which reflects a very closed, dictatorial sort of way of running the country, and that these things could have been avoided if there was a little bit more democracy and transparency and accountability in the country because there would have been considerable opposition, just domestically, to the amount of subsidies that were being given or the amount of funds that were being allocated to things like the national car project at the expense of very poor people on the margins.

Senator QUIRKE—I suspect one of the features that has not really come out in the Asian crisis is the way that a number of these societies have borrowed and been allowed to borrow—as you say, had you had more transparent accounts this may have shown up; I doubt that actually. But the corporations in some of these societies and some of the governments themselves have borrowed predominantly to fuel the domestic economy rather than to build an export sector, and that was always going to be doomed for trouble.

The Asian tigers of the last 10 or 15 years have largely funded their activities by borrowing over a trillion dollars from the developed world, bidding it up on real estate and on all sorts of other projects. Unfortunately, it is going to be a major problem for however long it is going to take to shake all this out and there are going to be an awful lot of casualties. I wonder if you have addressed your mind to places like Thailand where there is going to be considerable unemployment. In fact, some of the estimates talk about two million or more unemployed just in the Bangkok area and that in fact we are going to see changes in these societies that they will not be able to adjust to: rising rates of crime and a number of things like that. Have you had a look at those sorts of implications for the next few years?

Ms Hunt—In a way that is what we were both alluding to. I think the implications in terms of speeding up the social unrest are going to be considerable. We are already seeing small outbreaks of that in Indonesia and there are big protests in Thailand. There is no question that it is going to have a huge impact. There are the same sorts of figures—in fact, I think it is 2.4 million in Jakarta alone just in the last few months and it is expected to be about four million over the next two or three months all up—and you cannot have people thrown out of work like that and not have some sort of social turmoil, particularly when that is combined with the devaluation of their currencies.

The rise in prices in the Indonesia package was such that they have tried to protect rice; other prices will all go up, similarly with fuel—very basic things for survival. It is going to make life extremely difficult for people who are right on the margin so I think that we are going to see a lot more social unrest in those countries. Quite honestly, who knows what the consequences of all that will be, but I certainly think it is going to feed into the concern about liberalisation and I think it will be expressed in those countries as opposition to the IMF and opposition to the institutions that are forcing these changes on the countries. I think that is what we will see.

Dr Ross—I think there is some questioning about the appropriateness of the IMF recipe because the borrowings, as you have pointed out, have been private borrowings. It is the private sector that has borrowed too much money and invested it and it was the private banks that lent it. Unfortunately the governments went guarantor so you now have a situation where the governments have been pulled into it. There is some questioning about why taxpayers' money is being used to support private folly, basically a bad investment which has collapsed, and there is questioning about whether it is really the role of the IMF to help prop up banks in the north because that is not what it was invented for, so there is opposition to that.

It would seem to me that there is a very useful thing for APEC to do; perhaps the Australian government within APEC could actually have a look at the implications of this because it is quite obvious that the IMF package, by squeezing government spending, is actually going to force a recession in those countries and exacerbate the unemployment which will exacerbate the social unrest and so on. APEC is a forum for trying to find a solution; I know that the Vancouver meeting addressed the financial crisis but that concerned the more immediate impacts of it and now the repercussions look like they are going to go on for much longer. It would seem to me that, as a regional economic cooperation forum, there is quite a lot of room for APEC to have a look at what the impacts of the IMF reform package would be and what other cooperative arrangements could be made to mitigate some of the worst impacts. In economic and technical cooperation, for example, the question of insecure employment and huge unemployment is something that would be really usefully addressed.

Ms Hunt—You mentioned Indonesian debt. In about 1987 I went to a regional conference in Jakarta for the Society for International Development. I recall a presentation there by an Indonesian academic about Indonesia's debt at that time. Quite a lot of concern was expressed then by NGOs in Indonesia about the debt and about the lack of transparency over precisely what debt levels Indonesia actually had. Of course, that debt now has mounted dramatically with the devaluation of the rupiah.

It is interesting that at least 10 years ago NGOs and academics were signalling concern about Indonesia's external debt. I do not think others in the financial area and the economic area were at all concerned about that. Those things were being signalled then and simply have not been addressed, because of the lack of transparency and participation in a country which is very tightly controlled, obviously.

Senator LIGHTFOOT—Dr Ross, I want to ask you a question about your statement, while it is fresh in my mind, that the IMF—if I quote you correctly—was forcing a recession on those countries. You elaborated on that and, by 'those countries', I think you meant Thailand, Indonesia, Malaysia and perhaps South Korea. Would that be correct?

Dr Ross—Particularly in Thailand and Indonesia the effects are pretty grim.

Senator LIGHTFOOT—If the IMF did not intervene in the way that it did—rather than 'interfere'—I would assume that the economies would have collapsed altogether.

Dr Ross—I am not suggesting that the IMF did not need to interfere; I think they did need to interfere. My question more regards the appropriateness of the reform package that it has put in place. It tends to be the same to all debt crises that have occurred in the past as well. But the crisis in each country is probably caused by slightly different factors operating.

It would be really useful to have a look at whether the reform package in each country is actually the best and the most appropriate. Usually, as you know, the IMF comes in because a government cannot service its debt. This is not the case here. Some of the governments in those countries have had surplus budgets—they have not overborrowed. So the question is whether squeezing government expenditure at this point, which will contract services and contract economic expansion, will lead to further unemployment, which already is being hugely exacerbated by the withdrawal of foreign investment and the collapse of the currency.

Senator LIGHTFOOT—But it was inevitable that with an 80 per cent devaluation of the rupiah foreign investment would almost certainly stop there until the currency was stabilised. Is that not correct?

Dr Ross—Absolutely.

Senator LIGHTFOOT—Australia intervened as well by assisting and by granting to Indonesia $1 billion or $1.2 billion, subject to certain conditions, which was tied to trade. Australia has now guaranteed exporters in Australia—under certain conditions, again—to some of these economies. I assume that was the correct thing for the Australian government to do as well.

As to the ASEAN economies, I do not see, and I do not think any political or economic commentators believe, that this is a collapse in the sense that it will not recover. It is more a pause in the ASEAN economies and their advances. Although it does not affect Australia to any great degree, if we did not have other outlets and only had those so-called tiger economies it would affect us significantly. But, at the worst, it will probably be less than a one per cent retreat in Australia's growth, which could be classified as serious for Australia, but it is insignificant compared to the problems that some of the ASEAN countries have.

With the intervention of the World Bank and the IMF, there has been a recovery in the conversion of the rupiah, which seems to be the epicentre of the problems in the ASEAN economies. That in itself suggests that the conversion rate of about 1,500 rupiah to the US dollar last July, going up to I think about 18,500 rupiah, has now come back on that and that, whilst not a balance, there seems to be some more favourable conversion. Do you agree with that? Do you agree that there has been a retreat and that the problems with the currency being so undervalued have now ceased?

Ms Hunt—Certainly what I would say about that is that the Indonesian rupiah does seem to have reached a bottom now. Fortunately, in the last few days, it has not gone on down. That is a positive thing. I guess it will now gradually work up as the economy starts to get into shape from the perspective of international investors.

Senator LIGHTFOOT—But as a result of the intervention by the IMF.

Ms Hunt—I think we must make this very clear: we are not opposed to that. The IMF had to intervene in these situations, but I think there is a debate about the nature of the intervention. If you look back to the 1980s, the IMF intervened in very different sorts of crises in many countries in Africa and Latin America. Those crises were crises where the governments were deeply indebted. Many of them still remain indebted, particularly some of the African ones. Many of the Latin American ones are coming out of it. What we are saying here is that many of the same requirements that were placed on African and Latin American countries in the 1980s were placed on countries like Thailand and Indonesia, yet the cause of the crisis was completely different; the cause of the crisis here was private sector debt.

The debate that is going on is clearly about whether a body like the IMF should actually intervene and protect international finance and international investors in the same way as it intervened in the 1980s to protect governments. It is an interesting question because it does raise the question of moral hazard. This is one of the reasons why the World Bank and the IMF have been so reluctant to write off the debt of many developing country governments: it encourages you to undertake risky investments. The same argument is going on about the intervention of the IMF and whether the IMF should intervene to actually guarantee and back up the situation where very high risk private investment has gone bad. Those are the sorts of debates that are going on and also whether the kinds of solutions which the IMF imposed were the right solutions in this very different situation, because they have plunged the countries into a terrific slowdown and maybe that is not the best solution.

Senator LIGHTFOOT—Is it not true to say, though, that the private debt is between the private borrower and its bankers and that that would have less ramification on the economy of that particular nation than, say, the public debt, which is much more serious in terms of its effect on the population?

Ms Hunt—Absolutely, and I think what many of the commentators are saying is that the IMF did not make sufficient distinction in its policy requirements between a situation where you have high levels of public debt and a situation where you have high levels of private debt.

Senator LIGHTFOOT—Coming back to the extrapolation of the problems in Thailand, Indonesia, Malaysia, South Korea and, to a much lesser degree, the Philippines—and I would like to come back to that in a moment—how does that affect the Australian Council for Overseas Aid? That is really why we are here. How does that affect you?

Ms Hunt—It does not affect us directly. Our concern is for those people who are particularly vulnerable to such a shock as this.

Senator LIGHTFOOT—Such as?

Ms Hunt—Such as labourers who have lost their jobs. In Indonesia a lot of the contract workers—migrant workers—are now likely to be forced home. They are basically—

Senator LIGHTFOOT—But Dr Mahathir has given an undertaking that he will not be forcing home the million-odd Indonesians who work in Malaysia.

Ms Hunt—No, but there is certainly a lot of talk around the region that, when migrant workers' contracts come to an end, they are unlikely to be renewed.

Senator LIGHTFOOT—How does that affect the Philippines? You spoke on the Philippines to some—

Ms Hunt—There is a huge number of overseas workers from the Philippines in the region. If some of those are sent home, it will affect the remittances. It will affect the hard currency that is brought back into the Philippines. It will obviously also affect families who have been relying on those remittances for particularly school fees. That is often why women in particular in the Philippines go overseas: to enable them to earn enough money to pay fees so that their kids can complete education. At a family level those are the sorts of things that will probably suffer. The long-term development consequences of that one cannot really say but one can assume that there are some negative consequences of that. So our concern is with the people who are forced into unemployment. The peasants who live at subsistence level have very little cash, and prices of the essentials that they have to purchase go up. These are the sorts of people whom we are concerned about—the urban poor and the rural poor.

Senator LIGHTFOOT—On that point about subsistence farmers and workers who rely on cheap staple for their very existence, doesn't that conflict with your argument that the United States is exporting its maize to the Philippines at significantly less rates—I think it was Dr Ross who said this—than what the Philippines can grow it for?

Ms Hunt—The difficulty there is that, whilst it may be advantageous to urban poor people who are not growing their own maize to be able to purchase cheap maize in the cities, in Manila, the majority of people are rural people and they are the producers—there will be a large number of peasant producers of things like maize, rice, coconut and so on in the Philippines—and for them the dumping of much cheaper produce in their markets—

Senator LIGHTFOOT—You say 'dumping'. Do you mean dumping in contravention of the World Trade Organisation?

Ms Hunt—No. I am sorry; I am using that word rather loosely. I should be more accurate. The availability of very cheap goods, very cheap foodstuffs, in their markets means that their livelihood is at risk. Most of those people would have a mixed livelihood, which is partially subsistence and partially cash income from sales of things like maize, rice, bananas, coconut and so on.

Senator LIGHTFOOT—Even with the population in the Philippines being more widely distributed in rural areas than say, Australia, which is highly urbanised, doesn't that mean that the people in the cities, if the price of maize corn were put up, would suffer? How do you strike a balance between urban people and rural people? I see what you are getting at but I am afraid you have yet to convince me, as simplistic as my understanding of that perhaps is, that it is a good thing for a relatively cheap commodity like maize corn from the United States to be increased in price to prop up what is obviously an inefficient segment of the Philippine economy.

Ms Hunt—It is not. The inefficiency is in the US. If maize farmers are getting $29,000 a year subsidy, that is an inefficient system in the US. Sure, in economic theory obviously it is an advantage to get the cheapest food in a particular place, but I think what we are saying is that, first of all, the vast majority of people in those countries are rural people. They are not urban people. Certainly urbanisation is taking place at a pace and it is taking place at a pace because of the poverty in the rural areas.

But the second thing I would say about that is the point that Edna made: that in economic theory if that is happening then it is expected that the maize farmers—taking them as an example—will diversify, but you can diversify only if you have the capital, if you have the inputs, if you have the technical expertise. Those things do not exist, so those people cannot easily diversify. So what happens? They up ship and go usually to the squatter slums in the urban areas in the hope that they will pick up a job. Those are the dynamics that are going on.

What we are concerned about is that there has not been adequate research on the losses and the benefits—who is winning, who is losing—and there has not been adequate assistance for those people who are losing out to diversify into other activities. It certainly is not a level playing field when the farmers that they are competing with are getting such huge subsidies from their own governments. That is not the market operating efficiently. It is a distorted market.

Senator LIGHTFOOT—I do not want to get away from the subject, but—

CHAIR—I am going to have to wind this up because we have run over time.

Senator LIGHTFOOT—I will just ask a couple more questions then, and I will not pursue that, Mr Chairman; I appreciate your indulgence here. With your organisation being so acutely affected by the meltdown, for the want of the use of a popular buzzword, how is that going to affect your output to those countries with which we have a close relationship, particularly through your organisation? How is that going to affect it?

Ms Hunt—I think there is a little misunderstanding. We are a peak body. We do not actually provide overseas assistance. Our member organisations, the 90 member organisations—

Senator LIGHTFOOT—In terms of your advice, how is that going to affect that? Do you need more people? Is it going to mean that you are going to seek more advice? Are you going to need more in terms of financial input to your organisation? That is what I am asking.

Ms Hunt—I think certainly our organisation is seeking advice. We are certainly holding meetings of the organisations, for example, who have programs in Indonesia and around the region. We are actually small players in the overall economic development and the overall development cooperation program from Australia. We are the non-government sector. We have argued in our budget submission to the Australian government that AusAID needs to take this crisis into account in the allocation of the government aid budget, which is 10 times larger than what the private aid agencies are providing internationally. But certainly it is affecting the people whom our organisations are trying to assist in developing countries. So that is our main concern. Yes, I think it has implications for the Australian response through the aid budget this year; it must do. I think we have to be seen to be trying to assist to address the sharpening poverty that is emerging in those countries in particular.

Senator LIGHTFOOT—Outside the financial help the government has already announced?

Ms Hunt—Yes, I think outside the financial help that the government has already announced. That is financial help to stabilise the economies. But then there is specific assistance that is going to be required to address some of the sectors that are most seriously experiencing the effects. The World Bank president has suggested, for example, that fairly major works programs in areas like water and sanitation should be stepped up because they would employ a lot of people—some things like that through development cooperation, through our bilateral program and through multilateral programs. This is really what we are saying about the future directions of the technical and economic cooperation strand of APEC. Those sorts of things could be put in place to pick up some of the people who are losing work and who are in severe crisis because of the downturn in these economies.

Senator LIGHTFOOT—Thank you, Ms Hunt and Dr Ross.

CHAIR—Thank you very much. We appreciate the frankness with which you have appeared before us this morning. We look forward to deliberating on the evidence that you have given in our final report.

Dr Ross—Thank you very much for giving us the opportunity.

Ms Hunt—Yes, thank you very much indeed.

[10.52 a.m.]

SOESASTRO, Dr Hadi, Okita Fellow, Research School of Pacific and Asian Studies, Australian National University, Canberra, Australian Capital Territory

CHAIR—I welcome Dr Hadi Soesastro.

Dr Soesastro—Good morning. I am the Director of the Centre for Strategic and International Studies in Jakarta, but currently I am the Okita Fellow at the Research School of Pacific and Asian Studies at the Australian National University. I will be leaving Canberra in two weeks and going back to Jakarta.

CHAIR—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. The committee has before it a written submission from you dated 27 January 1998. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Dr Soesastro—It is only a small correction on the second page of the written submission. With reference to the Free Trade Area of the Americas, it is written in the statement as 'the Free Trade Area for the Americas'. It should be 'of the Americas'. That is the only change I wish to be noted.

CHAIR—Thank you very much. I now invite you to make an opening statement and then we will proceed to questions.

Dr Soesastro—Thank you very much, honourable senators, for the opportunity to appear at this hearing. In view of my background, I am sure you will allow me to inject a South-East Asian perspective in particular on the issues of APEC and how Australia, in our view, can play an important role here.

It is particularly so because in view of the crisis that is taking place in east Asia—an area which is important for APEC—that I think APEC needs to do a lot of soul-searching, given that a number of its members are in a deep crisis. The question for APEC's own credibility is what it can do as a regional organisation—a regional process—to help resolve this crisis.

Let me begin by looking at the issue from a broad macro and perhaps strategic perspective, because that should not be overshadowed by the crisis itself. As seen by many of the countries in South-East Asia—Indonesia included, where I come from—the importance of APEC from the very beginning has been couched in terms of the need for the region as a whole to begin to develop regional structures—we have talked about regional architectures. In APEC, we saw an important beginning, a window of opportunity, to do so, given that economics began to play an important role, and given that when the Cold War had just ended it was still somewhat premature to discuss political and security issues, multilaterally or regionally, in the region. So economics was certainly the topic through which we could bring together the countries in the region.

The idea of having this regional structure certainly has a lot to do with the ending of the Cold War itself when we find out that one can look around the Asia-Pacific region and notice that there are no regional structures in place the way you find them in Europe, in the Americas and so on. Thus, for the sake of securing the region's future, peace, stability and prosperity, the beginnings of establishing regional structures and regional arrangements are very important because a peaceful, stable, secure and prosperous region is certainly important for the countries in the region—including Australia—to continue with their national development.

You might have noticed that the countries of South-East Asia—the ASEAN countries, which were the original developing members of APEC when we started in 1989, plus Korea—were originally somewhat hesitant to take part in this process. The reason for this hesitation was that we were quite concerned that, with an organisation in which you have major powers such as the United States and major economic powers such as Japan, those countries would be the ones which would set the agenda and which would influence predominantly the direction of this organisation. Australia at that time, playing an important role, had made the assurance to the ASEAN countries—and I think this was the reason for the birth of the organisation itself—that it would become a process in which members would be there on an equal footing.

In the past eight years we have seen that in fact being sensitive about these issues has greatly helped nurture a sense of us being comfortable in this process because the ASEAN countries indeed can play a role too in this organisation. I think it is this sense of comfort that later on led the ASEAN countries to not only agree but also to take the initiative to promote the ASEAN regional forum, which I think should be seen as sort of the twin brother or sister of APEC—in particular to promote dialogues in the area of politics and security in the Asia-Pacific region.

Thus, from our perspective, both APEC and the ARF are the two pillars in the regional architecture that we hope will help maintain peace, security, stability and also increase prosperity in the region. Having said that, in my written statement—and I will not elaborate on it—I made the point that APEC in the past eight years has gone a long way. It has created this sense of being part of the community in the region that we will build together—that we will share the benefits of but also share the burden of—to develop this together.

Trade liberalisation, which has been an important focus of the agenda of APEC, should be seen in the APEC context not simply as an exercise to opening up markets. It certainly is an important agenda for APEC, but it should always be seen as part of the larger context and broader objective of building the community. I think by now we have come to an agreement, a recognition, that APEC's agenda needs this balance of trade liberalisation, trade and investment facilitation as well as economic and technical cooperation. I was here before and heard the discussion earlier which also suggested the importance of economic and technical cooperation, particularly at this stage of development in the region—given the crisis that affects many countries in the region.

But I think the point that was made was that from the beginning, when members thought of the need to have this balanced agenda, in any exercise towards opening up an economy and the liberalisation of trade and investment there are always winners and losers. The issue again here is that apart from the fact that governments need to understand and anticipate who will be the losers and lessen the hardship—in fact, if possible, eliminate it in the process—it is also very important that, in trying to do so, governments have the support of the public as a whole.

