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COMMONWEALTH OF AUSTRALIA

SENATE

Proof Committee Hansard

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

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

WEDNESDAY, 4 FEBRUARY 1998

MELBOURNE

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SENATE

Wednesday, 4 February 1998

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

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

Participating members: Senator Abetz, Senator Bolkus, Senator Brown, Senator Brownhill, Senator Calvert, Senator Chapman, Senator Colston, Senator Faulkner, Senator Harradine, Senator Margetts, Senator Schacht

Senators attending the hearing: Senator Hogg, Senator Lightfoot, Senator Sandy Macdonald, Senator Quirke

Matter 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

BRYCE, Mr Robert McKinnon, General Manager, Plastics and Chemicals Industries Association, 380 St Kilda Road, Melbourne, Victoria 3000	455
JAYASURIYA, Professor Sisira, Associate Professor, School of Business, La Trobe University, Bundoora, Victoria 3083	477
McALLEN, Mr Bruce James, Chairman, APEC Chemical Industry Coalition Task Force, 380 St Kilda Road, Melbourne, Victoria 3000	455
McKAY, Professor John, Director, Monash Asia Institute and Director, Australian APEC Study Centre, Level 6, 30 Collins Street, Melbourne, Victoria 3000	506
OXLEY, Mr Alan, Chairman, Australian APEC Study Centre, Level 6, 30 Collins Street, Melbourne, Victoria 3000	506
SNAPE, Professor Richard Hal, 49 Somers Avenue, Malvern, Victoria 3144	492

Committee met at 9.40 a.m.

CHAIR—I declare open this public meeting of the Senate Foreign Affairs, Defence and Trade References Committee which is inquiring into the matter of Australia and APEC.

McALLEN, Mr Bruce James, Chairman, APEC Chemical Industry Coalition Task Force, 380 St Kilda Road, Melbourne, Victoria 3000

BRYCE, Mr Robert McKinnon, General Manager, Plastics and Chemicals Industries Association, 380 St Kilda Road, Melbourne, Victoria 3000

CHAIR—I welcome Mr Robert Bryce and Mr Bruce McAllen from the Plastics and Chemicals Industries Association to this hearing. 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 Plastics and Chemicals Industries Association. Are there any alterations or additions you would like to make to your submission at this stage?

Mr Bryce—No, thank you.

CHAIR—The committee has already made the submission a public document. I would further ask that at the end of the session you remain behind for a brief period of time, so that the Hansard officer can verify details and information provided to the hearing by yourselves. I now invite you to make an opening statement; then we will proceed to questions.

Mr Bryce—I will try to make a very brief summary and then fill in the gaps a little bit. The plastics and chemicals industry in Australia is operating with a maximum tariff rate of five per cent, which is amongst one of the lowest in the world. Obviously, with a tariff rate at that level, the industry has been put into a position, which the industry is happy with, to become globally competitive—in other words, we have to compete with the lowest cost producers, wherever they maybe.

The industry is at a crossroads. Some of the capital that it has invested now is quite old and some of the plants are fairly small by world scale. We do have some world scale plants but they tend to be at the lower end. The industry has built up over many years, obviously operating under high tariff rates, and it obviously has been protected, I guess, from some of the global winds.

The situation now, with tariffs at the level they are, is that the industry has to compete globally. I said we are at the crossroads because the industry now has to decide whether or not it will make investments in Australia or whether or not it will just let the plants that we have wither away. Certainly the hope of the industry is to develop further in Australia and there are a number of very major projects on the drawing boards at the moment, provided of course the government recognises the need for investment incentives and the removal of certain impediments to that investment.

APEC is very important to us. If we build these world scale plants—in fact we have some world scale plants now—product will have to be exported. It makes a lot of sense to export into one of the fastest growing regions in the world, although I guess at the moment we are a bit unsure of its immediate future. Given that we are looking at plants which have lives of 20 or 30 years, we believe the situation in Asia obviously will be resolved within the next few years.

The problem occurs that within a lot of the ASEAN countries we have tariff situations of between 30 and 60 per cent; and, secondly, there are a number of non-tariff barriers. The industry recognised very early the importance and significance of APEC and we believe that, working through the APEC mechanism, we would be able to accelerate tariff reforms within those countries. That is the broad picture and the relevance of why we are interested in APEC.

I guess one of the main reasons that we were asked to appear, as I understand, is that the chemical industry was one of the first industries to take advantage of the mechanism. PACIA is a member of the International Council of Chemical Associations, which represents about 90 per cent of the chemicals manufactured in the world, and through our international trade group of the ICCA, Australia proposed that we form an APEC chemical industry coalition, because a number of the chemical industry associations within the APEC region are not members of the ICCA. So we broke some ground, we got those associations together and we have had two meetings. At the last meeting in Hong Kong in May it was decided that the group would make a submission to APEC seeking early sector liberalisation. As you know, that has been achieved. We have our next meeting in Kuala Lumpur in the middle of February, to put the flesh on the bones, if you like. So that is where we are at.

CHAIR—Thank you. Mr McAllen.

Mr McAllen—You can see that our interest in APEC is focused on market access and the reduction of tariffs, particularly in the Asian region. The parallel objective there also is to look at non-tariff barriers, again with the need for market access, and to identify any non-tariff barriers that are up, preventing exports from Australia.

A bit of background may be useful. The chemical industry was one of the first to organise itself in terms of a worldwide industry body under the last Uruguay Round, and in doing so it was agreed that there would be an agreement struck, which was called the chemical tariffs harmonisation agreement, which is an international agreement among member countries. It is not obligatory, of course, on all the GATT or WTO members, but it is an agreement that was struck principally among the quadrilateral countries. Do I need to explain what the quads are?

CHAIR—Yes.

Mr McAllen—The quads are the four major trading blocs in the world—Japan, USA, Canada and Europe. They struck a deal under the Uruguay Round to harmonise tariffs down to a level of roughly 6.5 per cent over a period of time from the implementation. That was sort of an agreement that was struck under the WTO Uruguay Round.

Senator LIGHTFOOT—When was that agreement implemented?

Mr McAllen—It is implemented now and it is in the process of each of those major groups reducing their tariffs to a level of about 6.5 per cent in the main. For the major part of the industry that will occur in about 2004.

The trouble with that agreement is that it overlooked one significant fact. While the quads were busy negotiating the tariff deal among themselves, they completely left out the Asians, and over the period that long protracted tariff harmonisation was struck, of course, it was very much in evidence that the Asian countries were building major plants and protecting those operations with tariffs and non-tariff barriers.

So the big flaw in the international tariff harmonisation agreement is its failure to capture the ASEAN countries and, of course, in that we also have the emergence of China as a major manufacturing and exporting source.

The first major objective of this group is to bring the ASEAN groups into the chemical tariff harmonisation agreement, and that is the step we hope to achieve later this month.

As Robert said, what is significant about our industry is that it is able to organise itself and it is important that we take the opportunity to globalise our tariff objective.

We are very much encouraged by the information technology agreement that was struck under the WTO in Singapore, where now we have duty free tariffs for all information technology equipment worldwide. That was achieved via, first of all, an APEC agreement and then ratified in the larger WTO forum. We want to follow the same path. We are very much encouraged in Vancouver that the industry was selected to be on the fast track. We are in the first nine. So I think that is very significant. There is, if you like, a lot of pressure coming to bear from those governments that signed that agreement in Vancouver.

Senator LIGHTFOOT—Could you just amplify on the fast track.

Mr McAllen—The fast track—remember that the Minister for Trade said that Australia had scored a few major victories in Vancouver. I think I remember him saying that food was on the first 15, but what was more important was that chemicals was in the first nine. The remaining six are to be looked at in the future with a view to liberalisation, but the nine had to come up with a plan and there has to be something on the board this year about how they plan to liberalise this market sector. So these governments that have signed on to this, including China and all the Asian governments, including the whole 18 APEC signatories, have now given a commitment to early sector liberalisation of chemicals.

We see that as a major achievement. I think it was mostly because of the push that was given to this by the United States. They were the major sponsors of the chemical industry being given this status and they were supported somewhat by the Australian government.

Senator LIGHTFOOT—Why do you qualify that?

Mr McAllen—We believe that the Australian government could have been a bit more active in promoting the chemical industry. You heard Robert say—I am not sure whether he did say it but it is in the submission—

Senator QUIRKE—He should have said it.

Mr McAllen—He should have said that we have done some scoping for the future of the industry and we have identified \$6 billion worth of projects that can be put into the water in the very near future.

Senator SANDY MACDONALD—Could I ask if you might give some examples of those?

Mr McAllen—They are mostly on the North West Shelf, utilising the natural resources of gas, et cetera, that we have up there. I think the major chemical companies at the moment are in discussions with the Western Australian government about the feasibility and so forth of those projects. As Robert mentioned, there are a number of essential ingredients that need to go into the mix, if I can put it that way, so that we bake a cake that creates a new chemical industry.

The existing industry is probably nearing the end of its economic life; it is centred mostly in Victoria at Altona and at Botany in New South Wales—I am now specifically referring to petrochemicals—and, as Robert said, we are at the crossroads; we have to think about the future.

The future is in utilising the natural resources this country has, building world scale plants, but because of the limited size of our domestic market, they have to be viable on the basis of their ability to export into overseas markets. That is where we come back to the APEC process and the market access being so essential. So that is an important ingredient in the mix. There are other important ingredients that will put the government to the test, if you like, particularly whether or not this industry qualifies as a special sector worthy of some tax treatment. At the end of the day, I think that will be a factor that will have to go into the mix as well. But at this point in time we are focusing on the market access, because it is very important for our existing chemical and plastics producers with our existing operations to have export markets. That is basically the position.

I think what we would like to see from government is a very much more active participation by government officials in the government process. I say that because in the discussions we have had to date with the other 18-odd nations' chemical associations, we detect that they are very much influenced by what their government is doing, what their government is asking them to do. We here tend to do our things—fortunately, I suppose—without much government influence if we can possibly avoid it, but, particularly in the ASEAN-AFTA agreement countries, they are very much influenced by what the government is telling them to do.

We believe that the Australian government could get very much more active in talking to their counterparts in these other governments about the chemical industry; and, bearing in mind what I said—that their Prime Ministers have now committed them to early sector

liberalisation—just what are they prepared to do to speed up this process? Our fear is that this APEC thing will just die in its own hole unless they ante up with specific proposals. It is our belief that they will only do that if they are given a good shove by their government officials. Government officials in Asia and industry people seem to have a different relationship or a closer relationship than perhaps industry people and government people have in Australia. So that is one of the factors we would like to mention here.