Even though countries such as Indonesia, where governments have a strong position, on many occasions make decisions without due consideration to the aspirations of the public, they certainly need to have support—and more so when countries begin to democratise and open up politically, as the countries in South-East Asia have. While opening up, there is always this fear that developing countries tend to lose out. There needs to be a sense of solidarity being shown within the APEC process, and this should be especially reflected and manifested in an attempt to really help these developing countries build and strengthen their capacity, strengthen the institutions and strengthen the regulatory environment. These are very important when these countries open up. There also needs to be a greater sense of assurance that we will not lose out in the process. That is the function of the economic and technical cooperation agenda of APEC.

This year, Malaysia is in the chair of APEC. I think Malaysia is clearly going to bring up these issues more clearly in the APEC agenda this year. There has been concern that too much attention to economic and technical cooperation may somewhat weaken the momentum for trade liberalisation in APEC. I am of the opinion that this is not necessarily so.

At this stage we have already come to a rather progressive process in our trade liberalisation agenda through the so-called concerted unilateral liberalisation and so on. Apart from the so-called individual action plans that continue to be improved, there have also been collective action plans, which are basically in the area of trade and investment facilitation. But we saw last November in the meeting in Vancouver that, even under the circumstances, with countries already facing crisis in east Asia, there was a readiness to look at new areas in which trade liberalisation initiatives could be taken together, and this is in the so-called early voluntary sector liberalisation. These things also help to continue to further the process.

We do not think we will see major initiatives come out in these areas in the next year or so but if we continue with what we have I think we can maintain its momentum. There is always in the APEC way of doing things the need to have heroes. Usually it is the chair of APEC each year who should act as a hero by being willing to do more than others. I am not sure that we can expect this from Malaysia this year in the areas of trade liberalisation and financial liberalisation because of the crisis. But I think if we can help put on the agenda economic and technical cooperation, I think we might get greater support and leadership on the part of Malaysia to pursue this balanced agenda.

Finally, when talking about economic and technical cooperation, I want to stress again its importance now exactly because of the crisis. APEC, according to its philosophy in the area of trade liberalisation, could reinforce what individual countries are doing and try to accelerate this process, and in the area of economic and technical cooperation I think APEC also could do this. What is curious to observe is that during this crisis and the attempts to resolve it, part of the measures that governments have brought in, including in Indonesia—and I think particularly so in the case of Indonesia, which I can elaborate on later—is the necessity to continue with structural reforms.

So while we are facing a currency and financial crisis which is of a short-term nature, the package of policies has included these structural reform programs of a medium and longer term nature. It included a number of areas in which we commit ourselves again to further opening up the country in trade and investment as well as in the financial sector. Therefore, we should be able to capitalise on this in the sense that so far a country such as Indonesia facing this crisis has not taken the attitude of closing in. Rather, it has sought to make use of this crisis. In fact, it was because there was a group in the government that thought it was important to make use of this crisis to continue to open up the country that this agenda of structural reform has become part and parcel of this package.

It is important from our perspective that these efforts, which are still very fragile, be given support by APEC, and that there be an understanding and an active role by Australia to give this kind of direction to APEC, which is, I think, in a period of soul-searching, so that it can and will bring this into its agenda for the years to come.

CHAIR—Thank you, Dr Soesastro.

Senator LIGHTFOOT—Thank you, Dr Soesastro, I appreciate your contribution here this morning. Must not one of the fundamental structures of reform in Indonesia now be, or include, a debt moratorium? If there is no debt moratorium, how do you see the economy and the currency being reformed?

Dr Soesastro—If the exchange rate, the currency, cannot be strengthened in the near future, at this level of exchange there is no way that companies can pay off their debts. You understand very well that, compared to early July last year, each dollar is about five times more expensive for Indonesians now. It is that magnitude that is simply impossible. Therefore, efforts to stabilise and strengthen the rupiah are so important. Many have argued that you cannot strengthen and stabilise the rupiah unless you solve the private sector short-term debt problem. So it is almost like the chicken and the egg—a vicious circle in this case.

A debt moratorium, if it involves the country as a whole, may not be a good thing. I think one needs to separate out the government debt and the private debt. The government has, I think, already made an assurance that it will continue to honour its obligations on its part. I think the government can do so partly because its borrowing is still mainly in the form of multilateral sources as well as official development assistance from bilateral donor countries at softer terms and for longer time periods. I think that part can be handled. It is the private sector debt that is the immediate problem.

A voluntary, temporary debt moratorium has in fact been suggested. I do not know how this is going to work, but the idea is that companies that really cannot pay their debts should immediately sit together with their creditors to see what they can do. Meanwhile, the government in fact gives a blessing—that is what I think it means—for their companies to not pay their debt for the time being, partly with the view of lessening the pressures on the rupiah, on the currency, because if companies are forced to pay they will try to get as many dollars as they can and it will drive up the dollar again.

So what is meant by voluntary is that those who have no problems with paying their debt should continue to do so, and that has been the policy of the government thus far. And temporary means that it should only be very temporary.

Senator LIGHTFOOT—What are the revised figures for the fiscal year growth, whether they are negative or positive, this year? Could you give the committee the latest revised figures for the Indonesian economy?

Dr Soesastro—The budget that has been drafted for the fiscal year 1998-99, starting on 1 April, made the assumption of zero growth for next year, an inflation rate of 20 per cent and an exchange rate of 5,000 rupiah for each US dollar. That is revised from the earlier assumption that was made of a four per cent growth rate, which is going down now to zero, an inflation rate of nine per cent, which is now going up to 20 per cent, and the exchange rate of initially 4,000, now going to 5,000.

The challenge here, of course, is to bring down the dollars or to strengthen the rupiah from the level it is at today, at around 11,000, to 5,000. It is still a tall order to do so. I noticed earlier that there were remarks made that it appears to have been stabilised in these past few days. One is not certain about it. Part of the reason is that many of the markets outside Indonesia—Hong Kong and Singapore—were closed because of the Chinese New Year and the market in Indonesia was closed because of the celebration at the end of Ramadan. Once we are back we will have to find out how things are moving.

The measures that the government has taken and announced last week, which include reforms of the banking sector in addition to a number of decrees to implement the agreement with the IMF as well as moves in the direction of resolving private sector debt, have initially been reacted to favourably by the markets. But they tend to adopt a wait-and-see attitude; they want to see how this is being implemented.

Senator LIGHTFOOT—Indonesia is the fifth most populous nation on earth—you have over 200 million people. I have visited Indonesia on several occasions and have always enjoyed my time there. In Australia we see that 200 million as being rather crammed, even though Indonesia is the longest archipelago in the world. Do you see it as an asset or a liability having that kind of population on a relatively small area of land in terms of economic recovery?

Dr Soesastro—It is both an asset and a liability at the same time. At this present moment it appears to be much more of a problem to us. While unemployment was already at some level even before the crisis, depending on how you define unemployment, if one includes what is understood to be disguised unemployment, then somebody has said that the unemployment rate was 30 per cent even before the crisis. New estimates suggest that, including disguised unemployment, the unemployment rate as a whole for the country may increase to around 40 to 50 per cent this year as a result of the crisis.

Senator LIGHTFOOT—Do you think that there is going to be an inordinate amount of civil unrest? Is that a fear that some leaders in Indonesia have as a result of what is certainly going to be a serious increase in unemployment, given that over the past 10 years—I think President Suharto is to be congratulated on doubling the economy in about that period—there has been a drift from the rural areas to the urban areas? Do you think that there will be civil unrest as a result of that, given the concentration of people in major cities? Do you think that there will be a drift now from the urban areas back to the rural areas and a more traditional way of life?

Dr Soesastro—In the past there was a sort of safety valve provided by the rural areas—people who are out of work in urban areas always go back to the rural areas. This time around it appears to be more difficult because of the effects of the prolonged drought. Even in some rural areas we have already noticed shortages of food.

Senator LIGHTFOOT—Where are those areas?

Dr Soesastro—In eastern Indonesia definitely, but also in some areas of Java there is already this problem, partly as a result of the increased prices of food.

Senator LIGHTFOOT—Imported food or indigenous food?

Dr Soesastro—Also indigenous food. I still need to study the reasons for this a little more. The latest figures on the inflation rate for the month of January alone suggest that this is something that is very worrying because the inflation rate was 6.88 per cent in January, almost seven per cent, and food prices increased by 11 per cent.

Senator LIGHTFOOT—How could you reconcile the seven per cent for inflation with the 20 per cent inflation for the next fiscal year?

Dr Soesastro—It is going to be very tough. This seven per cent inflation rate for the month of January reflects a few things that happened in January which need not necessarily be repeated in the coming months. It has always been the case, paradoxical as it may sound, that during the fasting months the consumption of food increases because people celebrate. At the end of the day they eat more. There is always pressure for food prices to increase.

The price of rice is what it is because the government has reacted too late in distributing the rice to various areas. They did not expect this panic buying of rice and so on when the rupiah went down to 10,000 in the first place. It was sort of a psychological level—as soon as it reached that amount, people panicked and bought up food and all these things.

Senator LIGHTFOOT—I have a couple of questions in the same bracket. When it was announced that Dr Suharto was to run for another term, the rupiah decreased in value against most of its major trading currencies, particularly the Australian dollar and the US dollar. It was exacerbated in terms of currency depreciation when it was announced that Dr Habibie was to become President Suharto’s deputy. That meant, as they say in the United States, that the deputy is only a heartbeat away from becoming president. Both men—the generals, in effect—have governed Indonesia. Indonesia is a very valued neighbour of Australia, it is a very valued trading neighbour and it is very valued in recent times with respect to defence cooperation and bilateral training of the various sections of our forces.

But isn’t the international yardstick of a currency depreciation something of significance in terms of political leadership? I know the army is involved in a lot of information technology, a lot of investments. We talk about trade liberalisation, and perhaps it is time to talk about political liberalisation with Indonesia. Is it time or is it not yet time? I understand that it is coming from a colonial background of several hundred years, having had that yoke for those years, and trying to come into the 21st century, which we are already approaching, but isn't it about time that we had some political liberalisation within Indonesia?

Dr Soesastro—Your question has a few components to it. Let me try to answer it by first defining the nature of governance and the political system as it is. While it certainly is true that President Suharto was a former army man and was supported by the armed forces to be in the position he is in now—that is a fact—and that the armed forces still play a role in non-military affairs of the country on the basis of the doctrine of dual function, in fact the nature of the armed forces' involvement has changed over the years. I would say that at the present moment the nature of politics is pretty much defined and developed by those that have become the elite in the political realm. This is very much dominated by one person, namely, the President.

The armed forces come into the picture only if the political elite needs somebody to clobber somebody else, but the armed forces do not define the game. The army is put pretty much aside but it will be thrown in as soon as somebody needs the armed forces to clobber somebody else. This certainly is unfortunate. It is a worse situation than we had before, in which the army was much more involved, because they understand the intricacies of politics. Now they are set aside, but they will be thrown in each time by those players, if they need somebody that can be instrumental for them in terms of the use of force. That is the nature of politics in Indonesia today. I have forgotten now how that relates to your big question of development.

Senator LIGHTFOOT—The structure and political reform.

Dr Soesastro—I think what the markets have shown is that, to them, President Suharto cannot be part of the solution to this crisis but is in fact part of the problem. That is what in fact the markets have shown by reacting to this.

Senator LIGHTFOOT—Yes.

Dr Soesastro—I think the public in Indonesia and generally is sympathetic to that view.

Senator LIGHTFOOT—And Mr Habibie, too, if you use the same measure.

Dr Soesastro—The mechanism for change is not there. While the market reacted so negatively to it, I do not think we will see much change come in the March election of the President. What is still unclear, of course, is the election of the Vice-President. The market has also given a strong signal but the President, given his very high sense of survival, would understand what it means and may have second thoughts on the Vice-President but not on himself.

Senator LIGHTFOOT—Judging by the world reaction, that would be a positive move.

Dr Soesastro—To?

Senator LIGHTFOOT—To the President, Mr Suharto, reconsidering the vice-presidential situation. It would seem to me—if I could use the recent reaction to the Vice-President's proposed appointment—that it would be a positive reaction in terms of the international view taken as a result of that appointment.

Dr Soesastro—I think so. I think many in Indonesia have that view too.

Senator LIGHTFOOT—I thank you very much, Dr Soesastro.

Senator QUIRKE—Isn't the central problem in Indonesia the fact that the country owes $A200 billion to the rest of the world, with an export sector that has hardly developed at all?

Dr Soesastro—I think it is. By now we should recognise that the level of debt is already quite alarming. As suggested before, even 10 years ago that concern was expressed. That led, in the late 1980s, to the establishment of a sort of government party to begin to control external borrowing. The government, for its part, had been able to do so because it was easy for the government to just tell the state enterprises and so on that they could not borrow because they must get permission from this committee. But it is borrowing by the private sector which could not be controlled.

Part of the reason is that we have adopted a very open capital account. The exchange regime has been very open. There is no need to report whatsoever on bringing in money or taking out money. There are no report requirements whatsoever. That has been somewhat misused. On the other hand, while the appetite for foreign capital was big and increasing, it was also being pushed upon many of the Indonesian corporations to accept large borrowings, especially in the past five years.

I think the big mistake was that both the debtor and the creditor sides relied on short-term capital to finance long-term projects, and many of those did not even earn foreign exchange. The property sector is definitely one example. While increased uses of external capital can be justified, the heavy reliance on short-term capital for financing the kinds of projects for which the funds have been used was, I think, regrettable.

Senator QUIRKE—How much is the government component of that debt? I understand that the debt sits at $US130 billion.

Dr Soesastro—The latest figures suggest that it is about $120 billion, of which $65 billion is private and $55 billion is government. So the private sector debt has become larger than the government debt.

But, again, one needs to be very careful with interpreting these figures, because what is called government sovereign external debt is the one undertaken by the central government or those guaranteed by the central government, but in the private sector debt there are also a number of state enterprise borrowings that have not been guaranteed by the government.

Senator SANDY MACDONALD—I would like to ask you about the position that Australia might find itself in in relation to our region. I acknowledge, as you would, the very strong bilateral relationships that we have, for instance, between Australia and Indonesia. But it seems to me that Australia has got to find its place somewhere in the region. We are not in the East Asia economic caucus; we are not in the ASEAN Free Trade Area; we are not a member of ASEAN; we are not, despite our desire to be, involved in the Asia-Europe meeting, ASEM, which you have written on in the past. It seems that there are these trading blocs that are developing in which Australia does not find itself as a member.

Furthermore, now that APEC has closed its membership, India is not a member of APEC and as, along with Indonesia, it is one of the fastest growing emerging economies that is relevant to Australia, it seems that where Australia finds itself is something that we desperately need to address. So I ask you: what area, what bloc, what niche is there for Australia? What do you feel about the exclusion of Australia from the ASEM talks? Why were we excluded? Are we likely to be admitted at some later stage? And can I have your comments about India and APEC, please?

Dr Soesastro—There are various components to that question. Let me begin with ASEAN and AFTA, the ASEAN Free Trade Area. For geographic reasons certainly, ASEAN would not incorporate Australia. It even hesitated to accept Sri Lanka when Sri Lanka applied some years ago. It is an organisation of South-East Asian nations with similar histories and so on. But once they embarked on the ASEAN Free Trade Area and began to look more closely at it, I think by now it is very clear that AFTA is never going to become a closed trading bloc. It just cannot afford to become one.

What we have seen in the past three or four years is that AFTA is being used more or less as a training ground for these countries to open up. If one looks at the schedule of tariff reductions that each of the ASEAN countries has introduced, at the same time that they are reducing their AFTA preferences—the tariffs that apply to the other ASEAN countries—they are doing it unilaterally for the rest of the world as well. It could either be done at the same time or with a lag time of around six months or one year. That has become the pattern. Therefore, I think Australia need not be concerned about being left out of ASEAN and AFTA, because AFTA is really becoming a very open arrangement.

In addition to that, I think that ASEAN understand very well that they have to prepare themselves for participating in APEC more effectively in other areas that are even much more difficult than trade liberalisation, namely, those dealing with issues such as competition policy, in order to create domestically an environment which is much more of a level playing field, creating new regulatory systems and so on that sooner or later will be pretty much on the APEC agenda. ASEAN, I think, has approached Australia and New Zealand through ANZCERTA for closer cooperation in that area. Here is where I see a niche, as you say, for Australia to come into the economic realm of South-East Asia in a very significant and important way. We are, I think, in the process of restructuring the way we do things in the region as part of a broader regional as well as global economy.

But these things are so new to us—competition policy and all the other regulations and rules of the game which we think are going to be important, the setting of standards and so on. The more I looked into it I thought that for us, seen from a South-East Asian perspective, Australia is a very natural partner through which we can learn, and your experiences can also be transferred to us more readily. On the other hand, from Australia's point of view, it should be very important from a medium and longer term perspective if we can begin to harmonise our rules, regulations and so on. That is the most natural way to bring economies together. That is certainly one.

Although ASEM, the Asia-Europe Meeting, began with such a high profile, because it started out with a summit, it certainly is of a different nature from APEC altogether. Statements even among the Asian countries officially mentioned the different nature of it and to them APEC is still one level, I would even say higher. But it is given greater priority than ASEM because of the objective of this thing. APEC, as I said before, had a lot to do with community building in the region. ASEM is more or less an attempt to build bridges across two regions, whereas APEC is the creation of a new region. Therefore the agenda is certainly different. We are not giving as much attention to ASEM as we are to APEC, and that is largely because of the nature of the agenda itself. But I think, building or not, ASEM can be important as a way to organise the East Asian side of it.

People give various interpretations to ASEM, such as that it is politically motivated to counterbalance our relations in the trans-Pacific. I do not think that is necessarily the case. It is because we want Europe also to continue to give attention to Asia. But I think it is the organisation of the Asian side itself which is quite important in this sense. This relates to your other question about the East Asia Economic Caucus, because that is the reason Australia is not also included in ASEM.

When the East Asia Economic Caucus was objected to by the United States, a member of ASEAN—and I know which member it was—had become very adamant about this grouping. I would say it is not a trading bloc, and it cannot be because members of the East Asia Economic Caucus, such as Indonesia and Japan, are never going to accept this grouping being turned into a trading bloc. It is more or less a club. We felt that we were driven to come together, maybe for the wrong reasons. Malaysians certainly look at it differently from the Chinese, from the Indonesians and so on.

In this regard Indonesia has the most sanguine view of the East Asia Economic Caucus, saying that it could have some value because we do share some economic problems together and we can consult each other to resolve these. But that is all—nothing more than that. In the case of China, maybe Malaysia, there is a strong sense of Asianism behind the East Asia Economic Caucus, therefore they have been so reluctant to bring in countries which they regard as not Asian. I do not think Australia should be worried about it. This is much more at the level of rhetoric and politics. The more you push for it, the more the other side is going to take a more stubborn position on this because it does not want to lose face and all that. So on this side I think one should play a very low profile.

To me, there are two important regional fora for Australia. One is definitely APEC. The other one is the cooperation between ASEAN and ANZCERTA, which has real substance, if one can put it more sharply, because there is a great need on the part of the South-East Asian countries to go into areas beyond trade liberalisation and so on and to move to more essential areas of managing economies and formulating regional cooperation schemes.

CHAIR—Thank you. Dr Soesastro, we are fast running out of time so I will try to keep my question as brief as I can. Back in 1995, in the Sydney papers, you put forward a view that there was a broad view of APEC and a narrow view, the broad view focusing on community building in the region and the narrow view focusing on things such as an investment code or the negotiation of tariff cuts. What is the predominant view now within APEC, from your perspective, and what should we be moving to: the broader view or still trying to remain with the narrow view? How should we be progressing?