Mr Bryce—Mr Chairman, can I go back to the question about the \$6 billion, the future investment in the country. The plastics and chemicals industry has what we call a deficit, chemical industry deficit, which is simply the difference between imports and exports; it is growing at about 12 per cent per annum and it is currently about \$6 billion. I guess with all our concerns about the current account deficit, we are already somewhere between 15 and 20 per cent of the current account deficit. Chemicals, obviously by their nature, are in everything, everything we wear, everything we eat, all the buildings, everything—there is nothing that is not impacted by chemicals. Of course, the trend in imports will continue because there will be probably some further plant closures, and existing plants may not necessarily be able to keep up with the domestic demand. So from a national point of view this industry is a very major contributor to the current account deficit.

In relation to the \$6 billion that we talk about in the submission, Access Economics on our behalf carried out a survey of our existing members and came up with a firm \$6 billion. It is our estimate that the \$6 billion is actually probably closer to \$9 billion or \$10 billion because there are other companies that are not members of our organisation and other parts of the industry that perhaps do not see themselves as the chemical industry who we know are working on feasibility plans.

That is one thing. I should say that this \$6 billion relates to what we call greenfield; in other words it is a totally new chemical facility without any infrastructure. As Bruce said, the existing industry is largely focused in Sydney and Melbourne, at Botany and Altona, and they are what we call brownfield sites. If the investment climate was favourable here, there would be significant further investment in those brownfield sites. You are talking about an industry which already is the second largest manufacturing industry; it is bigger than cars, it is bigger than textiles, it is second only to food and beverages. There is tremendous scope for this industry to expand and it is one of the best industries to take advantage of our natural resources. In that submission you will see some key indicators based on the \$6 billion, so we are talking about an industry with a very large potential, if we can get it right. We are working with government now and we are hopeful we will get it right.

Mr McAllen—The WTO experience in the industry, if I can broaden it to include the pharmaceutical industry, saw the pharmaceutical industry agree to what is commonly called a zero for zero position—in other words, zero tariffs worldwide for pharmaceuticals—and that was endorsed under the WTO Uruguay Round. Our objective is the total elimination of all tariffs in the chemical industry, and the CTHA among the quadrilaterals is going a long way towards that and coming out at 6.5 per cent.

CHAIR—That is with the WTO?

Mr McAllen—Yes, that was an agreement struck under the WTO. The step along the way, as I said, is to enjoin those who were not party to that agreement, which is essentially the ASEAN-AFTA group, into the CTHA and then move towards total elimination of tariffs completely in the world, as the pharmaceutical industry was able to achieve.

As Robert pointed out, that is very important for us. This industry is a very important part of the manufacturing sector; it is over 10 per cent of the total manufacturing sector. I do not know if we have got the numbers here—it is 100,000 people and \$33 billion in turnover, so we are a very major sector of manufacturing and we want to continue to be a very major sector of manufacturing; hence the need for Australia to think seriously about the future of this industry, which, as Robert pointed out, is now at the crossroads really.

CHAIR—I will pass to Senator Macdonald for questions in a moment, but can I get a brief clarification as to whether or not pharmaceuticals are included in chemicals?

Mr McAllen—No.

CHAIR—The membership of the organisation—could you give us an idea of some of the members?

Mr Bryce—The organisation basically is broken up into three sections—although we do not like to look at it like that—for the purposes of explanation. There is the basic chemical sector, in which we have nearly 100 members. Typical companies of those are ICI, now called Orica, BASF, Dow, Du Pont, Hoechst—those sort of companies, the key members of the chemical sector.

Then we have the plastics processing sector and they are the sort of companies that buy the resins or polymers from chemical manufacturers and make plastic bags, rubbish bins and those sorts of things—automotive components, et cetera. There are about 400 of those. Those processors are typically small companies. Obviously there are some big ones like BTR Nylex, but there are a number of small organisations ranging from two or three people going up to maybe a couple of hundred.

The third part of our membership comprises importers, distributors and adhesive manufacturers, and we have about 60 members in that group. As it says in the submission, we represent something in the order of 85 per cent of the industry's turnover in total, but in the chemicals part of it it is well over 95 per cent, so it is quite representative.

Senator SANDY MACDONALD—That was my first question, I wanted to know more about your industry, because it is a very important industry: 4,000-odd members and \$33 billion worth of turnover. You did not say that your two major concentrations are in Altona and Port Botany.

Could I ask you to expand further on some of the potential developments in the North West Shelf? Can you describe what they are? We hear a lot about what is going to happen on the North West Shelf, we hear a lot about the energy potential there, but I would like to know more about what projects are planned.

Mr Bryce—It is a little bit tricky to answer that, because we are in a situation now where the Western Australian government has announced six potential proponents to develop the North West Shelf, and on or about 3 April the Western Australian government will make a decision as to who the successful proponent is. There are a number of combinations of likely plants. I really cannot go into too much detail on those because of the confidentiality of this period that we are in at the moment.

Senator SANDY MACDONALD—Perhaps you could describe what products they will be turning out.

Mr Bryce—There are a number of combinations of products that could be turned out. One of the products that could come out of it is, I guess, on the caustic chlorine side: you get salt and gas and make caustic soda and chlorine. We import over one million tonnes of caustic soda a year; that is largely used in the alumina industry, and of course that is a major contributor to the import situation.

Of course, chlorine can be used to make ethylene dichloride, which is then made into vinyl chloride monomer, VCM, which is the basic raw material for the manufacture of PVC. That is one of the streams that could be proposed. That is a possibility, but there are other possibilities as well.

Senator SANDY MACDONALD—When you were describing your sectional members, you talked about importers and distributors and I think you said they dealt with 95 per cent of chemicals; is that retail?

Mr Bryce—We were talking about industry turnover, so the basic chemical manufacturers represent about 95 per cent of the industry turnover. The thing we have to be careful of here is that, for example, a number of the major companies that are members of the chemical sector also happen to be major importers. For example, ICI, or Orica as it is now called, is the largest chemical importer into the country, but it is also the largest manufacturer. Companies like that are only members of the chemical sector; they are not down as importers. But the importers that are members of ours are small to medium sized companies that have set themselves up.

Senator SANDY MACDONALD—Do you as an association become involved in dumping disputes on the importation of chemicals?

Mr Bryce—Our involvement in dumping is one of policy formulation. Obviously the dumping inquiry is a matter between the local manufacturer and the Australian Customs Service. We do not get involved in individual cases but as an organisation we have been very heavily involved in the industry task force on, for example, the Chinese normal values. In fact, Bruce is the chairman of that group.

Senator SANDY MACDONALD—Is that the Round-up club?

Mr McAllen—It is the Round-up argument, which would take up another day's session here.

Mr Bryce—Let's not go into that. We are involved obviously in policy formulation and in fact one of the impediments that this industry faces is to have an effective anti-dumping system.

However, having raised the glyphosate situation, let me tell you that Monsanto had announced that it was going to build a \$80 million glyphosate plant in Melbourne. Because of all the carrying on that went on with the Chinese normal values situation, we can now thank whoever we have to thank, because that plant is now being built in South America. We have lost it; it has gone for ever.

That is the problem this industry faces: we cannot wait for ever and ever while we have this debate about Chinese normal values. China is a market economy. It is absolute nonsense. We have lost that great opportunity; it has gone.

Senator SANDY MACDONALD—This very large and important industry sector really requires an export market, because our domestic market is very, very small. If we cannot access that sort of export potential, how do you see the next decade of investment in petrochemical industries?

Mr Bryce—I normally carry with me a table, which I have not got, that shows investment in the chemical industry going down on a slide from 1980. There was a hiccup in it. Orica built a new pipeline to carry ethane into Botany and they also spent some money at Laverton to increase the capacity of the PVC plant, to make it bigger. But the optimism or lack of optimism in the chemical industry has resulted in a slide.

Unless the government recognises, but more importantly does something about, the impediments that this industry has highlighted then that investment slope will probably continue. Investment is taking place; for example, Montell, who make polypropylene, have announced a \$75 million expansion. That money—I should be careful with my words here—is being spent to enable existing plants to become internationally competitive, but those plants are fairly new. We have got plants in the industry that are very old and in fact they have probably in some cases reached the end of their lives. They will just disappear; they will be closed.

Senator SANDY MACDONALD—One final question: energy companies like Santos or Woodside—are they members of your organisation?

Mr Bryce—No, they are not.

Senator SANDY MACDONALD—AGL—those sorts of gas suppliers?

Mr Bryce—No.

Senator SANDY MACDONALD—No uranium or mining companies?

Mr Bryce—No.

Senator SANDY MACDONALD—Quite separate from that?

Mr Bryce—Yes.

Senator SANDY MACDONALD—But once that oil exploration company or oil company starts refining its product, then that section of its operation is a part of your organisation?

Mr McAllen—It can be. Some of the products out of oil refineries are used for chemical production, but the major raw material, the feedstock, if you like, is not. LPG at the moment comes out of Bass Strait; it comes from Cooper Basin, as Robert mentioned, in terms of natural gas. The gas itself is the major feedstock; it provides the ethylene base for petrochemicals.

Senator SANDY MACDONALD—At that stage your organisation becomes involved.

Mr Bryce—Yes. Thanks for the marketing lead, though.

Mr McAllen—The tragedy would be if Australia did not take the opportunity to add to its natural resources here and add value in terms of petrochemical production—and with petrochemical production you get the conglomeration of smaller chemical manufacturers and also plastic processors; this is the natural progression of things.

Mr Bryce—Can I just make a comment that we have not made. In the chemical industry we are in international competition. We have got raw materials here and we have got local management of multinationals that would like to expand here; they in turn have to bid for funds as part of their multinational conglomerates. Australia is a nice place to live in and all of those sorts of things, but Australia really, up until now, does not get much of a mention in the boardrooms overseas.

We are up against competition. Companies might say, ‘We could build a plant in Singapore’; Singaporeans bend over backwards and double up to help industries establish there—which is amazing given that it was a sandy island with palm trees on it. Now it is one of the major centres of petrochemical production in the world, yet they have no raw materials. We are up against the Middle East, we are up against the US gulf, of course, which is a very major area, and of course up against some of the others. So this is not just some little thing that we are looking at here in Australia. We are big boys now; we are part of the global network.

We are not looking for handouts or anything like that. Obviously the benefits that the chemical industry can give the economy are enormous and we have quantified some of those in the study. If we do get some incentives, only to match those that are being given by other governments to the chemical industry, because they recognise how important it is, then we will be ahead. But it is important to recognise that we are part of the international scene; we are in competition.

Mr McAllen—What is probably very current in our thinking at the moment is that now is the best opportunity we have seen for our Asian neighbours to realise that they have to export. No doubt this Asian meltdown will see a lot of these countries that are in difficulties exporting as much as they can to fix up their balance of payments position, et cetera. They

will see the advantage of market access. The quid pro quo must be that they also realise that they must also open their markets.

As Robert said, this is an international business and the capital is very mobile; those plants that are economically viable in their own right—that is, without government patronage, which has been a feature of some of the plants that have been built in Asia—will thrive on a situation of free trade in global chemicals. I think this is a good time, with the emphasis on their need to export, for their governments to understand that to open their markets is the answer, the solution we want at this particular time. So we think it is very opportune for our government to start to encourage those countries to open their markets.

Senator QUIRKE—What do you want from government?

Mr McAllen—We want our bureaucrats to closely talk with their bureaucratic counterparts along the lines that I have just mentioned—the essentiality of having an open free market system—and to, I guess, put them in the position of saying, ‘What are you going to do about your commitment to early sector liberalisation of chemicals that your Prime Minister gave at Vancouver in November last year?’

Mr Bryce—Senator, when you asked what does the industry want from government, was your question directed towards the APEC situation or was it a broader question?

Senator QUIRKE—It was the broader context. I got the impression that the two of you were somewhat frustrated with the role of government in Australia. The comment was made a minute ago that you do not want handouts but you want government to address a number of issues. What I had in mind there was to find out exactly where the shortcomings are. APEC is one aspect, but obviously there are other components to it as well.

Mr Bryce—Some of the other components are coastal shipping and port reform. In relation to coastal shipping, let me give you an example. When we were talking on Senator Macdonald’s question before, I gave him the example about caustic soda and VCM. If you are making caustic soda up on the North West Shelf—

Senator QUIRKE—Is that soda ash, by the way?

Mr Bryce—No.

Senator QUIRKE—It is a different product.

Mr Bryce—Yes. Soda ash is a product that is made out of limestone and salt and it is used in the manufacture of glass. That plant is in South Australia.

Senator QUIRKE—Is there another one in the west?

Mr Bryce—No, that is titanium dioxide. There are two titanium dioxide plants in the west; one is Millennium and the other is Ti-West. These chemicals all sound the same. Titanium dioxide is used in paint and plastics as a pigment.

Senator QUIRKE—That is a sand refined product?

Mr McAllen—Yes, it comes from mineral sands.

Mr Bryce—Getting back to the coastal shipping situation, if we have to move caustic soda to Gladstone, for example, if we have to use Australian flag vessels, it is really not on because you can bring caustic soda from other parts of the world at a fraction of the cost that we can move it to Gladstone. The other problem is VCM: we have the PVC plant at Laverton; we have to bring VCM in special high pressure ships to bring it to Melbourne. Once we have to start moving product around the Australian coast, we are in a lot of trouble. Of course, we are in trouble with the port as well, so that is an area.

One of the areas we mentioned before is anti-dumping. We want an anti-dumping system which is consistent with the WTO. We have quoted an example where we have lost an opportunity. Infrastructure is another problem, particularly in the Pilbara—roads, electricity, pipelines, those sorts of things. Those infrastructure provisions and ports are too big for one company to supply all those. Once we get one company in, they will all start to come along and those infrastructure costs will be spread out. Obviously the Western Australian government, for example, would provide quite an amount of infrastructure—and I am not talking on behalf of the Western Australian government, but I would be thinking that they would be wanting some Commonwealth assistance in the provision of that.

We get situations where we need to write off those plants fairly quickly; we want to get incentives, for example, by way of accelerated depreciation or tax holidays or something like that in the short term. Because of this footloose global capital, the boards sit in London or Houston or Washington or wherever and they will say, ‘Right, these are the numbers that are coming out of Singapore, Malaysia, China and Australia’; Australia may not even get on to the table because it is just so far off.

So we want a number of things. We want the government to understand our industry, to know what the ramifications are for employment, current account deficit and all the rest of it. We want a government that is proactive in supporting us, not fighting us. I am not necessarily saying it is fighting, but we want a government that is sympathetic and will act favourably with us, and that is what we are working on now. I have to say that it has improved a lot over the last couple of years with the government’s decision on car tariffs and textiles, clothing and footwear; that has been beneficial to us.

Senator QUIRKE—It has been beneficial, has it?

Mr Bryce—Yes. Let me give you an example.

Senator SANDY MACDONALD—Government is a difficult game.

Mr Bryce—There is the situation, for example, in the plastics industry. The plastics processing industry in this country is a major supplier of automotive components. Our automotive components in this country are world class; they are used in BMWs, Land Rovers—

Senator QUIRKE—They are not world priced, are they? That is why the tariff is there.

Mr Bryce—There are some examples where we have a technological advantage and we are able to sell on quality. Price is a part of it. But what has happened since the automotive decision has been made is that Ford, through Jack Nasser, has said that with Ford in Australia they will look at the Falcon to be exported further. I think we export about 6,000 units. If that plan came off, there would be another 60,000 units. So the ramification on the decision for that industry flows through to the plastics processors and then it goes back to the raw materials suppliers, the chemical companies. So a favourable government decision in that area will flow all the way through.

Mr McAllen—Senator, when you said that we were disappointed or frustrated with government, I think that is essentially correct, because, to put not too fine a spin on it, I think we were sold a dump under the Button government at the time. When this industry went before the Industry Commission for review back in 1987, the government's decision was to remove its tariffs essentially; that was the outcome. It was accompanied by lots of words from the government of the day that micro-economic and macro-economic reform would be such as to ensure the industry had a future—that is they would fix the waterfront, they would fix coastal shipping, they would fix the competitive tax position, et cetera; therefore we could look forward to a future.

In effect, what has happened since the tariffs have come down has been a drastic reduction in the amount of manufacturing of chemicals that has been done in Australia, so we now have possibly just the bare bones remaining.

At this point in time we see an opportunity to grow—rather than contract—that we have not seen for many, many years. As Robert said, that is caused by a mix of lots of things, and the APEC process and market access is a very important part of that.

I guess we have not been as visible in the Canberra scene, talking about our industry, as perhaps the miners or the farmers or the motor vehicle companies have been. Perhaps that is something that we should have done more rigorously, more overtly and more publicly. However, that is water under the bridge.

We now turn to the future, and the future we see as presenting an opportunity, provided we can get the settings right: global access for our products in a global free trade chemical environment. Those investments will possibly go ahead utilising our own natural resources in the North West Shelf—and eastern seaboard as well, because Bass Strait will not go away, Cooper Basin will not go away; they will continue to provide feedstock for viable petrochemical operations and plastics operations for the next millennium.

Mr Bryce—The other thing is that we have been frustrated. The story that we have been putting to Canberra over many, many years has been the same story, but I guess we have wised up a bit, in that we have now quantified what the impact on the economy will be of these large investments. Instead of talking generically, we can say it will have this impact here and this impact there and the rest of it. We are encouraged with what is happening. I guess the government's decision on Mortimer could have gone a bit further than it has, but the appointment of Mansfield is good to try to accelerate things through that. We have a task

force of our CEOs which is putting together a list of what we require. We have costed impediments, if you like.

Irrespective of what colour government we get, really what we are looking for in Australia is the development of our resources. Let's forget the party politics of everything; everybody wants this country to have a future, something for the kids, and we want employment. This industry is not necessarily a major employer of people but it certainly takes up a tremendous number of services and needs a lot of technical skills to keep it going.

Based on the modelling that we have done, this industry has the biggest impact on the economy of the sorts of investments that we are looking at. We are more optimistic than we have been for many years that both the government and opposition know a bit more about our industry than perhaps they did. Part of that of course has been that we have not perhaps lobbied as hard as we might have, but I guess that has been rectified over the last 12 months and that is why we are a bit more optimistic. If we do not get what we are after this time, I think there is a fair chance that will be it.

Mr McAllen—We are confident we will get the market access. I would put on the record that China remains one of the hard nuts to crack in this global market access situation. If this current government has got any empathy or inside running in its negotiations with the Chinese government, we would say: use that and ask the Chinese to come to our negotiating table with a plan to remove their barriers. Their barriers are high tariffs in their petrochemical industry. We need that market, the Asians need that market, the Americans need that market, the Canadians need that market. We can all live together, provided we have, as I said, this global trading environment.

We will look with interest when the APCIC chemical coalition meets in KL on 18 February to discuss what plans are on the table for early sector market liberalisation. I will be very interested to see what the Chinese are proposing. Remember, their premier did commit their chemical industry to early sector liberalisation. I want to see the cut of their jib. Just what are they going to put forward?

Senator QUIRKE—I think they promised a clean swimming team, too.

Mr McAllen—That is why I said it will be very interesting to see. It is all very well for our trade minister to talk about access for apples, wool, et cetera, but here we have a major sector of the economy that is looking at its future. It is dependent on market access. And there is something in it for the Chinese, too. We have got one of the first forums to bring this global industry together, and I think it is a great opportunity and one that can only be realised if everyone comes to the table with some plan to say, 'This is how we propose to open our markets.'

Senator QUIRKE—Chairman, I know we are running out of time, so I want to quickly go into one other issue. You mentioned the implications for the trade balance of the lack of investment over the last 15 years and how it has gone down. Roughly what dollar value can you put down to the current account?

Mr Bryce—It is about \$6 billion. Imports are about \$12 billion and exports are about \$6 billion.

Senator QUIRKE—So we are talking about 25 per cent of the current account deficit in a good year and 30 per cent or 35 per cent in a bad year?

Mr Bryce—Yes.

Mr McAllen—This country is importing \$6 billion worth of chemicals. That tells you that there must be a local market and investment opportunities. Of course, we have seen these large protected industries get moving in Asian countries.

Mr Bryce—Senator, that is only half the equation. When we talk about the figures that we have calculated, we have looked at imports between chapters 28 and 40; we have not included in that all the imported cars, and we have not included all the packaging that whitegoods and electrical goods come in and clothing and food, so if you actually put together the total it would be probably two or three times that size. That is why I am saying that the implications in other manufacturing sectors is so important on this one. Whitegoods is a classic example, with polyurethanes, foams and things like that.