Dr Soesastro—The way I thought APEC needs to develop is to combine those two views. After all, the narrow view has some merit in that it focuses on concrete areas of cooperation. But adopting only a narrow view would be dangerous for the region, because then one tends to forget that the ultimate objective of APEC is, as suggested by the broader view, community building. Community building implies that one needs to be more willing to engage in a give and take process, understanding each other’s problems and so on. The narrow view in fact in APEC has been predominantly adopted in the past by the Americans, who want to see results immediately. The political processes in the United States do not tolerate people coming together without bringing back visible results. Therefore they have always been talking about results and outcomes, whereas community building needs a process of understanding. You have to develop a habit of cooperation and these things. At the end I do feel that again one needs to have some kind of a balance, because simply talking is also not the purpose of the exercise.

CHAIR—So you are saying that the narrow view predominantly lies with the United States, whereas the broader view would be the view more likely to be adopted by most of the East Asian nations. Therefore, if there is this competition between the American view and the Asian view, if we can call it that, where does the happy medium lie? Undoubtedly the Americans will push on for results. They are very competitive in this area, whether it be through their other treaties like NAFTA and so on. Does this then pose a threat to the long-term viability of APEC?

Dr Soesastro—It could, but, as we have developed until today with the modality for trade liberalisation that has been agreed upon in Osaka and since worked out, the Americans, particularly those directly involved in the process, have begun to see that this process, based on adopting this broader view of organising the region, does in fact produce results. Of course, it is producing these results which in the end is important. Excuse me for saying ‘the Americans’; individuals are involved. But initially the predominant view from the other side of the Pacific was that results can only be produced through a particular way of doing things, and so they were equating results with structures, saying that only if one adopts this structure can it bring results.

What APEC has thus far shown is that a different way of doing things could also produce results. In fact, I am of the opinion that, had we adopted the other approach, it would not have brought us this far. The other approach of immediately organising oneself into a very strict organisation, binding commitments and so on, would be so threatening for many of the members that they would not even dare, and would not even feel comfortable, to participate in the process.

CHAIR—So the very weakness of APEC, perceived by some people, which is the fact that there are no binding structures on any of the economies, is really a strength as well, as we discussed with a witness earlier this morning.

Dr Soesastro—It can be a strength, but you cannot take it for granted. It is there and you should capitalise on it, but it cannot be taken for granted. There are a few things that need to be done. For instance, when one says that peer pressure is the way to go—it is non-binding but there should be peer pressure—the question is how one creates this peer pressure. It is very important.

In the APEC context, there is an emerging mechanism to review and monitor progress. It is this reviewing and monitoring exercise that could create the kind of peer pressure necessary, if it is done in the right way. This needs to be evolved still, but as it is now I have seen directly how it worked in the past.

By now I think I can reveal that in the first round, after we agreed upon the Osaka action agenda for having these individual action plans, the meetings in the Philippines, in preparation for the PECC meeting in November, began to look into this problem of individual action plans. Even bureaucrats were so concerned at that time about discussing their individual action plans as a group. So the first senior officials meeting decided that a discussion on the individual action plans of members to open up would be undertaken on a bilateral basis. So Indonesia meets bilaterally with all the other 17 countries, and so do the others in consultation.

The meeting was not done as the other sessions had been, because they do not want to embarrass members. In fact, peer pressure did work because the head of the Indonesian delegation confided in some of us, the academics who were present, how embarrassed he was when he had to present the initial Indonesian IAP, which looked so much less in terms of what it had to offer when compared to the Malaysian and the Chinese ones—two countries that have been more sceptical about the process than had Indonesia. That is the kind of peer pressure that I think would help the process.

Now we have, in addition to the official one, the APEC Business Advisory Council. I think they can be more blunt in reviewing the individual action plans. Also, organisations such as the Pacific Economic Cooperation Council, which is a non-government body, have undertaken this individual assessment of the IAPs. Since they can be more open and more critical, their role can be useful.

CHAIR—Thank you, Dr Soesastro. We have gone well over time but the evidence you have given us has been very helpful to us. Thank you for appearing here today.

[12.02 p.m.]

RAVENHILL, Dr John, 2 Marrakai Street, Hawker, Australian Capital Territory 2614

CHAIR—Welcome, Dr Ravenhill. In what capacity are you appearing before the committee?

Dr Ravenhill—As a private citizen.

CHAIR—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. The committee has before it a written submission from you dated 29 January 1998. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Dr Ravenhill—No.

CHAIR—Before inviting you to make an opening statement, I did indicate that we would proceed until 12.45 p.m. I am sure, with the forbearance of my colleagues, that we will give you more than ample opportunity to explain your point of view in your opening statement, and then questions will be asked very precisely by my colleagues. I now invite you to make an opening statement and then we will proceed to questions.

Dr Ravenhill—Thank you for inviting me to appear before this committee. I was on field work overseas when the committee initially called for submissions and hence was unable to prepare one at that time. The opportunity to make a late submission has given me the advantage, however, of being able to read the first batch of submissions to the committee and, thanks to the efficiency of the committee's staff, to read the record of the committee's meetings in 1997. In my submission I have concentrated on points that I believe have not received much attention in the committee's hearings to date.

The committee has been concerned with what it perceives as a lack of public interest in and lack of understanding of APEC. I believe that part of the problem is that the supposed benefits of APEC have been oversold to the public. The principal reason is that governments and economic commentators alike have placed excessive emphasis on APEC as a force for trade liberalisation—an area of its activities in which it is unlikely to make any significant contribution.

In contrast, APEC's other activities, where modest but realisable objectives are being pursued in the fields of trade facilitation and of economic and technical cooperation, have received relatively little attention. Moreover, the important contribution that APEC has made to political communication in the region through the establishment of the leaders meetings has been almost completely ignored.

Why am I sceptical about APEC's potential role in trade liberalisation? I detail the reasons in my submission by contrasting APEC's approach with that of the World Trade Organisation, which has been remarkably successful in reducing industrialised economies' tariffs on most manufactured goods. In summary, APEC's reliance on voluntary liberalisation has two principal weaknesses, both of which relate to the political economy of trade liberalisation. Firstly, if commitments are voluntary, governments cannot claim in their negotiations with domestic protectionist forces that their hands have been tied by their international obligations. Secondly, in the absence of binding commitments, governments cannot be certain that the trade concessions they make will be reciprocated by their trading partners.

Uncertainty about reciprocity causes two political problems. Firstly, domestic groups opposed to trade liberalisation will have their hands strengthened. They are able to argue, for example, 'Why should Australia lower its car tariffs, when Australian car exports face a 300 per cent tariff in Malaysia?' Secondly, the activities of these groups are less likely to be offset by pro-liberalisation forces, if no certainty exists that APEC will create access to new export markets. As overall tariff levels are reduced, these political economy issues take on ever greater significance in the sectors that continue to receive protection. Protectionist forces mobilise an array of resources. For instance, one could not help but be struck by the irony that the Prime Minister of Japan, on his visit to Canberra, lobbied in favour of continuation of protection for the Australian car industry.

A second reason why APEC is unlikely to make much headway in trade liberalisation is that there is an impasse amongst its member states on the principle of open regionalism. For the United States and Canada, an extension of trade concessions to non-APEC members without reciprocity is unacceptable. For Asian countries, the construction of a preferential trade arrangement in APEC is equally unacceptable.

Disappointment at APEC's failure to add value in trade liberalisation—as manifested in the member economies' individual action plans—has led to a new focus on sectoral liberalisation, following the success of the information technology agreement at the Subic Bay meeting. A sectoral approach indeed has some potential for making progress in liberalisation, but in my submission I detail the reasons why success in information technology products may not be replicated elsewhere.

APEC arguably has a greater potential to achieve results in the fields of trade facilitation and economic and technical cooperation. Several considerations should apply to APEC's trade facilitation activities, however. Firstly, there is a need to establish a clear sense of priorities, which is currently lacking. Secondly, one should always ask whether APEC is the most appropriate forum for negotiation on specific issues.

Two questions are important here, I would suggest. Will negotiation within APEC duplicate activities elsewhere? Will negotiation within APEC—with its emphasis on voluntary action and consensual decision making—optimise the outcome, or could better results be achieved in a global forum? Economic and technical cooperation has received little emphasis to date, primarily because the Japanese government alone among the industrialised economy members of APEC has been interested in investing any substantial resources in these activities.

Finally, I turn briefly to political cooperation. The important role of APEC's leaders meetings initiated at Seattle in 1993 has received relatively little attention. The meetings have already served several important purposes. They have provided an opportunity for bilateral discussions among leaders who otherwise, for various reasons, may not have met. They have helped to maintain an active US focus on the region and, from the perspective of Canberra, they have helped Australia to pursue its objective of engaging more closely with Asia.

In the absence of significant new initiatives within APEC each year, it may be difficult to sustain the interest of heads of state in the organisation. Whether the leaders meetings are too important to have them tied to APEC is a question that may have to be addressed in the near future.

Senator QUIRKE—You make a pretty compelling case that APEC is not going to lead to trade liberalisation. The question obviously comes from that: why are we in it?

Dr Ravenhill—For many years Australia has been attempting to engage more closely with the Asia region, in economic cooperation in particular. So APEC is the culmination of a couple of decades of negotiations that took place among private actors and later among governments. It clearly is an important organisation for Australia in terms of political engagement in the region. But, having said that, one has to be aware of its likely limitations and that the danger is that APEC will be oversold. Expectations have been raised and it is unlikely that APEC will be able to deliver on some of these expectations, particularly in the field of trade liberalisation.

That is not to say that APEC does not serve other important purposes. I believe it can help in trade facilitation although, again, one has to question whether APEC is the best vehicle for some of the issues that need to be resolved. APEC also has served an important political purpose and so I think from the Australian perspective APEC is definitely a good thing. It is better to have APEC than not to have APEC, but one has to be realistic about what APEC can deliver.

Senator QUIRKE—One of the key crutches that APEC stands on is its ability to deliver real and solid tariff barrier cuts by the year 2010. You did not mention that in your evidence, but I think you alluded to the fact that these goals either will not be achieved or if they are achieved they will be achieved in other forums.

Dr Ravenhill—That is correct. I do not believe that APEC itself will play a major role in the reduction of tariff barriers. I think we will see continued liberalisation in some countries in the region because governments clearly believe that it is in their interests to do so.

I think that you will, however, increasingly see difficulties in opening up sensitive sectors. We see this in Australia; we see it in other parts of the region. To date there has been no evidence that APEC itself can play an important role in helping to bring about liberalisation in these sensitive sectors.

CHAIR—Could that be attributed to the fact that APEC is but young, in a sense, and that it has not got the maturity to be able to do that at this stage?

Dr Ravenhill—That would be a very optimistic perspective on it. I do not think that that is the primary reason. It is the modus operandi of APEC—the reliance on voluntary liberalisation. There is no sign that this is going to change in the future. What does APEC rely on? It relies primarily, as Dr Soesastro said, on peer pressure. The problem here though is that where the Indonesian trade minister may feel embarrassed, when he is in an APEC meeting, about the relative paucity of the concessions that Indonesia plans to make, when he goes back home and has to negotiate in cabinet and negotiate with the Indonesian private sector, then in a situation of voluntary concessions that minister is going to have much less leverage than if binding commitments were made within APEC. It is quite clear, again as Dr Soesastro explained, that binding commitments simply are not acceptable to most of the Asian economies.

CHAIR—That is the basis on which APEC has survived. If it had been otherwise it would have died a natural death long ago, wouldn't it?

Dr Ravenhill—I agree. I think you are absolutely right in saying that APEC in fact would not have been set up except on this basis of voluntary liberalisation. Having said that, though, one needs to realise what the weakness is of this approach—that it is simply unlikely to deliver the goods.

Senator QUIRKE—Some of the evidence that has come before this committee has indicated that the current situation in Asia is likely to lead to greater trade liberalisation. Some of the other evidence that has come before us has indicated that it may not in fact be desirable for certain sectors of the different economies that have been thus affected. In fact, there seems to be a dichotomy of evidence about where we go from here, or in fact where Asia is likely to go from here. What is your view on it? Do you think that the current Asian crisis will lead to greater liberalisation, or do you think in fact that it may have the effect—certainly it was the Malaysian Prime Minister's initial reaction—of in fact putting walls up?

Dr Ravenhill—That is an extremely important but very difficult question to answer, Senator. As Bob Joss said in his remarks yesterday, we just do not know how this crisis is going to develop. One sees positive signs of stabilisation in Korea and Thailand. Indonesia, however, is clearly a different case. Even if one saw successful stabilisation in these economies, I think the next real danger is that, given the competitive advantages that some of these economies will now have because of lower exchange rates, there will be problems, especially for the United States in bilateral trade balances in the coming 18 months or so. This may lead to a decline in profitability in US companies, and that may trigger a decline in stocks on Wall Street. There are all sorts of possible directions in which this crisis may move.

Certainly, the thrust of the stabilisation packages that the International Monetary Fund will be attempting to put into place will be towards greater liberalisation. Whether or not these pressures will actually result in significant changes remains to be seen. Studies of IMF stabilisation programs in South America and in Africa over the last 15-20 years show that there is an enormous amount of slippage between what is agreed by governments and the Fund and what actually is implemented in practice. So, even though the pressure will certainly be on for liberalisation, I do not think we can be sure at this stage that that will be the end result.

CHAIR—So what will actually be the vehicle for trade liberalisation in your view? Will it be circumstances such as we are experiencing now in Asia where the IMF step in and demand certain trade liberalisation steps to be taken as a result of their bailing out package, or will it be through the likes of the WTO?

Dr Ravenhill—I think there is potential for some liberalisation under IMF pressure. Again it comes back to this question of the coalitions that are involved in these countries. Often we seem to think, 'Well, the problem is the government; the government does not want to liberalise,' but that is often not the case. There are elements within the government that want to liberalise, there are elements within the bureaucracy, and there are industries that would press for liberalisation.

With the IMF putting pressure on governments, the government has the advantage that it can claim that its hands are tied. This is coming back again to this question of binding commitments. If you take the Indonesian case, President Suharto can now go back to his old mate Dr Habibie and say, 'I'm sorry, we just cannot pursue these technology projects any more; the IMF is not going to allow us to do this.'

This gives an advantage to pro-liberalisation forces. Of course the danger is that, if this is pushed too far and is perceived by the population as something which is being imposed by Washington, you will get a nationalist backlash. So a very delicate balancing act is going to go on in many of these countries. But there is no doubt that, used judiciously, the argument that the IMF is tying one's hands behind one's back can help pro-liberalisation forces.

Senator LIGHTFOOT—I am very interested in your comments with respect to the relevance of APEC. In an Australian sense is our membership of APEC relevant?

Dr Ravenhill—I think it is, again because of this importance for Australia of engaging with the region. APEC is the principal vehicle by which Australia does this.

Senator LIGHTFOOT—But it needs reform? APEC needs reform to make it more relevant to Australia?

Dr Ravenhill—Yes, I think so, or we need to be realistic about what APEC can achieve and then think about the potential dangers for APEC as an institution if it does not achieve the results that some people have suggested can be realised. We have now had several summit meetings in which there has been very little to celebrate. The information technology agreement helped save the Subic Bay summit, otherwise the leaders would have had very little to celebrate at all. The Vancouver leaders meeting went by without really any significant progress.

Part of the problem, as again Dr Soesastro indicated, is that Washington expects results. Can one anticipate Clinton or his successor turning up to the leaders' meetings when all that is on the agenda is marginal change in customs harmonisation? So I think one of the key questions here is how to make sure that the advantages of APEC from the perspective of the political cooperation—of bringing these leaders together—is not undermined if APEC does not make substantial achievement in the economic world.

Senator LIGHTFOOT—I am delighted to be able to quote this to you, because the press often do this to me. You said in Osaka in 1996, if you were quoted correctly, that APEC's principal achievement was:

. . . to find a sufficiently ambiguous terminology to paper over the cracks within the grouping so that it could stumble towards its next summit.

I rather like your turn of phrase—I think it is very colourful—but have we papered over the cracks and are we going to stumble towards the next summit with APEC? Given that, is Australian membership still relevant?

Dr Ravenhill—We have papered over the cracks in the sense of finding sufficiently ambiguous terminology on trade liberalisation so that we can continue to claim that progress is being made, yes, but again I come back to the argument that APEC is important for other reasons. That is what we should be concerned about: the political cooperation side of things. Yes, APEC will achieve maybe some modest progress in trade facilitation, but let us not put Australia's engagement with the region and political cooperation within the region as a hostage to trade liberalisation, which is perhaps unlikely to eventuate.

Senator LIGHTFOOT—Do trading blocs, or the myriad of trading blocs, that seem to have formed throughout the world, particularly in the last decade, enhance or inhibit world trade—I mean generically, of course?

Dr Ravenhill—To date, I think there is very little evidence that they have inhibited world trade. The situation in the 1990s is quite different to that, say, in the 1960s. We are not seeing trading blocs which are growing up with high tariffs with the idea of trying to encourage foreign investors to come in behind high tariff walls. Instead, the overall movement on tariffs has been downwards. Fears that existed, say in the 1980s, that a 'Fortress Europe' would eventuate have not materialised. The European Union's tariffs have continued to come down. So I think, up to now, there has been very little reason for concern.

Even the World Trade Organisation, which is not usually sympathetic towards regionalism, came up with a fairly sanguine report last year saying that all of the evidence suggests that the recent regional groupings have not been trade inhibiting—in fact, exactly the opposite, they have enhanced trade.

Senator LIGHTFOOT—I remember reading a precis view of one of your many papers. I did not take your view of Australia as not significant in a global view because of its size. That does not limit other trading nations such as Switzerland or Holland that are smaller in population and certainly in area. Prior to the meltdown in Asia, Australia's economy was prominent with those nations that have collapsed momentarily.

Let us take, for example, Indonesia. We are about one-tenth the size of Indonesia, population wise, yet our economy is 10 times that of Indonesia. If you aggregated the economies of Malaysia, Thailand and Indonesia, we are greater than the aggregate of those economies as well. So in a global view you may be correct, although my parochialism and pride in Australia does not allow me to superimpose that view entirely. But, in the positioning of Australia within Asia, surely the Australian economy is significant in that respect.

Dr Ravenhill—The Australian economy, as you point out, is certainly much larger than that of its South-East Asian trading partners, but I think what is very significant about the trade relations between Australia and South-East Asia over the last quarter of a century, since ASEAN was founded, is that you have seen a markedly different movement in the dependence of the economies on one another. For South-East Asia, Australia is a totally insignificant export market. Australia's importance for South-East Asia has actually fallen over the last 25 years.

Senator LIGHTFOOT—Sorry, what was that?

Dr Ravenhill—The importance of Australia as a market to South-East Asia has actually fallen in the last 25 years.

Senator LIGHTFOOT—In terms of market share?

Dr Ravenhill—In terms of market share.

Senator LIGHTFOOT—The economy has expanded, but market share has retreated?

Dr Ravenhill—That is correct, whereas for Australia exactly the reverse has happened. The ASEAN countries have become a much more important market for Australia than they were 25 years ago. So while the Australian economy looms large in comparison with that of Indonesia or, indeed, is relatively large in comparison to ASEAN as a whole, when it comes to the relative importance of the economies for one another I think one can make the opposite case—that the ASEAN economies are now more important for Australia than Australia is for them.

Senator LIGHTFOOT—Economically, was that a retrograde step to redirect Australia's economy away from its traditional markets and confine them more, although not exclusively, to South-East Asian and East Asian markets?

Dr Ravenhill—I do not think this was something that was done at all deliberately; it is just a normal phenomenon that has come out of the patterns of economic growth. As ASEAN countries have industrialised, so they have become more dependent upon the United States and Japan for their exports of manufactured goods. Australia, in comparison of course to Japan or to the United States, is a relatively small market. It is an economy of 18 million people in contrast to 240 million. So it is just a natural outgrowth of forces of economic development.

Where I think there were unfortunate episodes was in the 1970s, when Australia kept out exports of textiles and clothing from South-East Asia. I think this harmed Australia's image in the region at the time, but in the overall scheme of things I do not think that has made an enormous difference to how trade patterns have developed.

Senator LIGHTFOOT—Through the dropping of tariffs that has largely been rectified, has it not?

Dr Ravenhill—That is correct, yes, although some of the things—

Senator LIGHTFOOT—I meant on clothing, textiles and footwear it has largely been rectified.

Dr Ravenhill—Yes. We are moving in the right direction in that regard, but I think our South-East Asian colleagues would feel that we still have not done enough.

Senator LIGHTFOOT—Does ASEAN complement APEC, or even complement the Australian economy, or do you think because Australia is not a member and part of it that that itself harms trade between those ASEAN nations and Australia?

Dr Ravenhill—I do not think that it has a significant detrimental effect on trade because the trade that occurs among the members of ASEAN is such a small percentage of their overall trade, and it has not increased substantially in the 25 years that ASEAN has been in existence. It is still down around one-fifth of their overall trade, so these are very much outward-oriented economies, both in terms of their domestic economy and also the region as a whole.

Senator LIGHTFOOT—Yes.

Dr Ravenhill—The recent experience—again I would endorse what Dr Soesastro has said—has been that, as economies within ASEAN have attempted to meet their obligations under the ASEAN Free Trade Area, they have also tended to offer these trade concessions to non-member states as well. Again it comes back to this overall dependence upon the non-ASEAN market. It is not in their interests to create a closed trading bloc which accounts for only 20 per cent of their trade. It is so different from the European Union, say, where you have 70 per cent of your trade with other member states.

Senator LIGHTFOOT—In terms of the market share that Australia has quite obviously lost, particularly over the last 10 years but extending back perhaps over the last 25 years, we have a policy—and have economic advice that governments of all ilks have had, including that from the Reserve Bank—that simply is diametrically opposed to expanding the Australian economy at the same rate as our Asian trading partners have expanded theirs. In other words, we have sought a policy of growth maximised at less than five per cent and we have used ruthlessly interest rates, particularly with the restrictive monetary policy of the Reserve Bank, to inhibit our growth or to allow us to expand at the same rate as those Asian countries. In retrospect, was that bad? In other words, would we have been able to sustain a boom of that nature without collapsing into the fiscal pit that those nations of Asia who have expanded economies rapidly have done as is so manifest today?

Dr Ravenhill—I think it would have been very difficult for Australia to have grown at that rate, simply because of the structure of the Australian economy. Australia depends so heavily on imports of capital goods that if you have a rapid economic expansion then the first thing that happens is that we suck in a huge quantity of capital goods and components, et cetera. This immediately puts pressure on the balance of payments, and this has been one of the principal problems that the Australian economy has faced over the years. We have had this stop-go cycle because, as soon as the economy starts to grow rapidly, then the balance of payments constraint comes into it.

Senator LIGHTFOOT—And your advice to rectify that?

Dr Ravenhill—Restructure the Australian economy!

Senator LIGHTFOOT—That is simplistic, obviously, and you meant it to be so.

Dr Ravenhill—Yes.

Senator LIGHTFOOT—But, in retrospect, haven't the governments of Australia—at least since the recession that we had to have—been responsible in limiting growth to inhibit inflation, even though we have lost market share in Asia? I do not want to dwell on that because the economy has expanded quite successfully.

Dr Ravenhill—Yes, but I do not know that the relatively slow rates of economic growth here have been important for our loss of market share in Asia. I think that has much more to do with the composition of our exports. We have lost market share in Japan because the structure of the Japanese economy is changing. It is no longer as heavily dependent upon imports of raw materials as it was in the past, and, until the last few years, we have relied very heavily on exports of raw materials. This has meant that naturally our share of Japanese imports has tended to fall.

The situation in South-East Asia is different. We have a much broader pattern of exports towards South-East Asia than we have towards Japan. I think in part the problem has been that until the last decade industry has not been under sufficient pressure to compete in international markets. In the last decade or so, we have done very well with our manufactured exports.

Senator LIGHTFOOT—Are you implying that the economy could have been expanded at a rate commensurate with those of our trading partners and that we could have, at the same time, had a reasonable balance of payments and controlled inflation, and a wage push inflation?

Dr Ravenhill—I do not think I want to imply that. What I want to say is that the structure of our exports could have changed earlier, had there been more pressure on the Australian manufacturing industry to look for export markets, and that this may have helped us in maintaining our trade share in South-East Asia had this occurred somewhat earlier.

Senator LIGHTFOOT—Does that mean that we could have expanded greater than, say, the four per cent average but less than Asian economies—somewhere between those two figures?

Dr Ravenhill—Possibly so.

Senator LIGHTFOOT—Would that be a reasonable figure?

Dr Ravenhill—Yes.

Senator LIGHTFOOT—I appreciate your answers. Thank you very much.

CHAIR—Following on from that, can I interpret from your comment that government needs to have a very active and virulent export policy to survive into the future. That is what you are saying, isn't it?

Dr Ravenhill—Certainly as tariffs are lowered competition will intensify. But it is not entirely a level playing field. There are various incentives that governments offer to their domestic producers to help them export. One of the unfortunate things for Australia in recent years was the decision of the government to do away with the mixed credit scheme, which put Australian exporters at a disadvantage. Fortunately, there seems to be a reconsideration of that at the present time, but this is one clear instance where the Australian government, to some extent, cut the floor away from Australian industry by not enabling it to compete on equal terms with others in markets in South-East Asia.

CHAIR—So the lack of a development import finance facility, the mixed credit scheme, as we had—I think the government have reconsidered it and I do not think they are proceeding with it—is a negative for us, given the sort of trade environment that we are moving into?

Dr Ravenhill—Yes, because other countries are providing such assistance to their exporters. This is a common phenomenon within the OECD. There are OECD regulations on export credits to attempt to make sure that some of the worst excesses of this phenomenon are avoided, but it is a common practice that all industrialised economies engage in. They do attempt to help their exporters.

CHAIR—What evidence do we have of the benefit to the Australian economy of those schemes? Is it just something that is ephemeral or is it something that we can put tangible results to?

Dr Ravenhill—I think it is very difficult to put a quantitative figure on this. One sees the benefits in terms of goodwill and maybe the clearest indication of this was the loss of goodwill that happened when the government cancelled the scheme, as was quite obvious in its relations with Indonesia and China. So while it may be more difficult to demonstrate positively the results of the scheme, the way in which other governments interpreted it and obviously saw it as beneficial, one can see from their reaction to its cancellation.

CHAIR—This committee did conduct a fairly extensive inquiry into that and the evidence was there, I believe, to sustain what you just put to us. On the issue of trade liberalisation, you do not seem to be very hopeful that we are going to achieve it through APEC; you believe that we will need to achieve it through other areas. Obviously APEC has its value for the non-tariff barriers that exist. Is that a fair statement? Is that where the real benefit for Australia is?

Dr Ravenhill—Yes, for some areas of trade facilitation like customs harmonisation and so on, but again one has to ask whether APEC is the best forum in which to proceed for some of these issues. Should one be doing this on a regional basis when we are talking about standards that apply not just in the Asian members of APEC but also in India, Pakistan and Europe? Is it good to try to negotiate these within APEC and then have to renegotiate them with India, Pakistan and the Europeans, or is it better to try to reach agreements within a global forum where you have one set of negotiations? Admittedly there are more parties involved, which may complicate the agreement, but at least it would just be one set of negotiations.

CHAIR—This raises the issue of the membership of APEC and the fact that significantly at the recent meeting they admitted Russia but put a moratorium on membership for the next 10 years. That included a moratorium on India coming into the APEC grouping. It seems to me that is a fairly negative step if APEC is to have a positive role within the next decade in opening up markets and allowing in particular for trade facilitation in the region, particularly with the burgeoning market of India just on our doorsteps, so to speak. When it does things like that, is APEC therefore going down the path of becoming an irrelevance in the longer term?

Dr Ravenhill—I am not sure that the membership issue in itself will make APEC an irrelevance and, of course, these issues can be revisited. Two or three years down the track the moratorium may appear to be something that is not wise and, no doubt, the leaders could come back to it. Essentially there are two views on this. One is that regional integration in the most developed of the regional schemes—that is, in Western Europe—has always, first of all, been deepened before it has been widened—that is, various stages in extending the form of integration have been completed before new members have been let in, and there are obvious advantages to that.

The other view is that APEC has always proclaimed itself as being based on open regionalism, and open regionalism meant open membership as well as extending the benefits to non-member states and so—to keep out countries that are keen on joining the organisation—it will have economic and political costs. On the other hand, one can see that the admission of Russia to the organisation will have its own costs and is going to make negotiations immensely more difficult.

CHAIR—Will APEC facilitate negotiations in the WTO and other global multilateral fora?

Dr Ravenhill—It is possible that APEC can do this. We saw that, of course, with the information technology agreement. This was reached first among the APEC economies and then taken to the WTO. APEC served as a useful lobby group there for liberalisation in what is a very important sector indeed. So there may be circumstances in which APEC can play this role.

On the other hand, from the Australian perspective, if we are interested in liberalisation, it is not always going to be the case that our natural partners in favour of liberalisation are going to be found in APEC. We may instead find that it is the European Union, as well as our APEC partner the United States, that will be the keenest proponents of liberalisation. So in that instance it may be more important to try to push for liberalisation within the WTO itself rather than expect APEC to act as a stepping stone or a lobby on behalf of liberalisation in that particular sector.

CHAIR—Australia has always played the leading role in APEC. Will it need to continue to do so into the future and, if so, what specifically will that role be given the delicate nature of all these trading blocs, the need for trade liberalisation in certain areas and so on—the competing interest? How should Australia react?

Dr Ravenhill—Australia has indeed played a very important role in APEC. One of the problems that the organisation currently faces is that there is no obvious source of forward momentum. Australia played an important role in helping to create it. The Eminent Persons Group played a role in pushing it forward from 1992 through 1995. At the current time there seems to be no equivalent. Perhaps business organisations can play a positive role, again as Dr Soesastro suggested in his evidence.

I think that Australia's role is going to be more difficult for some of the reasons that you discussed with the previous witness—that is, Australia's exclusion from the Asia-Europe Meeting—and the fact that the inclusion of Russia in APEC is going to make the East Asian economic caucus, I think, appear even more attractive to East Asian states. So the question is really going to become how Australia can effectively present a case to other members of the organisation. Also, I think we need a great deal of clarity about what we want out of APEC. What can we expect? If we go in, boots and all, demanding liberalisation, expecting liberalisation, as the Americans have done, then it is likely to alienate other member states.

I come back to the point that I made initially that I think we should put more emphasis on political cooperation in the region; that this may or may not necessarily be linked to APEC; that we should see APEC as a forum that can make modest contributions towards trade facilitation but that we do not want to damage APEC by widening its agenda, as some have suggested, to include security issues, environment, women in development, et cetera. We do not, on the other hand, want to damage the process of political cooperation by making it hostage to an organisation that may not achieve very much.

CHAIR—Probably you heard me earlier discuss with Dr Soesastro the broad view and the narrow view that he put in a paper. Which would you support yourself—that it should have a broad view or the narrow view or some sort of mix?

Dr Ravenhill—I think the narrow view is clearly unrealistic. APEC is not going to produce the goods. So one should therefore have a broader view of APEC as a process of community building. The question is how you link these two, and the potential damage that can be done to the broader objective if too much emphasis is put on the narrow set of objectives and these fail to be realised.

CHAIR—Thank you. We have gone over time, but I do thank you for your evidence here today.

Proceedings suspended from 12.50 p.m. to 1.42 p.m.

CAMILLERI, Professor Joseph Anthony, 13 Mascoma Street, Strathmore, Victoria 3041

CHAIR—Welcome, Professor Camilleri. In what capacity are you appearing before the committee?

Prof. Camilleri—As a private citizen.

CHAIR—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.

The committee has before it a written submission from you dated 14 January 1998. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Prof. Camilleri—Not to the document, no.

CHAIR—I now invite you to make an opening statement and then we will proceed to questions.

Prof. Camilleri—Thank you, Mr Chairman. What I thought I would do in a few minutes is illustrate what I think are some of the key and important question marks surrounding the future of APEC and, by implication from this, sum up desirable moves forward that might help to meet some of those unresolved problems or questions.

First of all what should be said is that, at least in my view and I think in the view of many observers, APEC has put an awful lot of its effort and energy into the question of trade liberalisation. Important though that objective might be, it would be highly unfortunate if APEC was seen to sink or swim depending on how much progress, and how quickly that progress, was made on that front. While there has been progress it is important to keep in mind some of the problems that are already there and that might loom even larger in the period ahead.

Some of the agreements to begin with and some of the processes of trade liberalisation will, to some considerable extent, depend on US support—and I will say more about that in a moment—and in particular on US congressional fast-tracking. It is not clear to me that such congressional fast-tracking will be forthcoming; at least, so far, President Clinton has not been successful in getting it.

The second thing that I think is worth pointing out is that, though there have been a number of decisions both in terms of timetable for trade liberalisation and the presentation of individual action plans and the initial process of monitoring these individual action plans, the fact remains that there are, I believe, substantial differences of interest between some of the member economies of APEC, and I am not sure that those have been as yet adequately addressed. The fact is that most of these economies, and that certainly includes Australia, have governments which have at all times to be very sensitive to their respective political constituencies. Therefore sometimes the proposed pace of trade liberalisation, whether it is the reduction of tariffs or the removal of other trade barriers, may prove much more difficult to achieve than has so far been imagined.

I suspect that the impact of the current financial crisis facing a number of East Asian and South-East Asian economies will make that so much more difficult. Indeed, it may be that a number of East Asian governments attempt to resolve, at least in part, their current problems by trading their way out of economic difficulties, and trading their way out of economic difficulties will mean presumably increased exports on the basis of the reduced value of their currencies but perhaps also maintaining their barriers to imports from outside or at least going much slower on reducing those barriers on imports from outside. A substantial increase in the level of exports from a number of these East Asian economies may in turn result in a certain backlash from the importing countries, the United States in particular.

The last APEC summit meeting in particular went to some lengths to make headway on the question of sector liberalisation, and a number of sectors were earmarked. In the primary list were included energy, chemicals, fish, environmental products, medical equipment, telecommunication equipment and so on. Some of these will definitely require fast-track approval from the United States, and I think it remains to be seen whether such approval will be forthcoming. The fact is that in the United States there are a great number of interests. Some of these are to be found perhaps more amongst the Democrats than the Republicans, but within both major parties. There are unions, environmental groups, human rights organisations and others which have exercised and are likely to continue to exercise considerable pressure on the United States Congress.

That leads me to say one more thing about the United States. While it is true that the Clinton administration, particularly in more recent years, perhaps ever since the first summit in 1993, has shown every indication of wanting to give strong backing to APEC, there are, I think, many sophisticated and well informed observers, as well as scholars, in the United States who question how deep that commitment is likely to be in the years ahead. Let me explain what I think is meant by this. I have in mind in particular one of the highly respected major writers on the subject, Professor Chalmers. His argument is that for the United States APEC is just one option among others. For the United States administration and the United States Congress perhaps, APEC is seen as having one major objective by which it will be judged as to whether or not it is working in America’s interests. That objective is whether or not it will enable the United States to penetrate more of the key markets in this region, including Japan and the newly industrialising economies—the tigers, as they have often been referred to—and indeed some of the others, China included.

APEC is an idea that has been sold to the United States, and which it has been prepared to buy, to the extent that it can deliver on that. Presumably one of the criteria by which the United States will over time judge whether this is happening is whether its trade imbalances—which are very substantial with at least some of these countries—will begin to reduce. I doubt very much that either the American public, key pressure groups or the American Congress will be prepared to wait until the year 2010, let alone 2020, for those very substantial imbalances to fall.

Assuming that they were not to fall very much, my assessment, in line with the argument put forward by Professor Chalmers, is that we will find the US support for APEC waning and perhaps more unilateral or bilateral approaches being explored by the United States in support of its trade interests in this region. I think that is something that has not been sufficiently kept in mind by what I call the enthusiasts of APEC.

Secondly, there are disparities in the levels of tariff reductions that have been accomplished so far. I am no economist—I am speaking here more as a political scientist—but I am told that tariff reductions introduced by Australia over a number of years have brought it to somewhere around the 65 per cent-plus mark of its total export trade, whereas for North-East Asia it is 35 per cent and for South-East Asia it is 38 per cent. These disparities, unless they are corrected over a period of time, may again water down the commitment to trade liberalisation by those due dates—2010 and 2020.

I have seen that a number of writers in the area are suggesting that Australia, which presumably is regarded as an industrialised country, will perhaps be no further advanced than 70 to 75 per cent towards the goal of total free trade amongst APEC economies by the year 2010 and, even if it achieves only 70 to 75 per cent of the goal which it has accepted in principle, that may be considerably higher than what a number of others will achieve, including Malaysia, Indonesia, Thailand and China.

While there is a good deal of enthusiasm and momentum arising from the Bogor summit of 1994, the practical political realities of the next 10 years may show that the process is going to be a slower one than was perhaps originally intended. That is the first significant difficulty that I see for APEC in terms of the very key objectives it has set itself.

Thirdly, there is the question of the financial crisis which now afflicts a number of the East Asian economies. It would be fair to say that a number of those economies had initially expected, or at least hoped, that APEC would have a significant role to play and perhaps would, amongst other things, discuss the possibility of an Asian fund separate from the IMF which might be able to assist them, taking into account special circumstances confronting these Asian countries, in ways perhaps which the IMF cannot. That was strongly and vehemently opposed by the US Administration and therefore became a non-starter.

The point I want to make is that it was not just Malaysia that was calling for such a fund to be discussed through the APEC institution. The Philippines and Japan were initial proponents before the United States showed itself to be so totally opposed to the idea. Even Canada was prepared to entertain the possibility.

So the fact that this was so decisively cut off has, I think, if anything, reinforced the Malaysian argument. I think we in Australia generally, at least in everyday language and popular coverage by the media, tend to see Malaysia and particularly its Prime Minister as a highly isolated voice. That is not my reading of the reality of the situation in East Asia. It is just that Dr Mahathir often says, and more stridently than others would say it, things that they would rather not say at all in public.

So I suppose what I am arguing is that we are seeing the beginnings of a fault line emerging in APEC—and perhaps it was there all the time—which brings on the one side the likes of the United States and Australia with a number of other countries on the other side, Malaysia in particular, but others too depending on the issue, including the Philippines, and with a number of countries siding on the sidelines, and that includes Japan.

That brings me then to the question, which has been such a matter of contention: are we likely to see the development of an East Asian grouping, which is what Malaysia has been supporting very strongly for four or five years now or longer and which Australia initially, particularly under the previous government, opposed so strongly and which the United States opposed so strongly?

My understanding, based on no more than discussions with some of the people involved, is that there is, at least within the government bureaucracy, a significant difference of view in Japan itself and that probably the best way of describing it is that there is the dominant view, which sides with the notion that APEC should remain the only institution, but a subsidiary view, which if anything is becoming a little stronger, that there may be some value in an East Asian grouping, caucus or forum—call it what you will—which would perhaps operate not instead of APEC but side by side with it and which may influence the deliberations and decisions of APEC.

That has many implications—one of which is that such an East Asian grouping would one day, given the right circumstances, form the basis of a yen bloc. It is also conceivable that should APEC be subject to very substantial frictions and tensions and differences of emphasis, at least the East Asian grouping may, in due course, become more feasible.

In relation to this, I note one very interesting development. Dr Mahathir, as we all know, is a very patient man. He knows that he cannot get his East Asian Economic Caucus, as formerly designated, although ASEAN supports it in principle but has not been prepared to proceed on it in a practical way. Nevertheless, he took the advantage of hosting the 30th anniversary of ASEAN in December last year—just a few weeks ago—to invite the other key East Asian economies to what amounted to the first summit of its kind, including China, Korea and Japan.