Senator LIGHTFOOT—Gentlemen, I think that we are aware of your industry. We are out of time and there are a lot of questions we could ask you but because of the constraints of time we cannot. However, I leave the prerogative to you as to whether you want to keep your answers shorter. I am not limiting you in any way if you could keep your answers shorter.

Mr Bryce—Why do you not give us the bullet points and we will try to answer in two or three words, just to give you the flavour.

Senator LIGHTFOOT—Okay. Is the WTO moving too fast in its agreement to reduce tariffs?

Mr McAllen—It is moving too slowly. The WTO is not moving. We do not have a round on the horizon. They are yet to talk about another round. Of course, given the European experience in agriculture, I guess they would be reluctant to even kick off another round.

Mr Bryce—Let's leave that one.

Senator LIGHTFOOT—The government could play a part there in urging the WTO to have another round.

Mr McAllen—To have another round. That is why we are in the APEC; it is the only game.

Senator LIGHTFOOT—In relation to the tax concessions that the government could offer, and you appear to be heading towards tax concessions—would that conform to any other responsibilities we have with international agreements, particularly the WTO?

Mr McAllen—Would it be in conflict?

Senator LIGHTFOOT—Yes.

Mr McAllen—No.

Senator LIGHTFOOT—Do you see a shift, given that 80 per cent of the population of the Australia live in Queensland, New South Wales and Victoria and less than 10 per cent live in Western Australia. WA is now by far the biggest producer of petroleum condensate, particularly gas, in the nation; in fact in the Timor Gap it could probably double its reserves—I am not sure about the output there. The basic feedstock for some of your industries, particularly polymers and monomers, is potentially in Western Australia. Do you see a reluctance of industry, who has invested heavily in the west coast—and you mentioned Victoria, and Botany in New South Wales—to shift now to where the feedstock is for raw materials?

Mr Bryce—The short answer is no.

Senator LIGHTFOOT—You mean they would shift?

Mr Bryce—They would shift.

Senator LIGHTFOOT—What is needed to have the industry shift?

Mr Bryce—We are talking about new projects in Western Australia and, as I said, those companies are competing globally for funds, so they need to be given taxation incentives—let us call them—which are comparable with the other.

Senator LIGHTFOOT—Are you saying they will not do it without taxation incentives?

Mr Bryce—That is a very major factor. A number of our members could have built facilities in Australia but have not, because they have been given all sorts of incentives from other countries; that has tipped the balance, and that is why we have lost them.

Senator LIGHTFOOT—You are aware that the Western Australian government have a short list of people—major world players in the chemical industry—that the government will assist in one way or another, probably through supply or assistance with respect to infrastructure. That is going to be announced, and they include Monsanto, Mitsubishi and some of the big Japanese companies, ICI, and I think some of the producers as well—Shell, BP, BHP. They are going to establish—there is no question about that—a major production of raw material, mostly from gas, in Western Australia. How does that fit with your people in the east?

Mr McAllen—It fits well, because there are a number of drivers. This industry will go, first of all, where it can make a dollar. That is the first thing. There are other factors also. The environmental factors that we are facing would be a consideration because we have major petrochemical sites now surrounded by urban population.

Senator LIGHTFOOT—That is in the east?

Mr McAllen—That is in the east. Therefore I think it would be very desirable to have major petrochemical sites surrounded by no people.

Senator LIGHTFOOT—Could I give you the picture of Australia as a whole. I am from Western Australia and I guess that shows.

Mr Bryce—So am I.

Senator LIGHTFOOT—I do not mean to be parochial and I do not have a flag with a black swan on it, waving it, but look at Australia as a whole: the west coast is the biggest producer and exporter of alumina powder in the world; we have the biggest solar salt operation in the world in Western Australia—an essential raw material for your industry; we have the biggest reserves of gas in the world, another essential commodity in your industry. The gas has been deregulated; in other words the gas and electricity have been hived off and in what was a government monopoly, which inhibited development in Western Australia for many years, gas has come down in four years from \$4 a gigajoule to about \$1 a gigajoule. That is a phenomenal thing. Is that not sufficient incentive for your industry to start talking seriously about relocating to the west?

Mr Bryce—Let me make three comments. First of all, in the Middle East gas is virtually costed in at nothing. What you are saying is terrific; I am delighted that has happened, and obviously it is an attractive feature. The two things that are impediments—forget the coastal shipping—

Senator LIGHTFOOT—Cabotage does not worry you?

Mr Bryce—It does worry us. But the two big things are, first, the provision of infrastructure. Obviously the Western Australian government will provide some.

Senator LIGHTFOOT—If I can interrupt you, Mr Bryce, we have demonstrated that. The King Stream steel mill that is to be established is a multibillion dollar industry for Western Australia and Australia and the government is prepared to look at spending \$430 million on infrastructure to assist that. I am not saying the government is going to give everyone an open cheque, but the government is prepared to look at it, with the assistance of the federal government.

Mr Bryce—That is exactly what we want, that is what is happening at the moment, and that is part of the CEO task force we have at the moment, and DRD have acted magnificently in the development of the components.

Senator LIGHTFOOT—Where is the log jam?

Mr Bryce—The log jam is the provision of infrastructure and taxation incentives. They are the two key things.

Senator LIGHTFOOT—You cannot get that without dialogue. Is there a log jam in the dialogue between state and federal and/or your industry?

Mr Bryce—No, we have a task force that has been established. There are two parts to it; the CEOs task force and DRD are a member of it.

Senator LIGHTFOOT—State DRD?

Mr Bryce—Yes. Limerick and his people are members of that. A lot of dialogue is going on there. DIST is a member of that and so, too, is Business Victoria. The key players are DRD and DIST, and there is plenty of dialogue with good ministerial contact. That is what this task force is about. It is the first time we have had a task force that has been very well supported by industry and government. We are talking, working together, trying to find solutions to those impediments. Given the Mansfield thing and the change in thinking over the last couple of years, that manufacturing industry is important, we are more optimistic now.

But for the big companies to invest in the west, they are marginal investments still; you have to have something in the incentives for taxation, we have to sort out the cabotage, we have to sort out the infrastructure costs. But in relation to the infrastructure costs, once that infrastructure is there, it will be like bees to a honey pot; they will come. You cannot justify the infrastructure, as you know, on one project, but once you have got that there the others will come.

Mr McAllen—It might be a case of saying that if we could put our crystal ball gazing to work a little bit, at the end of the day, this will happen if the corporate tax rate is 20 per cent and not 36 per cent.

Senator LIGHTFOOT—Say that again, please?

Mr McAllen—It may eventuate—if we were to look in the crystal ball—that it will go ahead if the taxation rate is 20 per cent for these projects and not 36 per cent—if Mr Mansfield or Minister Moore can convince Treasury and cabinet that 36 per cent of nothing is a lot worse than 20 per cent of something.

Senator LIGHTFOOT—I think you will find us all in agreement with that.

Mr Bryce—The company tax rate on its own is not the major issue. It is the ones I have said, and I will repeat them: taxation incentives, infrastructure, cabotage.

Senator LIGHTFOOT—Australia is an enormous per capita consumer of nitrogen in both the agricultural and mining industries. Where does the nitrogen come from that we use today?

Mr McAllen—Natural gas. But of course you have seen the demise of the fertiliser industry, which was a great consumer of nitrogen; that has gone.

Senator LIGHTFOOT—But you have seen the rise of nitrogen in the form of amphi for explosives.

Mr McAllen—Ammonium nitrate uses nitrogen, as compared to the fertiliser industry, which is minuscule.

Senator LIGHTFOOT—Is that caused by cost or is it a shift in farm husbandry?

Mr McAllen—It is the non-viability of the Australian fertiliser industry.

Senator LIGHTFOOT—It is the costs factor?

Mr McAllen—Yes.

Senator LIGHTFOOT—What about dumping? In the process of when you identify some goods that are dumped in Australia or are alleged to be dumped in Australia, is the process from when you stop that dumping too long?

Mr McAllen—Yes.

Senator LIGHTFOOT—What is it now—six months, nine months?

Mr McAllen—It is 12 months. For all practical purposes it takes 12 months to sort out.

Senator LIGHTFOOT—Do you see it as a government responsibility to bring down the time from when dumping is identified to when it is stopped?

Mr McAllen—The government saw it as an objective and in its pre-policy position it made 155 days its objective. The system needs to be refined. It needs to get two bureaucracies that meddle in this pond at the moment out and under one authority. The government employed Mr Willett to look at that; he made a recommendation which is still gathering dust in the pigeonholes of Canberra somewhere and we are very keen to see that it is dusted off and implemented.

Mr Bryce—Dumping is one of those things that nobody wants to take. The local manufacturers do not like it, the importers do not like it, the customers do not like it; it creates uncertainty. The worst thing about business—one of the worst things—is uncertainty. If you have got this dumping inquiry going over 12 months, it spooks everybody. It has to be consolidated, made administratively easier—one authority not two, shorter time frame. That is what we want.

Senator LIGHTFOOT—In terms of a generic figure, how much could we save on our annual balance of payments if we produced from the raw materials we have in Australia the chemicals that you now import—in other words, you reduce the import cost and you then have exports of a material and the potential aspect of that of course. What is the combined figure, the aggregate of those two figures, that could give us a favourable reduction in our balance of payments?

Mr Bryce—The first thing is that Australia will never produce all the chemicals that it uses. There are lots of chemicals that we would not want to make here. As a stab in the dark, I would say that you would probably reduce the chemical deficit by half.

Senator LIGHTFOOT—Which is?

Mr Bryce—It is currently \$6 billion or \$7 billion; we reckon we could knock that in half.

Senator LIGHTFOOT—To me that seems to be sufficient incentive for a reduction in tariffs. However, I am not the Treasurer. But logically, as a businessman who has been active in business for more decades than I care to remember, it seems to me to be a logical incentive.

Mr McAllen—We have done the number crunching under the economic modelling. We had Access Economics model these projects and, if you like, net off what the government must give away. What is left is still heaps of national benefit—heaps and heaps.

Senator LIGHTFOOT—Talking about national benefit, my last question, because of the time, is this: how do you think your industry benefits from Australia being a member of APEC and where are the soft spots?

Mr McAllen—As I said, the only game in town—one of the major games—is to get market access for these new plants, as we have mentioned. APEC is the only game in town that allows us to get together, to discuss market liberalisation and to put on the agenda early market sector liberalisation for the chemical industry.

Senator LIGHTFOOT—You see APEC as being a very positive organisation which Australia ought to continue its membership of?

Mr Bryce—Absolutely, no question about it. If we did not have APEC, we would still have our five per cent, we would be still carrying on about market access, the chances of getting tariffs down and non-tariff barriers in the countries we are talking about would be negligible. This is a mechanism, and we must have it; we support it and have used it.

Senator LIGHTFOOT—Gentlemen, we could go on all day, but I know that the chairman is a stickler and we have gone well over time.

CHAIR—We have gone well over time, but I think it has been very worth while. If I could pursue that last issue, how do we guarantee that we are going to break these barriers down through APEC? One of the fears that has been expressed to this inquiry already is that whilst there are goals set by the Bogor declaration, we might not just reach those by 2020 and 2010.

Mr Bryce—I think there are two things that must happen, and I will give an example. The government must continue—I am talking about the politicians—talking with the politicians in those countries and keep talking it up. Secondly, the bureaucrats within our

government must continue to talk with the bureaucrats in other countries. In fact, after this meeting I am going to Canberra to talk to DFAT about this issue. That is setting the scene.

How we use that is that when we go to Kuala Lumpur and we are surrounded by our friends, we are going to say, 'Listen, guys, don't carry on about not reducing your tariffs; your Prime Minister and your ministers have said you will hook on to early trade liberalisation. We are not debating that; the debate is how we are going to do it.' It is that scene that will enable the politicians and bureaucrats to go in there and tell them that. That is how it works.

CHAIR—You identified the major problems as infrastructure costs, tax incentives, cabotage and so on. But all those really count for naught unless you can get movement in the tariff area, firstly. And, more importantly, one area you have not focused on—and I do not know whether you can supply us with supplementary evidence—is the non-tariff barriers. What we hear so much about is that you may well bring down the tariff barriers and you may well convince a government, regardless of complexion, to totally embrace your grab bag; however, the non-tariff barriers that go in place completely cancel out all the work that you may have achieved. Therefore you have sold the government—and again I am being non-party political here—a pup, in a sense. They have given you the incentives, they have given you everything in terms of infrastructure and cabotage, they have completely come to the party, but beyond your control you cannot get around the non-tariff barriers. Meshes is one area where we have heard a lot to start off with. Can you assist us in that area?

Mr Bryce—Non-tariff barriers is a difficult area because a lot of companies do not want to talk about it. Bruce's company, for example, has done a case study. It is a difficult one to identify but we must continue our attack on all of these things simultaneously—the cabotage, the incentives and all the rest of it. We are trying to find those examples at the moment.

CHAIR—You see, you go along to your meeting, you register your complaint with China, you get pressure from the Australian government on the Chinese government, you get bureaucrat to bureaucrat pressure; China relent and say, yes, we will bring down our high tariffs, but then you find in place the non-tariff barriers.

Mr McAllen—Everyone has them; we have them, let us be frank. You can talk to people. I can give you quite a few non-tariff barriers that exist in Australia. People might say the salmon regulations in Tasmania might be a non-tariff barrier.

CHAIR—I have heard that.

Senator LIGHTFOOT—It is a world class product.

Mr McAllen—But the only way you can address these things first of all is to have a forum to get them out into the open. We have under APEC a forum for the listing of these non-tariff barriers. For example, if every inspection of a shipment of chemicals that goes into the Philippines is required to be inspected to determine whether it is copolymer or homopolymer, because they do not believe what is written on the invoices or commercial documents—if they want to set up that sort of dockside barrier, that will be identified in this common debate; and I think it is peer pressure.

CHAIR—But that debate is not happening. That is the real problem.

Mr McAllen—Let me come back to your position. No-one in this whole chemical industry has ever moved down the track of saying, ‘Let’s have chemical tariff harmonisation and forget about the non-tariff barriers.’ If you look at the first chemical tariff harmonisation agreement that we struck under WTO-GATT, that was accompanied by a mechanism for non-tariff barriers; this one is also accompanied by a mechanism for non-tariff barriers, a forum whereby people bring them to the table. It will be peer pressure that will remove those non-tariff barriers.

CHAIR—You have spoken about some modelling that has been done. Are those models readily available and could they be made available to us?

Mr McAllen—Yes. This is one of the requirements under the Mortimer plan, that you put forward a net economic benefit for what you want to do. We are one of the very few industries that has gone down that track of actually doing economic modelling to determine the net economic benefit of our projects.

Mr Bryce—We will send a copy of the report to Paul.

CHAIR—Thank you. We have gone well over time, unfortunately. We could have scheduled this for at least another hour.

Mr Bryce—We can come back. We have got a story to tell; we would be happy to continue if you have got questions, but not today unfortunately.

CHAIR—Can we take you up on that.

Senator LIGHTFOOT—You were frightened we were going to say that.

Mr McAllen—No, we are delighted to get a forum to tell our story. As I said before, perhaps the industry has not been at the front telling its story and how important it is; we have not been in the big whingers. We have got a great story to tell, we have got a big opportunity to grasp, and we need some of these things identified.

Senator LIGHTFOOT—It is an untapped economic giant.

CHAIR—There is a range of issues I would like to pursue and I am sure other senators would as well. Thank you for coming today and hopefully we can get a time mutually satisfactory for us tomorrow to come back again.

Proceedings suspended from 11.03 a.m. to 11.13 a.m.

JAYASURIYA, Professor Sisira, Associate Professor, School of Business, La Trobe University, Bundoora, Victoria 3083

CHAIR—I welcome Associate Professor Sisira Jayasuriya from La Trobe University to this hearing. 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 2 February 1998 and an additional page submitted this morning. Are there any alterations or additions you would like to make to your submission at this stage?

Prof. Jayasuriya—No.

CHAIR—The committee has already made this submission a public document. I would request that at the end you wait around for a few moments so that the Hansard people may verify details of information which you have provided to us during this hearing; that would be very much appreciated by them for the purpose of the record.

Prof. Jayasuriya—Sure.

CHAIR—I also acknowledge that you have come before us at short notice, I understand. We do appreciate that. We now invite you to make an opening statement and then we will proceed to questions.

Prof. Jayasuriya—Thanks, Senator. My involvement in this came about because I have been working on the Asian economic crisis for the last seven or eight months. My general area of expertise is South-East Asian economies and South Asian economies but I have also been working on Latin American economies. I did some work for the World Bank on Colombia recently, so when the Asian crisis broke to some extent I felt that I was somewhat better prepared than many other people here because Latin America has had persistent crises and so it was not really anything totally unexpected for someone familiar with some of the issues in Latin America.

Specifically in terms of implications for APEC, I thought that I may have something to contribute, in the sense that all the deliberations and discussions and analyses of the nature of APEC, the prospects for APEC, have been predicated on this idea that Asian economic growth was going to continue at very rapid rates, that there was never any end in sight and it was going to be sustained growth right through the region for the next 20 to 25 years. Those were the projections. Last May there was a conference in England, the European-Asian nexus, looking at APEC-EU relations, and there was not even a hint there may be a problem in Asia.

So it seems to me that it is perhaps time to sit back and look at what implications the evolving crisis in Asia may have for APEC, both in terms of how Asian countries affected by the crisis may begin to look at the APEC agreements and what they may do in future in terms of their current commitments and also in terms of the flow-on effects for Australia and any implications that it may have for Australia.

My contribution is very much trying to look at the impact of the crisis on prospects for trade and liberalisation in general, both from the point of view of the affected Asian countries and the from the point of view of the likely impact on Australia and the effects, both economic and likely political responses, that those economic effects may evoke in Australia, and then look at some ideas about what it all means for Australian policy in terms of the attitude one should take towards APEC.

CHAIR—Thank you. Senator Quirke.

Senator QUIRKE—Thanks very much. Your submission says something which I suspect is ominous, and I would like you to just comment a little bit further on it. It is on page 3 of the submission, item 11:

In many ways, from the viewpoint of Asia and Australia, a major benefit of the APEC process has been that it has served as a means of influencing US policies and actions. In the aftermath of the Asian crisis it is possible that this role of APEC may become weakened.

In fact the whole tenor of this paragraph is that APEC may well have actually already fulfilled its usefulness and that you see the present crises in Asia as undermining APEC as we have known it and maybe in fact even limiting its role into the future. I wonder if you could just expand on those points for us.

Prof. Jayasuriya—The first point is that APEC has had this role that it has helped to be some kind of a counterweight in terms of the impact on the US through NAFTA and the Latin American or South American blocs that have been emerging, and the relationships between the US, or NAFTA, vis-a-vis the EU. APEC has had a useful role in locking the US into an Asian trade bloc, including Australia and New Zealand here. Even though it is not a formal trade bloc, there is some kind of an agreement or political process which provides a forum which makes it possible to go beyond purely Japan and the US or China and the US—the big powers in Asia—blocking with or against each other in a kind of triangular set-up—a North Asia-NAFTA-EU setting.

I did not want to give the impression that the crisis now means that the need for APEC or the role of APEC is finished in any way. What I wanted to point out was that the influence that Asian countries can bring to bear on the US is certainly going to be weakened by the crisis, which means that it will become more difficult to make sure—perhaps ‘make sure’ is too strong—the US pays more attention, in its dealings, to Asian countries, particularly those countries which do not have a lot of bargaining power, such as Australia. I think it is going to be one of those realities that one has to confront.

Asia—Asia including Australia—would relate to the US from a position which is weaker than before, but it does not imply that the value of APEC is diminished. To some extent you might even argue that it makes APEC even more important because it is one institutional set-up that is there, through which we can still commit them to certain processes, try to push them a bit on that and lock them in; it will just be a bit more difficult.

Senator QUIRKE—How do you see the Asian crisis unfolding? Do you see it as a long-term crisis or do you think it is a medium-term one?

Prof. Jayasuriya—My own judgment for the next three to five years is that in the next three years the crisis will certainly not go away; it may well extend to a longer period.

Senator QUIRKE—To when?

Prof. Jayasuriya—Three to five years. I do not expect it to all disappear by the end of the year, for example.

Senator QUIRKE—So the tiger economies are no more.

Prof. Jayasuriya—I think the tiger economies will go through a bad period before they revive themselves and come back. I am not entirely persuaded that, even when those economies come out of this crisis, we are going to see the eight or 10 per cent growth rates that we have seen in the past 20 years.

Senator QUIRKE—What seems to be coming out of all this is that these tiger economies have predominantly had their tiger economies on foreign debt and that the fantastic growth rates we have seen have been stimulated predominantly by very, very large unsustainable borrowings in the long run.