My understanding is that there was a general sense, yet to be formalised, that that summit of those countries—ASEAN plus three—will be, in due course, institutionalised. In fact, I would be very surprised if they were not to meet again later this year in 1998. So it may well be that we may be seeing slowly an East Asian economic caucus emerging but by another name and with a less formal structure. That too will have very significant implications for APEC should that come to pass.

The fact of the matter is that regulation or protection of—perhaps not so much trade but—financial transactions and currency exchanges has, as of now, very considerable sympathy in many Asian capitals. I think it is a mood that somehow APEC was not able to respond to. In other words, this raises another question: can APEC continue as it has done in the past to confine its attention overwhelmingly to matters of trade, in particular trade liberalisation and investment liberalisation, and leave aside this very important set of financial issues which can have enormous implications for both trade and investment? Can APEC simply confine itself to endorsing the actions of the IMF?

Mahathir has made very emotive statements that free markets—he is thinking of financial markets—can become a form of slavery. Though they certainly have not been echoed by other Asian leaders, the underlying currents suggest a good deal of sympathy for that position. It is interesting that next year APEC's host will be Malaysia, and I forecast a few very interesting surprises, assuming that Dr Mahathir is still Prime Minister.

So let me just make now two other points. Just as APEC has so far tried to put to one side the management of financial questions or even collaboration on financial issues, I think it has tended to do the same for a number of other important matters. I am wondering whether that is going to be wise in the longer run. First, we know of the complex environmental questions. In many Asian countries, China in particular, the environment is looming as nothing short of a nightmare which will sooner or later—I suspect very soon—have considerable impact, like the financial crisis, on economic policy, economic growth and even trade. So, even if it were just out of a purely trade focus, it seems to me that environment cannot possibly be left out of the agenda.

I realise that a good number of ministerial meetings and senior officials meetings have looked at environment within the auspices of APEC, but so far they do not appear to have gone much beyond the statement of broad positions of principle and what some people have rightly or wrongly described as rhetoric, to actual agreements which would bite into the environmental policies of member economies. Again, it is interesting to see that at the most recent summit Canada was prepared to move much more in that direction but again the United States and Australia were not.

The same I think applies to those human rights questions which bear upon economic questions—not human rights questions in general but those which bear upon economic questions and in particular the question of labour rights, which obviously affects trade. At least for some people certain restrictions on labour rights may well be trade barriers by another name. So it may in future be very difficult to distinguish between human rights issues and trade liberalisation issues.

One thing that emerges from these comments is that I think for too long now—and it has been going for seven or eight years; soon it will be 10 years old—APEC has made trade liberalisation such a centrepiece of its program that it has not been sufficiently aware of the implications and connections with other major areas of economic policy, let alone areas outside of economic policy.

Finally, I have a question that I briefly referred to in my short submission: that is, the question of the relationship between APEC and other regional institutions. I think there are two issues here. There is the relationship between APEC and other governmental regional institutions and the relationship between APEC and non-governmental regional institutions. I think in both areas a great deal more attention will be required.

There is, after all, a number of what I call overlapping questions between what APEC either is already looking at or is likely to be considering—particularly if it is moving in the direction I am alluding to—between APEC's agenda and the ASEAN Regional Forum's agenda. Of course, the ASEAN Regional Forum is primarily preoccupied with issues of security and APEC is primarily preoccupied with issues of economy and trade, but there are very interesting overlaps and connections. For example, one has to do with disputes about exclusive economic zones and about oil development in the Spratlys.

There are overlaps concerning maritime safety and the marine environment, and this is both an economic and a security question. My own view would be that it is not a question of finding a nice dividing line and saying, ‘The ARF can look after X, Y and Z and APEC can look after A, B and C.’ It is very difficult in practice to divide issues that way. What I think we need to establish is more effective lines of communication and coordination between the various responsibilities and functions of the two organisations.

Even such things as growth and the current financial crisis have had considerable implications for the defence budgets of those countries. While until recently many of the APEC member states were very substantially raising their defence budgets because of growth and because of the fiscal crisis, some are going to substantially reduce their present forecasts for future spending. So already there is a clear connection on that level alone between security, growth and trade—in particular, trade in military and other sensitive technologies.

The question of trade in sensitive nuclear equipment is another area which is both a trade related issue and, at the same time, a security issue. The question I pose is: when these overlaps exist, where are they reconciled? Where are the two organisations able to interact? What follows from that I will pose as a question which perhaps the committee will be able to ask of relevant government departments. To what extent is Australia’s own negotiating position, attitude and policies with respect to these two institutions—ARF and APEC—actually reconciled and coordinated before they are given the negotiating brief when they attend these meetings either at ministerial or senior officials meetings? Have the relevant people actually been brought together to discuss overlap and possible conflict? Do they do that as a matter of practice? Are there interdepartmental committees that actually do this? If not, might this not be a good idea? I pose that in the form of a question. The little that I know about this suggests to me that there is nowhere near enough of it.

Finally, I have a suggestion that I have floated at a couple of conferences which, for better or for worse, I float here: in the interest of a more integrated, better structure for regional institutions than we now have, APEC being one important one, might it be an idea over time for the summit of APEC economic leaders, as it is called, to become the Asia-Pacific leaders meeting, not the APEC one?

Under the authority of this summit, which would involve the leaders of the Asia-Pacific people—the same people who attend the APEC summit—the leaders would have the opportunity to discuss the widest range of issues: economic issues, financial issues, trade issues and security issues. Under what I call the roof or umbrella for a Pacific house, there would be two principal institutions which would take on board the general direction that is plotted by the Asia-Pacific leaders meeting, and there would be APEC and ARF. This might establish the principle of greater coordination of regional approaches and regional policies and initiatives than perhaps might be the case at the moment. It may be a very wild idea but it might be useful to at least give it some thought. I conclude with that.

Senator LIGHTFOOT—Thank you very much for your submission. You asked many questions and we were rather hoping that you were going to answer them. Be that the case, some were rhetorical; as for those that were not rhetorical I would like to pose to you: do you think that the United States's continuing support for APEC is predicated on the chronic balance of payments that is going to cause ongoing problems in respect of Japan and China, particularly in respect of Japan as they run well in excess of $US100 billion.

Prof. Camilleri—That is right.

Senator LIGHTFOOT—I would have thought, as a farmer economist or a peasant economist, that was reaching an intolerable situation where tariff protection could not continue to be lowered in the United States to allow the entry of cheap imports from both Japan and China, particularly in respect of China where there is not only a low wage structure but the imposition of fairly significant tariff protection against, for instance, small 'c' China with over 50 per cent tariff protection on the entry of manufactured goods into China.

Prof. Camilleri—My answer to that—and, of course, I could be wrong—is fairly clear cut. Yes, I agree that that is the situation. In fact, there are those of us who have tried—and others have done it better than I have—to reconstruct how it was that Australia, with Japan's help, was able so quickly to get the APEC experiment off and running. There was really very little time between its formal proposal and its actual implementation.

In other words, how was the United States brought on board? It was not a prime mover initially. I think the Australian government of the day, perhaps with the help of some others, sold the US administration this argument: namely, you have been trying for years to reduce your imbalance with Japan with very little success; you have tried many different ways of doing it including rather draconian congressional legislation; an imbalance is also emerging with a number of other East Asian economies—China and perhaps South Korea—and we present APEC to you as a possible, at least as a partial, solution to your problem. So, if you bring in your full weight behind it, it may well be that you will find the negotiating forums whereby trade liberalisation will be achieved and US products will be able to break through some of these markets in a way that has not been possible so far.

I believe that that was basically the Australian argument which persuaded the United States to fall in behind APEC and then to take more of a leadership role in APEC. The test remains precisely that. If at the end of a few years—how many years will depend on the barometer of American politics—there appears to be no substantial progress on this front, I would suspect that Congress for sure but even an administration, regardless of its political complexion, will grow rather cold on the APEC experiment. That is my assessment.

Senator LIGHTFOOT—Professor, there are not many options open to the US in trying to correct what is going to be a disastrous time for the international economy if that is not correct. They are not my views; they are well held views of economists from around the world. What is your view on the hypothesis that the Japanese yen and the Chinese yuan are undervalued and that cutting the conversion rate by, say, 50 per cent for want of a better figure, would be one way of correcting that imbalance? In other words, it would be far more expensive if the conversion rate was reduced with the US dollar, thereby making goods less attractive from Japan and China to the United States.

Prof. Camilleri—You mean increasing the value, for instance, of the yen relative to the US dollar?

Senator LIGHTFOOT—Yes.

Prof. Camilleri—That is exactly the approach that the United States used in the early 1970s under Nixon and that the United States used again in 1985 for what was called the Plaza Accord. It is true that in the few years immediately following there was an improvement in the balance of trade favourable to the United States. It is a complicated story. Japan found ways around it again, the United States ran into other kinds of difficulties and most of what was achieved was virtually then undone again.

I cannot help feeling that the United States sees that as one really important realistic option that it might use. Some important policy makers in the United States feel, rightly or wrongly, that they still have enough leverage, not only economic but also strategic. This is where the security relationship with Japan becomes highly irrelevant. They believe that Japan is totally dependant for its security on the United States and that is another lever that can be used to perhaps persuade Japan bilaterally and through some unilateral arms-twisting to further appreciation of the yen in relation to the dollar outside of the APEC forum. I think that is something that would be a strong temptation for American congressional leaders and perhaps even a future administration.

Senator LIGHTFOOT—That would also have the indirect effect of helping other APEC countries too, would it not, other than Japan and China?

Prof. Camilleri—That is right, it would. In that sense, there are some other countries that perhaps would not be averse to that happening.

Senator LIGHTFOOT—Professor, the Prime Minister announced recently that there would be export guarantees given by the federal government, particularly with respect to Australian goods to Indonesia. Do you agree with that, and should it be extended to the other tiger economies?

Prof. Camilleri—Unless I am mistaken, I think something comparable was also said about Korea. I think the question that will arise if this proves contagious and more lasting is how far and how long you can afford to do this, particularly if there remain real uncertainties.

Senator LIGHTFOOT—So you would agree with it but not to the degree—

Prof. Camilleri—Yes, but not to that extent, and I think it would have to be watched very carefully. It is not something you can do forever. It is not something you can do for the whole of Asia. It could prove rather expensive, to put it mildly.

Senator LIGHTFOOT—By and large, the initiative is one that you would endorse but you would say that there are some safeguards. Would that be true?

Prof. Camilleri—And I would put time limits.

Senator LIGHTFOOT—Would there be a sunset clause with respect to that assistance?

Prof. Camilleri—Yes.

Senator LIGHTFOOT—Thank you. What was the reason for the relative stability of the peso in the Philippines against the won, the baht, the rupiah and the Malaysian ringgit?

Prof. Camilleri—I honestly do not know. It is not an area that I have followed, so anything I would say would be a wild guess.

Senator LIGHTFOOT—I do apologise for asking you that, it was something that—

Prof. Camilleri—That is all right. It is just that I do not know the answer.

Senator LIGHTFOOT—It was something I pondered and I was looking for the opportunity of asking someone, Professor.

Earlier today we had evidence from the Australian Council for Overseas Aid, from Dr Edna Ross, who said inter alia that there would be four million people in the Jakarta area unemployed in the next few months. If that is correct, I find that alarming. That could represent 30 per cent unemployment for that area. Given your demographic knowledge of Indonesia, would you agree that unemployment within that area would be somewhere around that mark? If that is correct, should not warning bells be ringing in Australia at the moment?

Prof. Camilleri—The figure I had heard was 1½ million to two million unemployed, but the timetable might affect it—how long this will take to eat into existing activities and production in various areas. There is no doubt that there will be very, very substantial unemployment arising from the problems of the rupiah. Everyone is agreed that there will be very substantial unemployment.

I believe the same will happen in South Korea. There will be very substantial unemployment there. It has in the past been of the order of three per cent or so, and that was regarded as very high in South Korean terms. But it would not surprise me if within a relatively short period of time, unless the Korean currency strengthens quickly and very strongly, there will be up to 10 per cent unemployment.

So far as Indonesia is concerned, for the country as a whole but with pockets differing, it would not surprise me if it were to reach well over the 20 to 25 per cent mark, depending on how things go. I am not able to predict precisely how they will go.

In the case of Indonesia more than perhaps in the case of South Korea, and certainly much more than in the case of Malaysia, I do see the possibility of political instability resulting from these developments, whereas in the case of Malaysia and South Korea, maybe the political structures are a little bit more solid.

Senator LIGHTFOOT—Professor, the ramifications of that could be quite dire and drastic for Australia. If there are 25 per cent unemployed in Indonesia, that equals 50 million people unemployed. If that catastrophe came about, are not the ramifications with respect to economic refugees disastrous or potentially so for Australia, given the proximity of northern Australia, particularly the Northern Territory and Western Australia, to Indonesia?

Prof. Camilleri—I am not sure about that. Indonesia has had high levels of unemployment in the period before the so-called economic miracle of the last 10 or 15 years and the unemployment then did not translate into that. It would depend on a whole lot of circumstances. I would not see that as a very likely scenario. In other words, concerning unemployed Indonesians trying to somehow make their way here in search of a better life, I just do not think that that is going to be the first and most immediate response.

Senator LIGHTFOOT—For a sustained period of unemployment?

Prof. Camilleri—Long term, but it depends how long the long term is. I think more likely there will be very considerable pressure for changes to occur both politically and economically inside Indonesia. I can see that happening. I would not be surprised if there were considerable political instability if within, say, six months from now—just plucking a period out of the air, so to speak—it appeared as if the government did not have a plan that seemed credible for putting people back to work and for developing alternative industries where others are closing, and so on.

That raises the question of the IMF solution which has been proposed to Indonesia. I am not sure that the IMF, while taking into account its specialised knowledge of economic aggregates and relationship between the state of the banking system and prudential measures and all the rest, has sufficiently injected into its equation the political factor. In my view, that has always been one of the drawbacks of IMF intervention: it is not sufficiently qualified often, expert enough, to know what are going to be the political implications of the proposals and packages that it puts to various economies in trouble.

Senator LIGHTFOOT—Professor, it is no secret that the World Bank, the IMF and the United States were not particularly euphoric about the proposal by President Suharto to run for another term.

Prof. Camilleri—No.

Senator LIGHTFOOT—This was compounded by his choosing as his deputy Dr Habibi. I must give some credit to President Suharto for doubling the economy in Indonesia over the past decade, but how much do you think the economy would recover—with a world perception of it recovering or going a step in the right direction—if there were an alternative administration at the top?

Prof. Camilleri—The likes of the IMF that you have spoken of have very serious doubts as to whether President Suharto can make a decisive break with some practices of recent years, which they would regard as essential to putting the financial system back on an even keel. That has to do with the very nature of President Suharto's power base, his close identification with the interests of family, and so on, who have been involved in major enterprises, and so on. I suppose that, while he stays there and is even considering as deputy president a man who is very committed to the very large projects, come what may, the IMF, from its vantage point, does not see that as very promising.

Senator LIGHTFOOT—Do you see as an integral part of the recovery an instant moratorium on the repatriation of debt both from the public and the private sector?

Prof. Camilleri—A partial moratorium would be a particularly useful development. The original Japanese decision, which they later withdrew under American opposition, of an Asian fund which would have to be very well constructed and structured might well be able to do some very useful supplementary work to anything the IMF can do.

Senator LIGHTFOOT—Can the Australian economy weather the Asian meltdown, particularly with respect to South Korea, Malaysia, Thailand and, closer to home, our most important neighbour Indonesia, without much loss? There is a mooted one per cent loss, which comes off a fairly low economic growth base in the next fiscal year. Do you see any serious ramifications for the Australian economy?

Prof. Camilleri—I think there will be. Our trade links with many of these countries will not be able to continue on the kinds of growth patterns that we have all been looking at these last several years. What is not clear is for how long.

If it were for only a year, and then a gradual return to the pattern beforehand, and then perhaps a one per cent impact on the growth rate may be as much as we will have for a period of time. But if the crisis proves to be of longer duration then my view would be—not being an economist, I remind you, but a political scientist—having read what others are saying, that the negative impact would be more substantial on the Australian economy and Australian trade, in particular.

Senator LIGHTFOOT—I very much appreciate your answers to my questions.

CHAIR—In respect of the Bogor declaration—the targets—it seems fairly reasonable from your statements here today that you do not expect any of the economies to reach the targets.

Prof. Camilleri—I would be very surprised if more than two or three managed to within those deadlines.

CHAIR—What fora do you see, therefore, being the principle for trade liberalisation targets?

Prof. Camilleri—For the Asia-Pacific region?

CHAIR—Yes.

Prof. Camilleri—I think APEC is going to remain the only one. What I suspect will happen is that at future meetings, whether they be ministerial meetings or summit meetings, there will be a review of progress made. Once it becomes clear—at least for a number of countries—that these deadlines are not realistic they will either change the deadlines or begin to make some exceptions for a number of countries. I suspect that would be one way out.

CHAIR—It seems to me that, with the intervention of the IMF—for example, in Indonesia they are talking about imposing certain tariff changes upon that economy to liberalise the economy, as they are in a number of other Asian economies—the work of APEC is being usurped by the likes of the IMF when a crisis comes about.

Prof. Camilleri—Yes.

CHAIR—How much does this damage the image of APEC both within Asia and worldwide?

Prof. Camilleri—My view is that it has damaged it considerably. This is the first major crisis since APEC's formation in 1989 and basically its response is that this particular crisis will pass over to the IMF. You could have had the IMF intervening but still have APEC coming up with some other ideas, and if not for tomorrow then a bit further down the track. It could have said that it sees this as an increasingly important part of the agenda and so on. I would think that it has not been a happy time for APEC, with its inability to really get into this act at all.

Because China is now going to be critical to these other East Asian economies that are afflicted by financial crisis, my hunch is that there will be no devaluation of the Chinese currency. The Chinese, aware that this will give them leverage, have so far steadfastly committed themselves to not devaluing so I would expect that there will be some kind of East Asian caucus in which the question of the relationship of the currencies of the region—China and Japan included—will be a major item of discussion. In a sense that does what Mahathir always wanted to do, which is shift a little of the attention from APEC towards another kind of grouping.

CHAIR—You raised the issue of the East Asia Economic Caucus, which we are excluded from.

Prof. Camilleri—Yes.

CHAIR—How important is it for us to be in that sort of caucus in the future or can we still operate viably outside of those sorts of forums?

Prof. Camilleri—I think the chances of us being in the East Asia Economic Caucus would be negligible for quite some time, given that until recently we have been totally opposed to its creation. I would imagine that our thinking—certainly of the previous government and to a large extent of the present government—would be that, even if such a caucus or grouping were formed, APEC would remain—to use Prime Minister Keating's formula—the main game and there would be a subsidiary show. They would influence, they would lobby but they would not be able to carry through major decisions. Whether it will work out like that I honestly do not know.

The great promise with APEC, but also its great difficulty, is that it brings so many different types of economies together. It brings the United States and Canada, which have NAFTA of their own. It brings Japan and the whole of East Asia. It also brings Australia and New Zealand, and we now have a number of Latin American countries as well. It is a very disparate organisation. How you are going to get agreement on the difficult, sensitive questions is going to be its real test over the next few years.

CHAIR—What are the implications for Australia if the East Asia Economic Caucus does get up? What are the specifics?

Prof. Camilleri—This is thinking long term and like all predictions you can be shown to be totally ridiculous and stupid, but for what it is worth let me say that if the East Asia Economic Caucus were to get going and get some steam up and begin to have some institutional backing or infrastructure, you are getting towards the three trade blocs idea—one based on NAFTA, one based on this one, and one based in the European Union, with Australia back to square one saying 'Where do we belong?'

CHAIR—That is right, and that is a real problem for us.

Prof. Camilleri—That is a real problem. APEC was meant to be an answer to that question by locking in the NAFTA countries and this potential East Asian economic grouping into one where their differences and competing interests would somehow be negotiated and reconciled.