Prof. Jayasuriya—I am not entirely persuaded that it is the case. Foreign debt certainly has been important but if you compare the average levels of foreign debt in Asia with the sort of foreign debt that many Latin American countries have had in the past, it is comparatively mild. To some extent that was why nobody could anticipate that the crisis would emerge like this. All the people who analyse the leading indicators for potential economic crisis would look at foreign debt, debt service ratio, fiscal deficits, real exchange rate, whether it is appreciating or not, and none of them really helped explain the crisis here. Foreign debt is important but it would be perhaps not quite right to say that it was the driving force.

Senator QUIRKE—Thank you, Chairman.

CHAIR—Could I just pick up your point that no-one was in the position to be able to predict. We have analysts, economists, crystal ball gazers everywhere. What is the problem? Is it that we do not have models that really work or is it that people do not really want to see the facts as they should be interpreted? What is the difficulty?

Prof. Jayasuriya—I think it is a combination. Economists really have not had a model; they are just now working on it. Paul Krugman from MIT has recently tried to formulate a model for the Asian crisis because all the previous models for currency crisis just do not explain what happened here. Secondly, for people in the marketplace—

CHAIR—I am sorry, could I interrupt you there. I am not having a shot at you but that really is most unsatisfactory. We are looking for a world where there is some reasonable degree of predictability and certainty—that is one thing we would all like to a certain extent—yet we have really these things that just come out of left field and strike us down.

Prof. Jayasuriya—Yes, it is a big problem that we have not had a model which was capable of anticipating and explaining what was happening in a formal economic modelling sense. But if you think of how market analysts, particularly investment analysts, and people like that saw what was going on, there was a degree of—not inertia, but people had got so used over the last 25 years to seeing sustained growth in Asia that when warning lights began to appear they were ignored.

Most investment analysts in the region have had basically no experience of Asian economies. Anybody this side of, I guess, 60 years really has not had any experience of a major economic crisis. The last one was Indonesia after the coup d'état and there were minor crises with the oil sheiks and the crisis in the Philippines when Marcos fled. But basically there just has not been a major economic collapse where currencies have collapsed or inflation has taken over. So everyone got really used to this and the miracle was no longer a miracle. I remember listening to Ross Garnaut last year at a conference and Ross said, 'It is no longer a miracle: we know the set of policies, we get the policies going and once you have those policies, economies begin to grow at eight or 10 per cent.'

So when the warning lights and some of the signals started, there were people in the marketplace who started to feel jittery about individual countries, but the whole contagion effect certainly was not expected because they were not looking at the underlying similarities that many of these countries had. They thought the problems were specific to a particular country and did not generalise.

People started to worry about Thailand from late 1996. Just before I came I looked at an analysis that Salomon Brothers had done for their investors dated May 1997 which said they will be going underweight on Thailand, because Thailand seemed to be having problems, and overweight on Indonesia. This was May 1997.

Senator LIGHTFOOT—I read one part of your submission where you compared the financial crisis in the problem countries in Asia with South America. Whilst I can see some superimposition of the two continents, I fail to see—and perhaps you might be able to amplify it and make it clearer for me—where the political stability of the tiger countries of Indonesia, Malaysia, Thailand and South Korea could be compared with the political instability in South America, given that for many decades, or generations now, different work ethics have existed in South America and those economies I just mentioned.

Prof. Jayasuriya—If I could take the last one first, the work ethic, I am not entirely persuaded that the work ethic was there right at the beginning and then the economies started to grow because the work ethic was there. It is a bit of a chicken and egg thing—which came first? I think the growth process itself generated hard work practices and a work ethic which could then draw on particularly the Chinese influenced work culture. But I am not entirely persuaded that in Asia, in this mix anyway, we had the work ethic to begin with. There have been studies done in the 1920s and 1930s or even in the 1950s which say that these workers were awful—that they were lazy, that these workers in Thailand and Indonesia just did not want to work—and then suddenly 10 years later—

Senator LIGHTFOOT—You are talking post-colonial and pre-colonial with most of those economies, with the exception of Thailand. That is a big dividing line, is it not, the colonial mentality and post-colonial mentality?

Prof. Jayasuriya—Yes. But to take Indonesia, until the 1970s nobody would have said that Indonesians were going to work hard—really hard—in the way that has transformed the economy. People were poor and working hard to survive, but in terms of the real work ethic that one sees, the modern work ethic, it is perhaps—

Senator LIGHTFOOT—Perhaps there is some superimposition, but I could not see where one could say that there is a significant comparison. Obviously in economic terms, if you graphed it, maybe that graph superimposes, but I just wanted you to amplify that—or perhaps you did not mean that; I am not quite sure.

Prof. Jayasuriya—I did not really mean the work ethic. I must confess, I observe now that the work ethic in Asia in the tiger economies is certainly a far stronger force for economic growth than what you observe in Latin America and most countries in Latin America. But even in Latin America, if you go to Chile now—I had not been to Chile before 1973—and see the way that people work, you think, ‘Gee, Chileans are not Latin any more.’

Senator LIGHTFOOT—It is still a European country in South America, though, by physical appearance and by population.

Prof. Jayasuriya—Yes, that may have something to do with it. But would you say prior to the policy reforms that Chileans worked any differently? I would not really know.

Senator LIGHTFOOT—I do not want to get into it now but President Pinochet was a dictator there, yet the Chilean economy was the best in South America, except in Venezuela during the oil ban, et cetera. But overall Chile did perform very well indeed.

The reason I am saying that is that my view is—and it is one that I have drawn from the committee and from witnesses that have appeared before the committee, and I very much value your time, Professor—that the tiger economies are more a pause. My view is that in the South American economies, with the exception of some isolated ones, there is not a recessive pause or a retrograde pause. It seems to be something that is more endemic in terms of economies in South America than what it will be in South Asia and South-East Asia.

Prof. Jayasuriya—I would tend to agree with you on that. The crisis in Asia is a major crisis and the effects are going to be not very short term because of the magnitude of the crisis. The crisis is still evolving really. It is going to be played out over the next couple of years.

Senator LIGHTFOOT—You would not say they are going to be long term, would you? There might be some residual effects long term.

Prof. Jayasuriya—In two to three years I would expect these economies to be basically facing a lot of major problems.

Senator LIGHTFOOT—Regressive economies?

Prof. Jayasuriya—I would not go so far as to say that the economies will continue to contract for three years. I think this year certainly many of them will contract but, unless there is political chaos, which is not out of the question, I would expect that the economies will begin to revive by 1999 and there will be slow but positive growth and if the world economy continues to grow, they will be pulled out.

If you compare what happened in Mexico with the big crisis in 1994, it basically took them 18 months to two years to really come out. But they came out because the US economy was growing and they injected capital and 18 months later there was a massive surge in exports. At the moment the Mexican economy looks reasonably healthy and if Mexico could do it, I am sure the Koreans could do it. In that sense I have more faith that Asia could come out of it.

Senator LIGHTFOOT—Given that those economies are imperative to the Australian economy as well—not in a drastic sense, because of the diversification of the Australian economy—do you think we could use the United States rescue of Mexico as a pro forma for the rescue, perhaps in inverted commas, of those four tiger economies?

Prof. Jayasuriya—Yes, certainly. The economies are in crisis, they do need an injection of capital, and the kind of bailout that worked in Mexico should certainly have good prospects for working here. But, as I said, even in Mexico it took a period of time before they could come out of it. To some extent they were lucky because the contagion effect only really affected Argentina in the region; the rest of the world was not affected at all. So the global ramifications of the Mexican crisis were relatively short lived.

There was a very short period of time when capital outflows to developing countries shrank because people thought Korea, Mexico—every country—is the same. But that effect did not last; it was only a few months and things went back to normal. The US economy was growing quite rapidly, and with NAFTA and the great access to the US market, the Mexicans—

Senator LIGHTFOOT—If my memory serves me right—you may correct me—the multibillion dollar rescue package that President Clinton put together was paid back by the Mexican government ahead of time.

Prof. Jayasuriya—Yes, ahead of time.

Senator LIGHTFOOT—But NAFTA was formed after the Mexican crisis.

Prof. Jayasuriya—Yes, but even the crisis to some extent was related to the expectations of NAFTA. Huge capital inflows, which to some extent precipitated the Mexican crisis, came about because of the expectations that NAFTA was going to mean great things for Mexico.

In relation to NAFTA itself, in a sense, even after the formation of NAFTA in terms of the actual coming down of trade barriers and liberalisation, most studies suggest that the

purely technical effects on reduction of trade values and so on is relatively minor at the moment and it will take a long, long time for that to be a major factor.

I think it was the confidence issue that was really important. The fact that Mexico was going into NAFTA, that it was being ratified, it was going through, meant that there was this enormous surge in confidence; and in a financial crisis the whole issue of confidence is obviously a major factor.

Senator LIGHTFOOT—So in the scheme of things Mexico perhaps may have been irrelevant to NAFTA. NAFTA was more designed to combat the burgeoning competition that the European Union offered?

Prof. Jayasuriya—I am not really convinced that Mexico was brought in to counter competition from the EU because—

Senator LIGHTFOOT—No, I think it was irrelevant.

Prof. Jayasuriya—It was irrelevant. It was not relevant, no.

Senator LIGHTFOOT—It was irrelevant. What I am getting to is this. If there are three major trading blocs in the world, and it seems to be emerging that there will be—EU, NAFTA and the Asian trading bloc—given Australia's geographical position, do you think, as one of your colleagues, Professor Maddock, has said, that Australia should belong to the Asian one? He made no bones about that.

Prof. Jayasuriya—No, I do not, actually. We disagree on that. It will be a disaster for there to be an Asian bloc in the first place which excludes the US. If you were to think of a North American bloc, a European bloc and an Asian bloc which by definition excludes the US, I think it will be an absolute disaster. The Asian economies, including the Japanese economy, are far more dependent on the US market in all kinds of ways, directly or indirectly; if there were an antagonistic relationship between an Asian bloc and North America, I think that would be an absolute disaster.

Senator LIGHTFOOT—What direction is the drift? Where is the drift with respect to the Australian economy and the Australian affinity with those blocs now?

Prof. Jayasuriya—I think that is the advantage of having APEC, precisely because the US is both in APEC and in the North American—I would not call it a bloc; it is in the whole of the Americas, both north and south. It raises the possibility of emerging as a bloc with the US firmly identified only with them. I think APEC provides a mechanism where the US at least may feel that they have a foot in this camp as well, so that Asia is not seen as a competitor but more as a partner, even though there will always be some tensions, yes.