CHAIR—So this really raises the issue of the strength of Australia and the role that it plays within APEC.

Prof. Camilleri—Yes, and it is fair to say—and I am not interested in making political points about parties because I have no interest in that—that for the first three, four or perhaps five years, Australia was helping to shape APEC. It was conscious of some of these problems and difficulties. I see a loss of energy and enthusiasm in doing that. Maybe it is getting harder, but nevertheless that is the reality. We are no longer anywhere near the driver's seat.

CHAIR—Is it getting harder because the focus has been narrow and we need to broaden the focus, the focus being on trade liberalisation solely when there are trade facilitation, economic and technical areas that we need to look at?

Prof. Camilleri—It is because the agenda is much broader than we anticipated and we are in two minds as to whether we should go that way or stick to a narrow agenda. It is because China is beginning to assert itself and may feel that in an East Asian grouping it will be more of a force to be reckoned with than in APEC. Also, it is because there are conflicting interests—as we have discussed—between on the one hand the United States and China and Japan on the other. As for what is Australia's role in all of that, I do not think it has been worked out. Do we take sides? Do we try to bring them together? What leverage do we have to help make that happen? There are those kinds of questions.

CHAIR—Professor Camilleri, we have gone over time a few moments but thank you very much for your time. We await the future with great interest, of course, in view of some of your comments.

Prof. Camilleri—Thank you very much.

[2.40 p.m.]

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CHAIR—Welcome. 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. The committee has before it a written submission from the CSIRO, dated 14 August 1997. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Dr Adam—I do not believe so, Senator.

CHAIR—I now invite you to make an opening statement and then we will proceed to questions.

Dr Adam—Thank you. Perhaps I could spend a couple of minutes on some historical context. CSIRO has been an active provider of research and scientific services to many of the APEC economies for some decades. In fact, our relationship with China, for instance, goes back to the 1920s.

We have given you examples of early engagement in the APEC economies of South-East Asia. These include work in natural resources assessment and management in Papua New Guinea from the 1950s; work on post-harvest handling of fruit and vegetables in the Philippines from 1974; work in Indonesia from the early 1970s; stored grain research for almost all of the countries in the APEC region from the 1970s; scientific standards of measurement from the 1950s in almost all of those countries; forestry research from the early 1960s in those countries; work in China, as I have mentioned, that dates back to the 1920s but, specifically, we have done work on iodine deficiency in China from about 1980; and tropical crops and pastures work in Thailand from the early 1980s.

These associations developed, in a sense, very early on and the recent negotiations surrounding APEC have in fact built on what were some very strong technical and scientific collaborations in the region. Today it is fair to say that the majority of our international projects are in all of those countries. Our submission includes a number of details at project level and I will not go into those in a lot of detail, simply to foreshadow that APEC has come along in a sense after most of our relationships have been in place for some decades. Indeed, I think APEC is building on, and can build on, some very longstanding and very strong scientific collaborations in the area.

Perhaps at this point I could ask one of my colleagues, Dr Inglis, to speak about one of the important aspects of trade liberalisation, that is, the adoption of uniform standards of measurement and agreements which allow free exchange of technical trade as a consequence of a shared understanding of the way in which various scientific units of measurement and various practices to do with laboratory accreditation are shared in the region.

Dr Inglis—Thank you, Colin. Before I start, perhaps I should make a comment about the definition of standards. I suspect during your hearings you will hear this word used in several different contexts. Normally, when you hear the word 'standard' you think of a standard specification—the Australian standard, which is a written specification of performance or a requirement of a particular product. The standards we are talking about here are physical standards of measurement: how long is a metre, how much sound is in a decibel, how much mass is in a kilogram, and so on. Arguably, the physical standards essentially underpin all the trade and commerce when you come down to trying to quantify the product, the material you are selling, and so on.

Within the region there has been a growing recognition, as the Asia-Pacific countries become more technologically developed, of the importance of measurement in order for their product to be accepted. The physical standards of measurement which are usually maintained in their national laboratories—the equivalent of CSIRO—need to be comparable and need to be compared. There needs to be some sort of traceability of measurement between them so that we are talking about the same metre and the same kilogram if we are to get involved in trade. In addition to that, however, it is also important that the laboratories that are involved in carrying out tests or measurements have competent people and use competent techniques, and that they are recognised as such.

The work that we have been involved in within the region is at both those levels. We have been trying to help the countries in the region by working together with them to develop standards so that they can participate in international comparisons of these standards to have their national standards recognised. We have also been working with them to improve their competence in calibrations so that they can deliver accurate measurement to the industry and the test houses that require it.

Dr Adam—Perhaps I could mention one of the special relationships we have developed with a country that I am sure, judging from a preceding conversation, you are very interested in, and that is Indonesia. For almost two years now I have chaired a committee inside CSIRO which is looking at a range of research projects that we have had with Indonesia and attempting to help, under the broad APEC construct, a number of initiatives that are of importance to the Indonesians. That has culminated in the award of a World Bank project of several million dollars funding to CSIRO.

The funding is to help CSIRO get its counterpart organisation in Indonesia, LIPI, set up so that LIPI can provide technological support for a range of Indonesian business initiatives to help the Indonesians develop their own country and their own natural resources. At the same time, it will encourage the Indonesians to accept what we see as world best practice in the way laboratories are managed and research contracts negotiated. They will also see how company interactions with research organisations are conducted in a businesslike fashion. Essentially, it will train a generation of Indonesians to be responsible professionals in those areas that CSIRO has worked in since the 1920s.

An interesting one—just to give you an example of some of the work that is going on there funded by both APEC and AusAID—is the relationship with the University of Indonesia on sustainable urban and regional development. This work has been carried out by our division of building construction and engineering in Highett in Victoria, with the University of Melbourne, leading to the establishment of a Centre for Sustainable Urban and Regional Development based in Jakarta. That project, I think, augurs very well for the way in which the Indonesians will be able to plan the urban environment, plan their cities and adopt building codes which will be very favourable to the Australian construction industries in the fullness of time. So it is building a series of infrastructure relationships which will support the further development of trade between Australian companies and Indonesia as time goes by.

Without spending a great deal more time speaking, perhaps I could open up the discussion and allow you to pursue some of the things that you are interested in—largely stemming from the report that we have already provided you with.

Senator QUIRKE—Can you tell us the value of work that is currently being done by CSIRO in the APEC region?

Dr Adam—The total value?

Senator QUIRKE—Yes, roughly. What is the dollar value?

Dr Adam—We may have to take that on notice to give you an extremely accurate figure. I think in Indonesia alone, 38 projects have been funded. The World Bank project, the LIPI-CSIRO interaction, is worth about $US489 million to CSIRO. That is by far the largest single project. But rather than give you a ballpark figure I will take that on notice and provide you with an accurate one. Do you want to time bound that, because we have difficulty in deciding what those projects are worth if we go back too far in time?

Senator QUIRKE—Say over the last five years. Rather than the last year I think over the last five years would probably be a much better way of looking at it.

Dr Adam—We could probably give you an accurate figure, say from 1990, if that would be acceptable.

Senator QUIRKE—Yes, that would be fine.

Dr Heyde—If I could just add to that. In the table that we attached to our submission we named 72 projects with Indonesia, 168 with the United States and so forth. There really are a very large number of projects, some of which would have funding associated with them in terms of for example World Bank funding, but most of which would not. They are collaborative projects between scientific colleagues in different countries. So perhaps it will not be a very helpful figure but we will do our best to get you one.

Dr Adam—Senator, I think I would prefer to break it down into three categories. We have interactions with private sector companies where those companies essentially fund that work. Those are, if you like, in the nature of a specific research agreement or a specific research contract. There is another group of projects where we would be using AusAid or ACIAR funding, largely government funding but directed through a range of funding mechanisms. With your indulgence, we will try to break it down into public sector and private sector.

The third classification of project is a project where CSIRO and, let us say, the Chinese Academy of Sciences have elected to work together on a specific technological problem or solution because we both see some value to our organisations in unearthing this new piece of science which we both want to use and share. That, in a sense, is a little bit like a seed capital investment in some acquisition of future knowledge.

Senator QUIRKE—Have you noticed any slowdown, particularly in the private sector programs?

Dr Adam—No, I do not believe so.

Senator QUIRKE—Nothing has shown up yet?

Dr Adam—No, I think for us it is too early. Most of our research projects have a 15-year time frame, so we measure progress in a few years. I doubt that we would see any fallout just yet from the issues you were discussing with the earlier speaker.

Senator LIGHTFOOT—I am interested in the comment made by Dr Inglis and the establishment of 'standard' standard specifications, if you like, throughout the area in question. I assume that the area is covered by metric, as well as perhaps some inherited measurements both ancient and imperial. Would that be right?

Dr Inglis—That is correct. The primary standards are really governed by the metre treaty—the metric treaty or treaty of the metre—which is based on metric standards. That is not to say that, when you get into a country, they may well allow imperial standards or other types of measurement as legal units. But they will be derived from the primary standards, which are metric, and they are the ones that are inter-compared.

Senator LIGHTFOOT—Do you, as a matter of establishing those standards, use the base in France for linear and volume and radiation and so on?

Dr Inglis—The International Bureau of Weights and Measures or the governing body, the International Committee for Weights and Measures, is the body responsible for defining the SI system of units. The individual countries seek to realise those units—turn them into real quantities—or else seek to derive standards calibrated in terms of those realised units. In Australia we do maintain a whole range of fundamental standards which, in most cases, are derived directly from the definitions. Then there are a whole range of secondary or subsidiary standards that we derive from those primary standards.

Senator LIGHTFOOT—With respect to specifications?

Dr Inglis—The specification standards, as they relate to product, talk about safety requirements, physical requirements, performance requirements and so on. There will be standard test procedures that will be written down as to how the tests should perform and what the performance should be. What we seek to do is to provide confidence that the measurements that are carried out are in fact valid measurements in the sense that, if they are going to use an instrument, that instrument needs to be calibrated. If the instrument tells you that you are measuring a metre or a volt, or whatever it is, you must be sure that you do have a metre or volt that is going to be accepted in the United States, accepted in Europe, and accepted by all the metre treaty countries.

Senator LIGHTFOOT—As China seems to be the burgeoning economy in our region, generally speaking—I know it is in another hemisphere—how are we handling the weights and measures so that we establish standard specifications for the purposes of trade between China and Australia?

Dr Inglis—China is a member of the metre treaty countries as well. It is a signatory. We relate to China through the international comparisons that are conducted either through the International Bureau of Weights and Measures or, more often these days, through the Asia Pacific metrology program. I happen to be the regional coordinator, for this four-year term, for the Asia Pacific metrology program. About 25 economies are members of the Asia Pacific metrology program. One of its primary functions is to carry out comparisons around the region so that people have confidence in the standards that are maintained by the various participating countries and confidence in the competence of the people who use those standards.

Senator LIGHTFOOT—Where you have something as intricate as man-made radiation in the form of isotopes, which China produces, and which is closer than our traditional source of those, apart from the ones that we obtain from Lucas Heights, and that is the United Kingdom, do you perceive any problems in establishing trade in those particular goods from China that is inhibited by our measure of, say, radiation?

Dr Inglis—In principle there should not be, but I am not familiar with the group that maintains the ionising radiation standards in China. To the extent that they are signatories to the metre treaty, that end of the scale should be under control. It is what happens downstream that may be less predictable. Having got the national standards and having provided a calibration service for instruments in terms of those standards, the questions are: who does the tests further downstream? Are they accredited? Is there any check on their competence?

Senator LIGHTFOOT—What standard are those instruments calibrated against?

Dr Inglis—They will be ultimately calibrated against the national standard which will, in turn, be related back to the international network.

Senator LIGHTFOOT—And the static instrument that they are calibrated against initially?

Dr Inglis—The instruments used to do the tests would normally be commercial instruments. They would be checked against standard sources that are, in turn, intercompared between the various national laboratories.

Senator LIGHTFOOT—Within the treaty participants?

Dr Inglis—Yes.

Senator LIGHTFOOT—With respect to APEC, how well is that coordinated in Australia using your organisation, CSIRO? Do you have any problems with the coordination and use of your particular expertise within the APEC organisation?

Dr Inglis—No, I do not believe we do. The link that we have most directly with APEC is through the Subcommittee of Standards Conformance, a subcommittee of the CTI, the Committee on Trade and Investment.

Senator LIGHTFOOT—I am not familiar with it.

Dr Inglis—Under the Subcommittee of Standards and Conformance there are five specialist regional bodies that have been identified and the Asia Pacific metrology program is one of those. It has proved a very useful forum, the SCSC, for us to get across the message about measurement standards. From Australia's point of view it has helped gain recognition for this whole area of metrology. The status of metrology within our region is taken much more seriously within Europe. It is taken much more seriously in the United States than it probably would have been had APEC not come along.

We are seen as coming of age in metrology, the science of measurement, in this region. It underpins trade and commerce. We are recognised by these other regions to the point where their representatives come to our APMP meetings from the EURAMET and from the NORAMET and from the south African region and so on. They attend our meetings and we are attending their meetings. There really is a coming together across regions which has been driven to some extent at least by the presence of APEC. It is seen as a fairly serious thing. The Europeans need to come to terms with it and the North Americans need to come to terms with it.

Dr Adam—I can add that Minister Habibie, after his visit to Australia some 15 months ago, instructed almost all of his technical people to go to Australia first because you can get 85 per cent of what you want internationally in that country. He required his officers to do due diligence on Australian technology first and then, and only then, seek solutions in North America or in Europe if Australia could not supply that particular capability. That recognition has stemmed largely from the work that Dr Inglis has done in establishing an Australian standards laboratory, the National Measurement Laboratory, as truly representative of the BIPM in this part of the world.

We have had many instances where American companies have wanted to have traceability back to their own national laboratory but have been willing to forgo that traceability because they have confidence in the laboratory here in Sydney and are quite happy to use that local standard rather than the NIST standards in the United States.

Senator LIGHTFOOT—That would be more expensive, I guess, to obtain.

Dr Adam—It is a longer route.

Senator LIGHTFOOT—There is no question that the CSIRO is recognised internationally as a very prestigious organisation, and I am particularly pleased to promote it wherever I go.

Where your officers and the executives of CSIRO do assist other countries—you mention China since 1920, and there must have been various changes to administrations in China during that particular period—

Dr Adam—It is very interesting. The scientific collaboration continued in spite of the reigning political regime.

Senator LIGHTFOOT—I hope it did not continue too much in Manchuria during the 1930s and 1940s.

Where do you draw the line between assisting other countries to develop some expertise in various fields—mining, geology—and assisting them to the detriment of Australia? Where does that diplomacy end? Where do you say this is going to be detrimental? Where do you say it is going to be negative to Australian development by giving these countries certain hard won knowledge, hard won either in the sense of the sweat that is produced or, more likely these days, in terms of the dollars that it cost where they then compete with Australia in those same fields?

I might mention gold, epithermal deposits in New Guinea and other Pacific islands through the quake zone and platal systems there. It seems to me that they are going to be some of the major producers of gold in the world. They are massive in tonnage. They are low in grade. They are easily accessible. There is cheap labour. There is plenty of water, unlike the Yilgarn craton and the Pilbara craton and so on. How does that affect your decision making?

Dr Adam—Our first port of call in decision making is to ask ourselves that question about what is in it for Australia. More often than not, CSIRO is positioning itself behind an Australian company that has a commercial interest in developing the technology or working in that country. So, almost from day one, our interests in those countries scientifically are to support a commercial program or a commercial development or a commercial company to do something in China or Malaysia or Indonesia.

Senator LIGHTFOOT—As a joint venture with Australia? Is that invariably the position you take?

Dr Adam—Almost invariably, yes. There are some straight scientific collaborations. But, more often than not, it is very difficult to see how a commercial enterprise could make use of that shared information to the detriment of Australia or an Australian company.

Dr Inglis—If I may expand a bit on that in the standards area—a good example of where it is beneficial to Australia—we consider what the options are before we go into these things; we do try to work in areas of standards that are going to be most relevant to the likely trade that would come between the two countries. But if you take the case that Dr Adam mentioned earlier, about getting involved in building standards and some of the other standard specifications, to have a country with the population of Indonesia accepting Australian product, and using the same standards, we essentially create immediately a market into which our product can flow without any question.

Senator LIGHTFOOT—It facilitates trade.

Dr Inglis—Yes, it facilitates trade. If we are not in there—the Japanese are in there; they have used this diplomacy for a long time, and so have the Germans—we will have Japanese standards, we will have German standards, and we will always be looking to modify our product to gain acceptance. By having uniformity of standards, uniformity of measurement, we do in fact pave the way, free up that link and facilitate trade.

Senator LIGHTFOOT—That is highly commendable. I just want to mention finally that I was very saddened—and no doubt you as scientists will be saddened—to read that the British government is to withdraw funding for the Greenwich Observatory, the oldest in the world. I am not a scientist but I belong to a couple of scientific organisations and I thought that was a very sad day for those interested in weights and measures and so on. Thank you very much indeed, gentlemen.

CHAIR—On the issue of standards, can I assume that standards can be a non-tariff barrier for our goods and services going into foreign nations?

Dr Inglis—Yes indeed.

CHAIR—What specific examples do you have of that?

Dr Inglis—Let me give you an example of a case in Europe where we were looking to export product in the telecommunications area. It had been tested in Australia but, at that stage, the Europeans would not accept the results of the Australian tests; it had to be re-tested. This is usually the way the barrier works: if you will not accept the test result from one country, you insist that it be re-tested. You have then got control about how readily you will test it.

In this particular case in Europe, there turned out to be only about one laboratory that was able to carry out these tests in this particular country and unfortunately there was a two-year delay in getting it through. If that is not a barrier to trade, then I do not know what is.

So what we are trying to do is to get universal acceptance of test certificates, universal acceptance of measurement traceability, so that we can eliminate that as a barrier.

Dr Adam—I can give you another example. Timber imported into Japan from Australia has to meet certain Japanese testing standards. These are standards that we have not, in the past, bothered to impose upon ourselves here in Australia. They are in fact a legitimate trade barrier as far as the Japanese are concerned. We were able to convince one of the Japanese ministries of works to certify our own CSIRO laboratory in Melbourne to carry out those tests to Australian standards to get the Australian timber manufacturers to install that equipment at their factory. Essentially now that timber goes straight into Japan without any questions being asked.

CHAIR—That is the sort of example that is helpful to this committee, because one of the things about APEC itself and the issue of trade liberalisation, the issue of trade facilitation, is that it is a giant mystery out there in the real world. The average person in the street has no idea of what this—

Dr Adam—I would suggest that pesticide residues in beef, for instance—to take a fairly recent example—is another example where there are, I think now, almost no internationally agreed standards of measurement or acceptance testing for those particular compounds. Drug testing in sport would be another example. It is a complex problem, but it reaches back to some fundamental understanding of the way in which various chemical compounds can be analysed and some international protocols about the way in which the test protocols will be put together and worked out in practice in laboratories.

CHAIR—Would this have happened without APEC, or is this happening—

Dr Adam—It was happening before APEC.

CHAIR—Yes, I understand that.

Dr Adam—There are commercial drivers there that in essence made this a very desirable outcome for a number of reasons. APEC has certainly accelerated and made it somewhat easier.

CHAIR—That was my next question. Is it better facilitated by the existence of an APEC?

Dr Adam—I believe so.

CHAIR—How important in APEC is the role that Australia plays, because it seems to me from what you have said that we seem to be very much the leaders, and I understood it to be that way, in this area?

Dr Adam—I have been back in Australia 10 years now; I had spent the previous 15 years away from Australia. I detect a great deal more respect from the sophisticated manufacturing nations now towards Australian science and Australian technology than perhaps was the case 10 or 15 years ago. It is because of the examples that we have in the national measurement laboratory, or because of scientific work that has resulted in some breakthroughs like the new influenza drug that was developed by Dr Peter Colman in one of our laboratories in Melbourne that there is a view around the region that Australian science is powerful, it is well targeted, we do not try to do everything, but the things we do we do well. I think there is a growing acceptance that, when CSIRO talks to the national bodies in those countries, we are in fact seen as internationally competitive and a very worthwhile first port of call in the region for help, for advice. It is happening quite frequently.