Senator LIGHTFOOT—On the one hand it would appear that Australia, by not limiting itself to Asianisation, at least in terms of trade—in spite of being pushed in that direction by various fora and various powerful individuals, not least of all, previous prime ministers—may emerge from the currency crises that have developed better off now than it would if it had it put all its trading eggs in the Asian basket.

Prof. Jayasuriya—Yes. It would be a mistake for Australia or for anyone in a very volatile world to put all their eggs in one basket and go the Asian way or the European way or the North American way. I would suggest that Australia developed much stronger economic links with Asia really because of the underlying complementarities between the two economies. Here is Asia basically hungry for resources and here is Australia well endowed with resources, and that underlying complementarity was always going to create a situation where our ties with Asia were going to be stronger.

But if you think about it from the perspective of an Australian investment management company or a global corporation, it just does not make sense to put all your eggs in one basket. Now, as to whether Australia will come out stronger from this crisis, that would be a moot point. I think the crisis is going to be bad for Australia.

Senator LIGHTFOOT—Could you define why you think the crisis will be bad for Australia? I do not think anyone disagrees with you. It is just a matter of the degree that the Australian economy will retract. But given the relative immunity by China, Australia's exports of raw materials, in particular, to China, and the negative growth in Japan, but certainly not a retrogressive growth, and given Australia's traditional ties with Europe and North America, does not that insulate Australia significantly—not exclusively or totally—from the downturn in the Asian economies?

Prof. Jayasuriya—If Chinese economic activity does not get badly affected by the crisis and if things remain at this level—if the Korean bailout holds, if things stabilise at the current level—your scenario is probably reasonable. But there is a chance that China will not escape that lightly from this crisis. Already the trade pressures are building up on China not being able to devalue. Most analysts would suggest the renminbi now is overvalued, because the great advantage for China which gave them the massive surge was the 1994 period of big devaluation where they had huge real devaluation, which gave them a competitive edge against all the Asian niches; and now that is wiped out and they have major financial sector problems. All the capital that has flown into China flew in in the expectation that China would maintain their competitive edge, and now their profitability is going to be threatened, so the Chinese economy is under pressure.

If they had not really had the takeover of Hong Kong and the commitment to no devaluation of the Hong Kong dollar—because that is a political issue—China would have devalued to some extent by now. Because they have not devalued, that puts them in a less competitive situation, and I have doubts about the degree to which China will escape the crisis. In my view, one should expect that the Chinese growth rate will slow down. I am not suggesting that it is going to be an actual deflation or a contraction but I would expect a slowing down of the Chinese economy which should then reduce the level of insulation that the Australian economy has had so far.

Senator LIGHTFOOT—It is very difficult, of course, Professor, to obtain figures from China because of its centrally planned economy. The latest figure that I have seen is an eight per cent overall growth in China—that is post-currency crisis—and in the steel industry, which is very important to Australia, something like a 12 to 15 per cent growth in the steel industry, and in a purpose-built steel industry that could take only a particular type of Australian ores.

Would you repudiate the eight per cent growth? If you do, what figure—and I realise it would have to be a generic figure—would you put on it? An eight per cent growth in China, if we were to maintain our market share, would largely insulate Australia from the currency crisis of Asia. Would you agree with that in fact?

Prof. Jayasuriya—I would hate to try to put a figure on it, given the track record of economists in predicting growth rates in Asia over the last couple of years now.

Senator LIGHTFOOT—But it would be positive growth; you would not argue with that?

Prof. Jayasuriya—It would certainly be positive growth. I would be very surprised if China slows down to five per cent, for example. I do not expect it to slow down to five per cent this year. I would also be surprised if there is not a significant slowing down over the next couple of years.

Senator LIGHTFOOT—What would you call a significant slowing down? Can you put some sort of figure on it?

Prof. Jayasuriya—Six per cent.

Senator LIGHTFOOT—Down to six per cent?

Prof. Jayasuriya—Down to six per cent. I would say there would be at least a 50 per cent chance that it would go down to seven or six per cent rather than remain at eight per cent. If it does remain at eight per cent for the next couple of years, I would expect that it would be unsustainable and that it could create more of a crisis for China. If it slows down, you could get more of a soft landing which would enable Asia, once it comes out of this crisis, to move on. If it continues to grow much, much faster than the rest of Asia and the rest of the world, I think that is storing up trouble.

Senator LIGHTFOOT—Given those figures, is it not possible—I am not even going to ask you to say probable—if Australia maintained its market share, that it could insulate Australia significantly from the downturn?

Prof. Jayasuriya—Yes. Assuming that Japan does not have a major crisis, it could—

Senator LIGHTFOOT—Assuming it does not—

Prof. Jayasuriya—If all those things hold and, on top of all that, if China also manages to continue to grow at about eight per cent, I think the effects will be mitigated.

Senator LIGHTFOOT—Yes. Professor, could I come back—I am really compromising your time and the committee's and I did not mean to do that—very quickly to Indonesia. It is our closest neighbour of significance in many areas, a nation of over 200 million people, spread out along perhaps one of the longest archipelagos in the world, which gives it its own special problems, over perhaps 10,000 or 12,000 islands, but certainly over several thousand islands and it does have special problems. We heard some evidence the other day that

Jakarta is expected 'in the next few months' to have an unemployment rate of about four million. Would you agree with that?

Prof. Jayasuriya—Yes, that is not impossible because there would be a lot of labour shedding in the informal sector. I do not expect that it will come from the formal sector but in a lot of the services sector, yes, I would not be surprised.

Senator LIGHTFOOT—Could you extrapolate that into clear problems—what are those problems, and how would they affect Australia?

Prof. Jayasuriya—In relation to the Indonesian economy, if you just look at the economic links between Australia and Indonesia they are relatively minor, even though we are neighbours and so on. In the scale of things they are important but they are minor.

Senator LIGHTFOOT—Yes. The economy is about one-tenth that of Australia.

Prof. Jayasuriya—Yes, it is the politics. To me the big danger about Indonesia is that the economic crisis is going to create a political crisis which could have massive repercussions for Australia, both directly because of the political instability in Indonesia but also because a major political crisis in Indonesia is going to reverberate right through the region and that will have an impact on the stability of other economies.

If there is a major crisis in Indonesia, there will be a crisis of confidence again developing about what is likely to happen in Thailand, what is likely to happen in Korea and so on and it will be difficult to stop some of those contagion effects. So that could set back the whole process of restoration of macro-economic stability in the countries in Asia as well.

Senator LIGHTFOOT—Would you see that extending to ethnic problems or sectarian problems, or both?

Prof. Jayasuriya—In Indonesia, for sure.

Senator LIGHTFOOT—Both?

Prof. Jayasuriya—If you have a major economic crisis, the Chinese issue is just going to explode. It is already happening.

Senator LIGHTFOOT—How do you see that affecting Australia? Do you see that there would be a refugee problem to Australia? Is that possible?

Prof. Jayasuriya—I am sure that if Java goes up in flames, the refugee problem Australia had in Vietnam would be a storm in a teacup.

Senator LIGHTFOOT—Would you put that as a probability? Obviously it is a possibility.

Prof. Jayasuriya—I am not really talking economics here but purely my gut feeling. I would not want to put figures on it but I shudder to think of what would happen if there is a

major explosion, even like what happened in 1965, 1966—if anything like that happens. That is the biggest danger to Australia of the Indonesian situation, not the pure economics of it.

Senator LIGHTFOOT—Because the economy of Indonesia is integrally tied to the political leadership, do you see a retreat from that possibility/probability if President Suharto and his appointed deputy, Dr Habibi, were to, for one reason or another, be replaced?

Prof. Jayasuriya—If there can be a smooth transition so that Suharto and Habibi leave and put in place people who could inspire business confidence, it is still going to be very, very difficult for any government that comes into power in Indonesia in the current economic circumstances, but that is the best hope.

Senator LIGHTFOOT—What political weight or potential does Megawati Sukarnoputri have?

Prof. Jayasuriya—Last time I was in Indonesia was the middle of 1996. I have not been there for 18 months now. That was when she was coming out and getting support and at the time I thought she had a lot of support—more potential support than actual support, in the sense that there were people who in a crisis may have shifted their allegiances but at the time they had not really moved to the point of directly opposing Suharto and going over to Sukarnoputri. But in the current circumstances I would imagine that she would get a lot of support in the general population—not necessarily the business communities, but amongst the general population.

Senator LIGHTFOOT—Some political observers would say that you may have had to ingest a prohibited substance if you thought that there was going to be a peaceful transition from the army backed Suharto regime to a non-army backed person like Mrs Sukarnoputri.

Prof. Jayasuriya—I must confess I also belong to that camp. I really cannot see a very smooth transition. So one is thinking of how bloody a transition. Would it involve minor bloodshed or major bloodshed? I am just praying that it will be minor and not major.

Senator LIGHTFOOT—If I could perhaps sum up, because I have run out of time, the Australian Commonwealth problem with Indonesia—the fifth most populous nation on earth and it is on our doorstep—is not an economic problem; it is a problem of potential massive social unrest that would cause Australia concern. Is that correct?

Prof. Jayasuriya—Yes.

Senator LIGHTFOOT—And you have no ambiguity about endorsing that particular view?

Prof. Jayasuriya—No. I agree with you fully.

Senator LIGHTFOOT—I thank you very much indeed. It has been very interesting talking to you, Professor.

Prof. Jayasuriya—Thank you.

Senator SANDY MACDONALD—Professor, I was interested in your comments about the view expressed by Professor Garnaut that there was nothing magical about economic performance: if you set the right parameters, you get the formula right, then you can get the growth of eight or 10 per cent. I put that in the context of the Asian meltdown and ask you: can you explain in the simplest way, in layman's terms, why none of the economic forecasters foresaw what was happening? Can you explain why it has happened and whether it is likely not to affect in the same way the four tiger economies but to go further afield?

Prof. Jayasuriya—That is a difficult question. Looking at why Asia was growing so rapidly—and it seemed to grow forever against all predictions that this could be sustained: it seemed to go on and on—at times perhaps many of us began to ignore potential problems that may be lurking. Historically there has never been a period where any region or even a country has grown so rapidly in such a sustained way—just no examples in the past, and now we are suddenly looking at China, beginning from about 1979, growing at nine or 10 per cent every year and the whole region growing at eight to 10 per cent. When you get six per cent it is deep recession that year.