CHAIR—Since this work has been progressing over a long period of time, how much more by way of barriers is there for us to overcome in this area in terms of standards?

Dr Inglis—Perhaps I could just go back a little bit and then come forward again, just to follow on from what Dr Adam was saying about the respect that there is for science. This is certainly true in the standards area where we have had a national standards laboratory, a national measurement laboratory, that has been around for nearly 60 years. We have probably contributed way beyond the GDP expectation, I guess, internationally, to metrology.

It was mentioned that lots of the contracts in the United States are written in terms of traceability of measurement to their national standards laboratory, to NIST or the NBS as it was. If you are seeking to participate in a world car or making components for Boeing aircraft or whatever it is, the contracts will inevitably say, 'Yes, we'll accept this, but the traceability of measurement has to be back to the national standards.'

Potentially, that is a barrier to trade. It depends how it is used. There are examples that we can give you of a company in Australia that sought a contract to provide radar components into the aerospace industry. They faced this very problem of needing to get traceability back to NIST. That would have imposed upon them enormous cost in terms of having all their equipment go back on a regular basis—in some cases once a year, maybe more—with all the delays that would be incurred because there are often very long queues in providing the calibration service at NIST. It probably would have meant that they would not have taken the contract, or not been awarded the contract, because they would have just priced themselves out of the market.

About 10 years ago we signed a statement of equivalence between the Australian National Laboratory and the United States National Laboratory in which there were various key, primary standards specified with uncertainties in the agreement between them. It was on the basis of this that we were able to come to the aid of that particular company, and the company gained the contract with traceability back to the Australian national standards on the grounds that they in turn were traceable to NIST, or equivalent.

More recently there has been another case in the airline industry about maintenance of aircraft. The Federal Aviation Authority in the United States has recently been out inspecting, as it must and it should, the maintenance houses—the companies around the world that carry out maintenance and service on aircraft—and has found that they were not traceable to NIST in their measurement chain. Again, potentially this would mean that those companies would be out of business. If they were out of business, then essentially it would ground all air traffic between Australia and the United States. Indeed, any aircraft that is registered in the United States would be grounded. Again, we were able to invoke that statement of equivalence to come to the aid of that company and have NIST make representation on our behalf in the United States. So we were able to overcome this problem.

To come to your question, there is a limit. We have about five of these statements of equivalence around the world: we have one with the United States, one with the UK, one with New Zealand, one with Canada, and there is one with Korea. We have tried to pick out the major trading partners. We do not have one with Japan, and that is an interesting question we could talk about perhaps if you wish.

But as we extend the trading links, there is a need essentially to have these statements of equivalence bilaterally with a whole range of economies. This ultimately becomes unworkable when you have all the countries in the APEC region trying to do the same thing, because they also want to have recognition of their standards.

So APEC has given the impetus to bring about a regional agreement on standards—a regional mutual recognition agreement. The APMP took an initiative in this, at which the Director of the International Bureau of Weights and Measures was present at its meeting in 1996. He said, ‘Look, if you people are going to do it in your region, we probably really need to do it globally.’ So this has given impetus for a global mutual recognition agreement. But at least APEC has given focus to this and will take us down the path hopefully of a more efficient, more rational process of getting recognition of each other’s measurement standards to underpin these ventures.

CHAIR—That is interesting because an earlier witness we had questioned APEC’s standard conformance negotiations when the results only apply to the Asia-Pacific and not globally. Obviously you now are saying that you are reaching beyond that, and that is obviously one of the things a lot of people do not realise the APEC forum is in the position to be able to do.

Dr Inglis—It is an interesting situation in APEC. I think it is one of the main drivers forcing us in metrology to go across regions—apart from the desire and the drive from the metre treaty. The Asia Pacific metrology program started back in the late 1970s, early 1980s, thus predating APEC by quite some distance, and about a third or more of our members are not APEC economies. So we happen to have an Asia Pacific metrology program that was established.

There is also a North American program, NORAMET. It turns out that Canada, the United States and Mexico are also in APEC. But we have these two different regional bodies. APEC is forcing those two regions to come together, as they must do. In that process there are links from both of these back to Europe which are forcing the thing to be global. So it is acting as a driver to really bring the regions together and demonstrate international traceability.

CHAIR—Are there any further questions? As there are no further questions, we thank you very much for your information to the committee. We now are able to explain things to some of the other witnesses who appear before us about the manner in which you people operate.

Dr Adam—We do a report to the CSIRO board which covers many of these sorts of issues. If the committee is interested, we could undertake to make that report available for you probably at about the end of the month. It contains a great deal of this information in a quite reasonable and summary form.

CHAIR—Yes, that would be very helpful, thank you.

Proceedings suspended from 3.19 p.m. to 3.38 p.m.

HOWARD, Mr Lyall, Director, Trade and Quarantine, National Farmers Federation, PO Box E10, Kingston, Australian Capital Territory 2604

STOECKEL, Dr Andrew, Consultant to the National Farmers Federation, PO Box E10, Kingston, Australian Capital Territory 2604

WATSON, Mr John, Senior Vice-President, National Farmers Federation, PO Box E10, Kingston, Australian Capital Territory 2604

CHAIR—The committee prefers all evidence to be given in public. 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. The National Farmers Federation has made a submission to the committee, parts of which are confidential. The committee has therefore not released this submission. Are there any alterations or additions you would like to make at this stage to your submission?

Mr Watson—Not to the submission, Chairman.

CHAIR—I now invite you to make an opening statement and then we will proceed to questions.

Mr Watson—The National Farmers Federation welcomes the opportunity to appear before the committee today to answer questions relating to the importance of APEC and agricultural trade liberalisation. Progress on trade reform in agriculture is agonisingly slow. This at any rate is the view of Australian farmers, who cast their eyes on international markets corrupted by agricultural protection. In many parts of the world farm protection is out of hand. Agriculture is without doubt the most distorted sector of world trade. APEC countries are the main destination for our agricultural exports and there is huge potential for future growth. APEC represents half the world economy, and the commitment to free and open trade in the region is potentially the most far reaching economic agreement in history.

When discussing the process of agricultural trade reform in APEC, it is important to understand the nature of APEC's membership and the APEC process. The diverse nature of APEC's membership, including North Asian members who traditionally are very cautious on agricultural liberalisation, creates particular challenges for securing agricultural trade reform. This matter came to a head in the debate on comprehensive coverage, which was one of the key issues of contention in the development of APEC's Osaka Action Agenda in 1995. In the end the comprehensiveness principle was incorporated in the Osaka Action Agenda, and this has continued to underpin Australia's position that agriculture must be part of the APEC process. The problem, however, is the process itself. Unlike the World Trade Organisation, with its formal negotiating framework and legally binding commitments, APEC is a club involving voluntary offers by member economies.

The task of achieving agricultural liberalisation through APEC individual action plans has not been easy. Because of the sociopolitical problem of domestic adjustment in agriculture, member economies have avoided liberalisation. The interest expressed by APEC leaders at the November 1996 Subic Bay meeting in identifying sectors for early liberalisation led to

Australia's food proposal being accepted by APEC leaders at their Vancouver meeting in November 1997. This proposal included the reduction of traditional tariff and non-tariff barriers, along with trade facilitation measures and economic and technical cooperation. For those slices of food, such as raw sugar and dairy products, where some APEC economies are highly sensitive to trade reform, much work will be required by Australia to achieve actual liberalisation.

It is our view that APEC will become the forum for studies and for preparatory work on commodities such as sugar and dairy. Actual cuts to protective barriers will be negotiated through the World Trade Organisation in the forthcoming 1999 round of multilateral trade negotiations on agriculture. As our comparative advantage is in the efficient production of temperate agricultural products, we have much to gain from farm trade reform in APEC. The biggest potential gains for Australia are in the most sensitive areas. Because these sensitivities are constantly changing, we must continue to look for opportunities to pick up agriculture in a non-threatening way. Australia's farmers understand the real stake they have in a global trading system and they understand that trade policy can be expected to grow further in importance.

Keeping trade policy on track will require coherent and consistent ideas and, most of all, leadership. Government policy needs to be supported by a domestic consensus and then by an international consensus for good policy to be implemented. Australia has always played a visible role in global trade reform, for example through our chairmanship of the Cairns Group, and this will continue. In fact, with some countries in the world wanting to stop the clock on agricultural trade liberalisation, Australia's leadership role is more important than ever before. This is why all avenues—multilateral, regional and bilateral—must be used creatively and energetically if we are ever to see free trade in food and agriculture.

NFF has made the submission that you referred to earlier on a confidential basis. We are more than happy to answer questions on this submission. However, we would request that highly detailed questions relating to particular commodities in specific markets may require an answer in camera if we believe that they would reveal strategic information to competitor countries.

CHAIR—Can I just interrupt you there to say that we will respect that confidence. We have discussed it amongst ourselves and we will not be asking specific questions in that area.

Mr Watson—Thank you, Mr Chairman. That concludes our opening remarks.

Senator SANDY MACDONALD—It is obvious from what you say, and it is clear from your submission, that you regard APEC as part of a broader framework to institute trade reform—and I am referring to the way that you suggest using APEC for trade reform in some agricultural sectors while using the WTO or subgroups or a bilateral arrangement for others to achieve that level of trade reform. Would you expand specifically on APEC because of its real importance of keeping us in, as I said, 'the Asian club'. We have been excluded from other fora. We are not in ASEM, the Asia-Europe Meeting; we are not in the East Asian Economic Caucus; and we are not part of the ASEAN Free Trade Area. What concerns me is that you see the development of trading blocs in which Australia does not find itself. So I would like for you to expand on the importance of APEC to Australian farmers.

Mr Watson—There are quite a number of issues that need to be taken into account in the answer. Firstly, we do see APEC as part of a much broader framework. We see the importance of APEC perhaps no more or no less than, for example, the World Trade Organisation's push for agricultural and other product trade reform.

One of the difficulties in the World Trade Organisation is the influence of some of the very significant trading nations—for example, the European Community and the US—which tend to slow down the process of negotiations and use the legal framework of the WTO as an assistance to them to slow down progress. It is, as we said in the opening remarks, a somewhat different forum from APEC.

The advantage with APEC is that so many of the country members of APEC are emerging economies where there is a potential to enlighten the communities to the benefits of a freer trade environment. So, whilst agriculture has been a very difficult issue for some of the larger economies in APEC to deal with—because of historic linkages—there are many other areas of development in those countries where they do support trade liberalisation.

The potential for growth in those economies is seen by many of the governments to be assisted by free trade. Indeed, we have seen, even through the APEC process, a number of economies that have volunteered to move forward more quickly than the general framework of APEC—that 2010, 2020 framework that has been agreed on. I think Indonesia is one of the major examples where the government has acknowledged the benefits of free trade and has promoted the notion of moving ahead more quickly than the minimum as necessary. The prospect of APEC operating as a voluntary club, where nations may consider in a non-threatening and non-legal environment where their interests best lie, provides a different opportunity from the WTO, and the arguing base is quite different.

One of the other importances with APEC is that the potential benefits for Australia are very significant because the growth in demand in many of the other APEC nations is for products that Australia is very competitive at. It is very difficult, for example, to see Australia competing in many of the industries that northern Europe has historically had advantage with, whereas there are many of those APEC countries that have poor access to agricultural resources and very large populations and as their economies grow so does the demand for food, particularly growing at an enormous rate, and the opportunities are very clear for Australia. Geographically, Australia is also very well placed. I think another element is that we are in another hemisphere to most of our trading partners in APEC and are able to fill market opportunities that countries such as the United States and the European Community countries are unable to fill because of seasonal difficulties.

There are a whole range of potentials for Australia, agriculture being quite specific and unique for us in that region compared to opportunities in the rest of the world. The economies are growing so quickly and there is the potential for their governments to be a little more enlightened about the benefits of trade reform compared to some that have been locked in historically to very high levels of protection.

Senator SANDY MACDONALD—You express your optimism for APEC now and also in your submission but you also warn in your submission of the pressures which kept agriculture out of successive GATT rounds and they have not gone away. How likely do you think that continuing agricultural reform can be achieved by APEC or will it simply facilitate reform in other forums, like continuing in the WTO?

Mr Watson—We do need to continue very strongly pressuring in the WTO because I suspect it provides the best opportunity to bring peer pressure onto the very large trading economies to do something themselves. APEC, being a more voluntary approach to trade reform, can demonstrate through leadership and it can develop some freer trade environment that can demonstrate very clearly the benefits to economies that open up to competition. That can provide an example to economies such as Europe and the USA.

The WTO, being quite a legal, binding and prescriptive process, which is designed to move things ahead quite evenly through all the members of the WTO, is going to be held back by the most intransigent members, provided they are able to argue their case with some legal force, whereas in APEC I think we are going to see economies volunteer to move forward more quickly. I think the demonstration of economic growth in those countries that do that will provide some incentive for the major economies and some leadership to the WTO.

Senator SANDY MACDONALD—Do you think that the Bogor declaration objectives of 2010 and 2020 are more realistic?

Mr Watson—Particularly with what has happened in a number of Asian economies over the last six months, people will focus very quickly on whether they can achieve an overall economic benefit through trade liberalisation. Where people do that, when they pragmatically look at the drivers of economic growth, they are likely to conclude that lower trade barriers will help their economies.

Senator SANDY MACDONALD—Why do you think that these countries are going to find it easier to sell the trade liberalisation agenda than we do? In the answer to the question before last you said that they did not have a political agenda which made it so difficult for them to face the realities of trade liberalisation. We face that as a country, as you know.

It is all very well to tell the citrus growers of the Riverina that we export four times more citrus than we import and that we are exporting our navels into California, the home of navels. It is cold comfort to that producer to hear that we are doing that, but they are the facts. We find it extremely difficult to do that; I guess all politicians do. How do you think our Asian friends find it easier?

Mr Watson—Our Asian friends certainly do not find it easier in agriculture. In countries such as Japan and Korea, where they have a long history of a hierarchical community involvement in agriculture, they find it extraordinarily difficult because the people involved there have very strong political influence. But they find it much easier in those countries for products and markets that they are new at.

I think one of the problems for Australia and one of the drivers for change in a number of the other Asian economies—I am not suggesting that Japan is going to be driven by this, but I think Korea to some extent will and the Philippines, Indonesia, Malaysia and Thailand will definitely be—is the need to improve their economies. Australia has never witnessed a meltdown in currency value the way those countries have over the last six months. Australia has never witnessed the sort of outcome that is going to occur in those communities. Those communities, now having become educated to a better standard of living, are not going to be willing to see their living standards decline to maintain the standard for a parochial and vocal minority.

In Australia I guess there have been consistent arguments between sectors about the benefits of trade liberalisation, but the writing is there in history that, as we have liberalised our trade, the economy has improved. The performance of industries has improved because they have been faced with competition. The farm sector is no different from manufacturing in that the farm sector in Australia in recent years has become very vibrant in terms of shifting the focus of production from low value to high value. My own area where I live, which is an intensive irrigation area which used to irrigate lots of annual pastures, raise beef cattle and produce a bit of wool and lambs and so on, has swung across almost entirely to dairying and to high value horticulture production.

The pressures of cost have forced the farm community to do that, and the result has been much more competitive farming. The people who have accepted the change and have moved into products that have a better value and production systems that give them a better efficiency are feeling the benefits of it. I know there are still lots of farm areas in Australia where that is very difficult to do. Much of the rangelands simply cannot do anything other than opportunity graze pastoral animals. They cannot even move into grain production. But the areas that can are doing it and are benefiting from it.

Other industries in Asia that have developed in a very dynamic market have developed exceptionally well—very competitively. We only need to look at where the competition comes from now, for example, for motor cars and for electronic gear. It is not from Japan and it is even declining from Korea. It is now coming from Malaysia, the Philippines and from Indonesia because they have been prepared to accept the dynamism of change and they have seen the benefits of it.

I think in Australia it is going to be more difficult because we have traditionally had a very good living standard and people through an era of protection have maintained a very good living standard. I guess the end result of that has been a very high level of national debt but it is not attributed to anyone in particular. It does not get shot back to any particular sector that is inefficient. Everybody is paying for that equally. So it is a very difficult argument in Australia.

However, if we look at where the argument has been run particularly in the last 12 months—in the motor industry, in the footwear, clothing and textiles industries—we see there has been ongoing reform in those industries and the reform has led to greater competitiveness. I think anybody who has driven a recent production Australian motor car compared with the cars that are produced in the rest of the world and analysed that against a benchmark Australian car of 20 years ago compared with the benchmark then in the rest of the world will see that we have closed the gap enormously.

We still are very cost-inefficient compared to the best in the world at motor car manufacture, but we are much better than we were. As those industries, particularly the motor car industry, have been opened up to competition through lower tariffs, their performance has improved quite dramatically. We argue that that reform process needs to continue on for all of the Australian economy to get the benefits, not just the motor car industry.

We argued last year that the textiles, clothing and footwear industry has been a bit slower to respond than the motor car industry because the reduction in tariffs was not as dramatic and there was not as dynamic a plan for reform in the industry. But that industry has also been put on notice that significant change is needed and competitiveness has to be driven for the whole of the economy. So I think we have a different level of argument in Australia. The argument is based on an understanding and knowledge. There is still a little bit of parochialism but there is a great deal of enlightenment. In relation to those Asian countries particularly that have suffered very badly from the currency revaluation in recent months, I think they are going to be forced by their communities to do whatever is necessary to recover the living standards which they have grown accustomed to and which they will lose if they do not open their economies.

CHAIR—Just following on from that, one of the views of course is that the more you open up your economy the greater your difficulties become. It is easy to say that the way forward is to open the economy whereas, with the fear of the unknown—if one can term it as that—these people then say, ‘No, we don’t want to go down that path. We want to put up the barriers.’ How do you overcome that problem?

Mr Watson—I guess it is trying to overcome the fear of the unknown, of change. It has never been easy. Our organisation has encouraged farmers to reach out to productivity improvements, to look at changing the mix on their enterprise, to look at moving into not only new products but also new markets. I think that for those that are enlightened and understand these issues, and particularly for the government, it is essential to play a leadership role in getting that information out to people so that the fear of change is minimised.

CHAIR—But there is really very little known about the role of APEC, its purpose, in the Australian economy within the Australian community itself at large. There is a repository of knowledge at your level and at our level, yet there seems to be a real failure down at the lower levels. How do we overcome that problem?

Mr Watson—Andy is an expert on this. He has been doing it for years.

Mr Stoeckel—It is a hard call. The case for free trade was made very clearly 200 years ago. Ever since then we have always had the odd jokes of economists on the one hand saying this and on the other hand saying this. But the one issue that economists in the world are really clearly united on is the enormous benefits from free trade. The world has been liberalising. It is a general trend that is going on. It goes in fits and starts. But, if you look over the big span of history, you see that the world is definitely liberalising and continuing to do so. But selling the message is very difficult. There is a bit of a protectionist wave of thinking pervading the United States at the moment. They have lost their heart for a lot of change. Even though they are in a very good situation with low unemployment and so on, it is still an issue that has to be told and retold and always resold again to the general public.

CHAIR—In the United States they have failed to get up the fast-track legislation that they need. That is probably the most poignant example that we have got today. If they are failing in doing that, what is the hope for organisations like APEC? I would imagine the hope of just liberalised trade in the future revolves very much around what can be achieved in America itself?

Dr Stoeckel—Yes, America is certainly a big key, particularly in agriculture. It is the key in sugar and dairy, and they are very important, but it is a matter of encouraging the Americans, encouraging a lot of American liberal think-tanks and so on that are doing that sort of work, to sell the cause of free trade. In many ways a lot of economists are to blame as well. They have got bored with it all—it is a very simple old story—and they have moved on to other things: debating about other issues, competition policy and other areas of economic policy besides free trade. That is part of it and then it will move in another swing. People will start to say, ‘This is not good enough. We ought to move on’ and there will be another wave of unilateral liberalisations.

I suspect another wave, as John said, will come in Asia as a result of their problems. They will want to move on and improve their prosperity and they will embark on yet another round of trade liberalisation. Most of the liberalisations done within APEC to date have been unilateral, and most of those liberalisations are there because the bulk of the gains from liberalisation accrue to the country doing the liberalising. We estimate this as 80 per cent of the gains. That message, for a lot of those countries improving their growth performance, has been because they have recognised that very fact.

Mr Watson—I must say I am quite amazed at the often quoted media approach of ‘There is no level playing field out there so why should we level it off in Australia and give them the advantage?’ That suggests to me an absolute lack of understanding of the fact that out of trade liberalisation you do not give something away to your competitors; you accrue it to yourself.

CHAIR—That is right. Could I just refer to an example that was given to us this morning by the Australian Council for Overseas Aid. It was in respect of an Oxfam UK study which looked at the impacts of liberalisation on maize farmers in the Philippines and found that the average household income of maize farmers will be reduced by as much as 30 per cent over the next six years as cheap imports from the US drive down prices in local markets. This is in a context where one-quarter of maize producing households already lack sufficient income for adequate nutrition and where one-third of children in these households suffer from malnutrition. They say the social consequences will be devastating. Up to half a million livelihoods are under immediate threat.

How do you respond to that? Does that indicate that the pace of change is too quick or that there needs to be a certain tempering of the pace of change such that it has a human face to it rather than just an economic face?

Dr Stoeckel—Certainly you get those fears in those stories but we have never really seen that. In John's own industry, the dairy industry, they thought they were going to be decimated when we went in with CER with New Zealand. I remember negotiating the MOU there and that was the biggest sticking point of that whole CER agreement, which both countries think works well, New Zealand being the most efficient exporter of dairy products at the time. But what happened was that the efficiency of Australian industry rose to that of the New Zealand industry and now New Zealand and Australia are the best in the world at exporting dairy products.

It is the same story with navel oranges, which the other senator mentioned. When we liberalised and let in the navel oranges, the efficiency rose to that of the Americans. The same would happen in the Philippines. The efficiency of those maize producers would rise to the American system. Lots would be amalgamated and so on. The big problem would be if there are policies in the Philippines preventing rationalisation and adjustment to that change. That is when you do get big costs, and that is the hard thing. So I would question the analysis about free trade. I am yet to see any example anywhere in the world where free trade has led to impoverishment of a country. It just does not happen, because it is one of the basic pillars of prosperity.

CHAIR—But you have got the Americans subsidising the market there.

Dr Stoeckel—Sure. But, even if they gave their maize away for nothing, it would be bad news potentially for the maize producer in the Philippines, but overall the Philippines would be far richer as a country and they would have far more opportunities opening up in other areas.

CHAIR—That is very hard to explain.

Dr Stoeckel—Yes, it is hard.

CHAIR—And that is part of the backlash—

Dr Stoeckel—Yes.

CHAIR—as a result of the free trade that we are heading towards. I am not arguing against it; I am just talking about the problems that are there.

Dr Stoeckel—No, I realise that. It is a communication one, and it is getting that message over because people have lost the basics. With these beautiful surroundings, this lovely timber and all the wealth in this building alone, why are we as rich today as we are? There are basically two reasons. Firstly, as humans we specialise and we trade—we are politicians, economists and lobbyists and so on—and, secondly, people have invented things like glass, pencils, spectacles and so on. Those are the pillars of prosperity. The minute we try to stop trade and tax it, then we are stopping one of the fundamental things that make people better off.

CHAIR—Is there room, therefore, for government intervention to ameliorate the effects of free trade, such that there is some sort of transition arrangement which lessens the burden on those who are going to be affected? This issue has been raised today.

Mr Watson—The NFF has consistently supported adjustment processes. There is a range of ways of handling adjustment processes. One of them is to try to keep everybody doing the same thing for a little longer, and I think that is the worst approach because what is there at the moment is not successful. You do not want to leave it there any longer.

I recall in the 1970s that there was significant restructuring in the textiles industry in Australia. The government of the day provided retraining opportunities and basically enough income for people to manage their day-to-day needs while they were doing the training. Lots of the people who had been in the textiles industry went out of that and were retrained in a whole range of other professional areas. I thought that was a much better approach than just simply trying to keep all of those people in the textiles industry for a little bit longer.

I think, historically, we had a structural problem in the dairy industry in the 1970s, for instance, when Britain went into the common market. We had something like 35,000 or 40,000 dairy farmers. We now have about 15,000, but the 15,000 today are living much better than the 35,000 individuals were in the 1970s because they have bigger operations; they have flexibility because they are mostly employing a little bit of labour or they can get in casuals and they can have a holiday, and they are better able to meet their overhead commitments and to educate their children and so on. For those people, they are better able to manage.

As for the 25,000 who left the dairy industry, firstly, it did not happen in a day but over quite an extensive period of time. Typically, government support was aimed at keeping farmers on their farms in those days, and that was the wrong thing to do because it slowed down the rate of adjustment and it created an impoverished society of dairy farmers for a number of years because the market just could not support them. A better form of change would have been to encourage those people to make an early decision to quit the industry while they still had some capital and to look for opportunities in other industries—whether they stayed in farming or moved out of farming altogether. I think that sort of approach is a role of government and is a very constructive role of government.

Certainly if there is a prospect of suddenly having half a million maize growers in the Philippines who are still going to try to stay on their farms trying to do the same thing but unable to make it economically, it will be the same sort of disaster but on a different scale to what we have around Griffith in the valencia orange industry.

CHAIR—We heard from ACFOA this morning that one of the consequences of trade liberalisation in the agricultural area was that it boosted the profit for the trader but that was not really passed on to the producer, the farmer. If that is one of the consequences of the liberalisation of trade—that the middle people, so to speak, are going to be the winners and that the producers are not going to make anything out of it substantially—then one finds another reason for opposition to the free trade area. How does one balance this particular issue?

Mr Watson—I could try and answer that as a farmer who is not an economist, and I am surrounded by economists.

CHAIR—I would rather have your answer.

Mr Watson—I have got a great deal of faith that, as long as there is a competitive market in the value adding sector, extra margins will be passed back. That will either come in the form of lower prices to consumers or higher prices to farmers. I think in a competitive processing market it is very difficult for the processors to capture those extra profits and hold them themselves. When I look now at how the price or the value for my milk is calculated, I see it is based on a market out there somewhere—in Japan, the Philippines or in Sydney—and there is a value for a product that a whole heap of other competition creates and then there is a pile of costs of getting my milk to that market and on the shelf. All of those costs come off the price and I get what is left. I cannot fix a price for the milk that I produce.

In the dairy industry, in the rice industry and in the soft fruits canning industries, where we are dealing with products that have to be moved very quickly and you cannot develop any market power in holding your product back from the market, we have developed cooperatives in each of those industries. They have not been developed in wool or to any extent in grain because they are products that you can store; you have actually got the power to decide whether you sell it to them or not.

So I think the market has worked very well. I am not at all concerned that middlemen will capture all of that. I think people say that because the dynamics of marketing food and other products has changed quite dramatically. No longer can a farmer take an apple to the market and sell it to a consumer. These days the consumer wants a whole heap of things done to the apple before they buy it and so there is all this value adding that has developed in the middle and farmers are seeing themselves getting a smaller proportion of the retail price, but I am not sure if that matters, and I am not sure that if the retail price goes up there is an argument that those people in the middle will just take more. I think that, as long as you have an effectively competitive market in the middle, the farmers can quite comfortably believe that they are going to get a high price.

CHAIR—Does free trade in the APEC and World Trade Organisation fora mean unsubsidised trade?

Dr Stoeckel—Yes. You would certainly want to push that.

CHAIR—Is that what we will see?

Dr Stoeckel—I think so. I think that is quite likely. First of all, you have got to understand where the subsidies really came from. First of all, common agricultural policies' high support prices encourage people to produce. The wrong policy is used and, in fact, they keep on producing and produce too much. Once you have got too much, the only thing you can do is export it but, having paid such a high price on the world market for that, the only thing you can do to get rid of it is to dump it and subsidise it.

Having seen the Europeans doing that, the Americans start to say they are losing markets and so on and they then have the political excuse to try and follow suit. So we get stuck on that. We negotiate the WTO Uruguay Round and we largely put a cap on that but it still in practice goes on, but you are gradually attacking that protectionism. So at the moment all those supports are basically on the table and Australia ought to and will, no doubt, be pushing them on those subsidies and, once Europe stops that practice, I suspect the Americans will gradually wind that back.

Senator LIGHTFOOT—Turning to farm basics—beef, wool, mutton and grains—where are they going? By grains, I do not mean some of what would be known as exotics; they are not really but we call them exotics. What about wheat, barley and oats? Where are they going and what benefit has APEC been in minimising damage to those sales in the Asian countries that have been so devastated by their currency burnouts?

Dr Stoeckel—When you ask, 'Where are they going?' can I just clarify—

Senator LIGHTFOOT—For instance, there have been sales of beef on the hoof at 60c. That cannot possibly be sustained. That will send beef growers broke. Where are those other commodities that I mentioned—beef, et cetera—going? What is the future for them?

Dr Stoeckel—It is going to be a grim outlook because a lot of our trade goes to those areas and they are in a contractionary mode. Until they rebound, the demand for those products in those countries will not really pick up. It is hard times. To date APEC has not secured any liberalisation as such for those agricultural commodities. As John Watson remarked in his opening comments, we really only have food as a sector on the agenda, and we are working very hard to try to get up sugar and dairy as issues to be debated within APEC. We have agriculture as an issue but we have no firm proposals as yet for liberalisation within APEC.

Senator SANDY MACDONALD—Is it not fair to say that the reason we are getting rice into Japan is the Japanese APEC undertakings?

Dr Stoeckel—I think we are getting rice into Japan because they had a shortfall, quite frankly.

Senator SANDY MACDONALD—What arguments can we use out there to say that APEC has been very helpful to us and we have made a start—although there is a lot more to do—because of our commitment to APEC?

Senator LIGHTFOOT—Could you come back to my colleague's questions. I really would like to find something out about the basic commodities that affect Australia so dramatically. I know that rice does; it is becoming a very important crop.

Dr Stoeckel—Grains are different.

Senator LIGHTFOOT—Could you answer the question with respect to beef, mutton and wool, et cetera?

Dr Stoeckel—Most of our beef, as you know, goes to America, Japan and Korea. They are the major ones.

Senator LIGHTFOOT—But what is the future for these things? My colleague asked what part has APEC played. Would it have fallen below the prices the commodities are at the moment had it not been for APEC? What part is APEC playing?

Dr Stoeckel—It is really difficult to tell. Certainly, those countries—Korea and Japan—have given rhetoric and have signed up to Bogor, free trade by 2010 and 2020 and all that. That is rhetoric—very good rhetoric—so you do not really know whether that announcement has really helped.

Beef gained a lot out of the WTO. The thing we do not know is how much all that talking and all those meetings with leaders in APEC has slowly gingered up the negotiators and so on to give a bit of ground in the WTO talks. We have gained an awful lot. Beef was one of the big gainers in agriculture out of the WTO at the Uruguay Round.

Senator LIGHTFOOT—Not with the 60c, though.

Dr Stoeckel—There has been a market development since then. The United States had a huge surplus and so on. They have been going through a herd liquidation phase, and that has been driving the price, so our exports to the United States have collapsed.

Senator LIGHTFOOT—Why? Bovine spongiform encephalitis has not really helped either, has it?

Dr Stoeckel—There is a 25 per cent consumption drop over there. These are events outside of that, so it is wrong to judge and say that APEC has failed because the price of beef is very low.

Senator LIGHTFOOT—I am not saying it has failed; I am trying to find out whether it has been of any use.

Dr Stoeckel—It would have been because it would have also assisted the very beneficial effect we got out of the Uruguay Round.

Senator LIGHTFOOT—That was post meltdown.

Dr Stoeckel—But the question is: could it be of some use. The IMF package for Korea is to help get that country to still liberalise further. The Koreans have something like a 150 per cent rate of protection on beef. To liberalise that market alone would be of enormous benefit. The potential is there. So it becomes a cost-benefit question: how much effort and attention should we put into that for what potential gain? The gain is worth millions and millions.

Senator LIGHTFOOT—What about the outlook for mutton?

Dr Stoeckel—Mutton is not so bad. There is a sort of shortage of mutton globally. Mutton is a bit different because the Middle Eastern numbers of sheep in the world are low.

Senator LIGHTFOOT—So would it be fair to say that there is a brighter future for mutton in the immediate future?

Dr Stoeckel—There is a brighter future for mutton.

Senator LIGHTFOOT—Do you include lamb in that?

Dr Stoeckel—Lamb is in there, too.

Senator LIGHTFOOT—What about wool?

Dr Stoeckel—Wool is tough because, again, people are not using wool. Wool has been superseded by other fibres, and productivity gains in cotton are much greater than what you can make out of wool. But wool would be affected by the Asian turndown at the moment, because Japan is a big consumer of wool.

Senator LIGHTFOOT—You are really only confirming what we already know. Can you give us some insight into grains if we have no good news on the meat front?

Dr Stoeckel—Grains are not too bad because, again, there are global supply and demand conditions. The Middle East, Egypt and some other countries are very large consumers of grain. There are huge numbers of mouths to feed in those markets and they have good prospects. You still have China growing at nine per cent per annum and doing very well.

Senator LIGHTFOOT—The wheat market to China is growing by nine per cent per annum?

Dr Stoeckel—No, the Chinese economy as a whole is growing at nine per cent.

Senator LIGHTFOOT—Yes.

Dr Stoeckel—What happens is that the whole nature of what they consume starts to change. They move up market, and they consume a higher value type of noodle as well.

Senator LIGHTFOOT—So grains across the board are looking good.

Dr Stoeckel—Grains are looking better than wool and certainly better than beef in the short term.

Senator LIGHTFOOT—Are any one of those grains—wheat, barley, oats or even rice—looking better than the others?

Dr Stoeckel—With rice, again, it depends on what you might liberalise and what might happen, but all those commodities are still largely dependent on the world economy growing strongly. The Asian meltdown has taken at least one per cent off world economic growth for 1998.

Senator LIGHTFOOT—World economic growth or Australian economic growth?

Dr Stoeckel—World economic growth—less, though, for Australia.

Senator LIGHTFOOT—I find that astounding, quite frankly.

Dr Stoeckel—It is. That is one percentage point. That is roughly what will happen.

Senator LIGHTFOOT—That is a pretty serious figure.

Dr Stoeckel—It is serious, but the commodity markets have already reflected that.

Senator LIGHTFOOT—What is serious are the ramifications that that sort of thing will have on Australia. If it is one per cent internationally, it is going to be significantly greater in Australia.

Dr Stoeckel—Australia has been doing well on its own account anyway. A lot of Australian growth has been driven by our own domestic factors, such as housing and so on, which are not so dependent on that. You have to keep in mind that we export a lot of other things now besides agricultural products.

Senator LIGHTFOOT—We evidently import a lot of things too, with today's figures out at 12 per cent greater on imports and a $800 million deficit.

Dr Stoeckel—Sure, but it is a very complicated question that you are asking. On the other hand, the thing that most commentators have missed so far is what has happened to the world financial market. People are not lending. Where is all the money that was going into Indonesia, Korea and Thailand going? A lot of it will tend to come here. We will be able to borrow at cheaper rates of interest than otherwise would be the case. That is a stimulus to investment and growth.

Senator LIGHTFOOT—I do not think investors are going to pour much money into Australia if interest rates are about two or three per cent.

Dr Stoeckel—Well, they are. It is not lost in the world. The headlines are that we are the fastest growing economy in the OECD area right now, and that is not lost on investors.

Senator LIGHTFOOT—Did you say Australia is—

Dr Stoeckel—Australia is the fastest growing economy in the OECD area right now.

Senator LIGHTFOOT—With the global economy retreating one per cent and with Australia retreating greater than one per cent—

Dr Stoeckel—No, I do not think Australia—

Senator LIGHTFOOT—That makes us about 2½ per cent growth.

Dr Stoeckel—No, I do not think Australia will retreat more than one per cent.

Senator LIGHTFOOT—So you think we will fare better than what—

Dr Stoeckel—Yes, in some ways because—

Senator LIGHTFOOT—I am pleased to hear those figures.

Dr Stoeckel—We rely on imported capital, and capital is cheaper. Everyone is focusing on the goods side. They are saying, 'Gee, we sell this to that market. Therefore, we are worse off.' But you also have to ask where the money goes. Where was the money going? Where is the money going to come now? What has happened to global interest rates? Otherwise that would have been the case. That is better news for us because we need that money. We have a big current account deficit. We are a big borrower. We have a big debt.

Senator LIGHTFOOT—I will finish there, but I will be surprised if we attract big capital with the interest rates being so low when there are other more attractive areas in the NAFTA countries than there is in Australia.

Dr Stoeckel—We will. The current account deficit will rise, which is the mirror image of that larger capital inflow that will come.

Senator LIGHTFOOT—We hope that that capital inflow actually comes to fruition. I would like to see that manifested in some figures perhaps in a month's time.

Senator SANDY MACDONALD—Maybe I have a very simplistic view of imported capital, but, if you have a rate of exchange which makes us a very attractive place to invest, does it not mean that the farm comes under threat of being sold? We saw it just before Christmas with one of America's largest gold companies. I think they took over Plutonic or Newcrest. Suddenly Australian resource companies became extremely cheap and extremely attractive to foreign investors. We are a capital importing nation—we always have been—but it does concern me if our major resource companies start to be controlled.

Dr Stoeckel—This comes back to the attitude, and I am sure John or Lyall may have an attitude on the foreign investment.

Senator SANDY MACDONALD—Could I just make one point before you make a comment on that, Andrew? I will just run this one past you, too. I do not know whether this is a very simplistic approach to the Asian meltdown crisis as it affects Australia, but we are primarily a commodity based economy in terms of our connections with Asia. If people want your commodity they pay for it. If they do not want your commodity, no matter how cheap it is, they do not buy it. The plain facts are that our South Korean friends will need our wool because they do not consume the wool necessarily themselves but they manufacture it and sell it to Japan, North America or Europe. So, although you do have a crisis of confidence now, in terms of the potential for Australian commodities, that is not going to change very much. When this settles we are going to go along quite well again.

Dr Stoeckel—Sure. America is looking terrific, and that is the biggest economy in the world. They are going to need greater imports of clothing and so on and the raw material if it is the wool in clothing they want.

Senator SANDY MACDONALD—I do not think it will be wool, though, will it?

Dr Stoeckel—Well, if it is wool they will buy it from Australia. You have to even all those things out. You made a point about foreign investment, but I do not know whether you want us to pick that up or not.

CHAIR—I just want to see if I interpreted something correctly. You were talking about APEC before and its leverage with the World Trade Organisation. Do you see APEC predominantly having a role of its own or does it have a role specifically as a lever within the WTO?

Dr Stoeckel—Both ways, and we do not know how the world advance may pan out. You are best to keep pushing APEC because with the Asian meltdown and so on it is not impossible to see a scenario in a year's time when Asian leaders get together and say, 'We've really got to rebuild Asia and reinvigorate. Let's get on APEC and liberalise.' So you could see that, and it is APEC in its own entity. But you can also see the scenario where APEC does not make much progress and it becomes just a talking shop, and so on, with very good rhetoric coming out, but it just fuels people to make a bit of progress under the WTO. I can see both scenarios and it is impossible to distinguish between them—whether APEC is part of the bigger picture or whether it is on its own. Both views would be perfectly sustainable.

CHAIR—I think we need to draw these proceedings to a conclusion. I thank you very much for your attendance this afternoon.

Committee adjourned at 4.33 p.m.