That created optimism; people started to think that this sort of thing could go on forever. And if this could go on, then you could also assume that the political regimes could go on; there would not be major underlying political instability. When economies grow like this, even though there is a lot of income inequality, when the pie is growing bigger and even the poorest are getting a little bit less poor, the chances of political instability seem to lessen.

There were some problems like financial sector problems even in 1995 and 1996. Some of these financial sector problems were identified in 1996. For example, the IMF and the World Bank both said that Indonesia really has got to do something about the financial sector. I know the IMF was quite worried that there could be lurking problems in the Indonesian financial sector.

But in the context of this massive rapid sustained growth, reinforcing political stability at the same time, I think a lot of economies felt that all these problems could be solved over time and that they would not erupt into this catastrophic crisis. Unfortunately that was not to be the case; and we should have been more aware of it.

Senator SANDY MACDONALD—In layman's terms, what is the crisis?

Prof. Jayasuriya—You mean the financial sector crisis or the economic crisis in general?

Senator SANDY MACDONALD—Both. The financial sector crisis is part of the economic crisis.

Prof. Jayasuriya—Banks and financial institutions have been over-lending. This money was used basically to fuel an asset boom in non-tradeable assets—construction, real estate, housing, these sorts of assets. As the prices were rising and these were collateral for further loans, with a fixed exchange rate you could borrow overseas without any exchange rate risk and everyone felt the exchange rate was not going to change—they have been more or less

stable for very long periods of time. So you could borrow overseas and keep investing in domestic non-tradeable assets. It is a bubble which burst.

Senator SANDY MACDONALD—Do you think when Professor Garnaut's models are put in place, somehow this particular historical sequence of events will be factored in?

Prof. Jayasuriya—Knowing Ross, I am sure he would, or certainly he ought to.

Senator SANDY MACDONALD—Professor, thank you. It is an interesting comment. I was very interested in your response to Indonesia in response to Senator Lightfoot about the greater threat to Australia being not from the economic impact on the Australian economy but from the social and political problems that may flow from a continued meltdown in Asia. That is very pertinent, not necessarily so much to this inquiry but to other related government responsibilities. Are you from the Indian subcontinent?

Prof. Jayasuriya—Yes. I come from Sri Lanka.

Senator SANDY MACDONALD—The potential for India, of course, is absolutely unknown and unbelievable to us, and obviously as the years go by we would very much like to develop our trade as strongly as possible. I know that there have been some actions in the past few years to develop that relationship—New Horizons last year, the joint ministerial meeting.

Prof. Jayasuriya—Yes.

Senator SANDY MACDONALD—In things like wool, we are the world's largest suppliers of wool and the Indian textile industry is very, very big and important. What would your view be on the fact that APEC has basically closed its books for the next 10 years and has excluded India from that potential trading bloc?

Prof. Jayasuriya—I think it was justified in the past because India basically did not make a commitment to liberalisation until very recently and, even when it came in the early 1990s, there were considerable doubts as to whether that liberalisation was going to be sustained. When the regime changed and Manmohan Singh, the finance minister, was pushing, it went out; doubts surfaced again.

But at the moment the general trend in India suggests that while the pace of liberalisation may not be as rapid as some of us may like it to be, there could be minor ups and downs, but the general direction in Indian economic policy is towards liberalisation and continuing liberalisation.

Ten years is perhaps too long a period to shut India out of the APEC process. I think it may provide some encouragement to pro-liberalisation forces within India itself if India could be drawn into a somewhat closer relationship with APEC. I am not necessarily suggesting that it be immediately brought into APEC as a full member. But the prospects are that India will continue liberalising, although with elections, and this and that, there could be ups and downs. But the general trend in Indian economic policy across the political spectrum is towards liberalisation.

The BJP, which is very likely to come to power or would come very close to coming to power in the coming elections, is more committed to liberalisation than the congress and the congress itself has moved very far away from its previous protectionism. So the prospects are that India will move that way and perhaps APEC should not shut its doors for too long to India. I am not necessarily suggesting—

Senator SANDY MACDONALD—Thank you. I am interested in your comments. Just one final economic question. In terms of exchange rates, you have a very sophisticated economy like South Korea—sophisticated in the sense that anyone who can produce motor cars like they produce has got a sophisticated manufacturing base. In terms of their textile industry, where their garments are manufactured there and then sold to the United States, surely if you have a very substantial devaluation of their currency like they have had, which does cause some sort of domestic hiccup, when they come to export their product next year is it not going to be half the price and therefore drive all sorts of extraneous effects not only in their domestic market but also in the United States economy?

Prof. Jayasuriya—Yes. In Korea's case I am not sure about how important garments are now because Korea has been moving away from garments.

Senator SANDY MACDONALD—I gave that example because, being a farmer, I know wool is being exported there.

Prof. Jayasuriya—I am sure that Korean competitiveness has increased, even though I do not think it will be sustained at the level that is suggested by the current depreciation of the won itself, because there will be both domestic inflation and perhaps some application of the won over the next period. The actual increase in real competitiveness may not be that large, but it will certainly be large and significant and, in combination with what is going on in Thailand, I am sure that is going to have an impact—that manufactured exports from this region are going to put downward pressure on prices.

This is also one of the issues that people have been discussing about what will be the likely impact on China, because China and Korea both complement each other in some ways. They have a lot of investment and trade links, but also they compete in some markets in some product categories. If Korea is becoming more competitive because of its exchange rate changes, that does put pressure on China that way. So it is going to have ramifications right through and that is going to have implications for Australia as well.

Senator SANDY MACDONALD—Do you think that, of the tiger economies most affected now, the South Korean economy would be the first to come out?

Prof. Jayasuriya—I think—I have to keep qualifying these statements—if they can survive the next few months, if I had to put my money anywhere I would put my money on South Korea, and perhaps on Malaysia.

Senator SANDY MACDONALD—Malaysia, of course. The other problem that Korea has, which a lot of commentators do not talk about, is the problem with North Korea. If you were a strategic planner sitting in Washington now, that is one of the hot spots that would be

flashing, because God knows what will happen in North Korea over the next 12 or 18 months.

Prof. Jayasuriya—Yes. I would not even speculate.

CHAIR—Thank you, Professor. With the questions that have already taken place and with the time constraints that we have, the issues I was going to canvass have been canvassed. So thank you very much for your attendance here today; your evidence has been welcomed by the committee.

Prof. Jayasuriya—Thank you.

SNAPE, Professor Richard Hal, 49 Somers Avenue, Malvern, Victoria 3144

CHAIR—I welcome Professor Snape from Monash University. to this hearing. In what capacity are you appearing before the committee?

Prof. Snape—As a private citizen, with my Monash University hat on. I would like to make it clear, that while I am an associate commissioner at the Industry Commission, nothing that I say has any connection with the Industry Commission.

CHAIR—That is very impressive. 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 22 January 1998. Are there any alterations or additions you would like to make to the submission at this stage?

Prof. Snape—No, I do not wish to make any revisions. I noticed a couple of typos in it but I think that you will catch those up.

CHAIR—We will forget those. The committee has already made the submission a public document. I would request that at the end of the proceedings, if you would remain behind so that the Hansard officer can verify details of information provided to the hearing by yourself for the purpose of having an accurate record, we would appreciate that. I now invite you to make an opening statement and then we will proceed to questions.

Prof. Snape—Thank you, Senator. I have put my written notes in point form, as it was suggested that I just give a couple of pages and then speak to them and have that as the basis of discussion, so there are a number of thoughts in fairly much shorthand form.

Most of the notes may seem somewhat pessimistic in tone with respect to APEC's future, which in turn would imply that if APEC is to fulfil what many people see as its possibilities, it would need strong leadership, as it did with, for example, the Bogor and Osaka meetings. I think that when APEC started few people would have imagined that it could have achieved what was achieved at Bogor and Osaka, and that was not achieved without strong leadership.

The first of the headings that I have is the 'East Asian Financial Crisis'. I gather that you have been speaking to Professor Jayasuriya quite at length about this, and my comments here are fairly short.

Those crises might be thought to make liberalisation more difficult for the countries experiencing the crises and might even undermine the APEC commitments. On the other hand, the IMF packages which have been introduced do require liberalisation and they discourage nepotism and the building of white elephants, both of which might have been inhibitors in the APEC liberalisation process.

The reforms being introduced may in fact facilitate liberalisation, so we have got things working both ways, I think, in that. But there is also the possibility that the conditionality of the IMF packages could leave a legacy of hostility to the IMF and to the United States. If

so, combined with the fear of globalisation, one could ask what would be the effects or implications of that for further liberalisation. Would there be a retreat rather than an extension to globalisation and liberalisation if in fact that sort of attitude and hostility becomes important?

I was in Korea in mid-December, and I was there talking to economists, getting views both ways. One view was that in fact it was causing hostility to the IMF and the US, and another view was that it was not going to be lasting or it was not going to be important. So there seems to be a split view, or there was until a month or so ago in Korea. It is interesting that I was told the popular newspapers are using the term 'occupation' with respect to the IMF and its programs. I do not speak Korean so I was not able to read that, but it was a rather interesting observation that the term was being used, with all its historical connotations, for that program.

Anyway, my point there is that I think out of those crises there are forces working both ways, and one is not quite sure whether in fact that will facilitate liberalisation and adherence to the APEC commitments or work the other way. If one is looking at the APEC individual action plans, I would say that generally, including our own in that, no great new initiatives have been taken explicitly in APEC contexts. What they have tended to do generally is to reinforce liberalisations which were being contemplated and to make commitments on things that were being done. I would say that, so far, few hard decisions by any countries have been taken explicitly in the context of those individual action plans. It has been much more committing, if you like, things which were going on anyway, and that helps to reinforce them.

That is not to say liberalisation in APEC countries that has been going on has not been influenced by the APEC process; I think it has been. It is always difficult to say how much the concerted unilateralism or whatever has in fact been able to bolster the liberalisation processes that are going on. I would not say that there was no influence there. But I think that, of course, if the 2010 and 2020 deadlines are to be met, there are some very tough decisions ahead for all countries—for virtually all the economies involved.

Also under the WTO processes, which of course involve nearly all the APEC countries, with the exclusion of China and Taiwan, a number of tough decisions need to be made to implement the commitments under the WTO. I do use the word 'commitments' under the WTO: they are treaty commitments; they are not best endeavours. It is often a mistake made in the press or in the political area to treat the WTO commitments as best endeavours.

The WTO commitments are treaty commitments. In fact, there are going to be a number of tough decisions which have to be made to meet those commitments. True, some of them may not be met, and how these interact with the APEC process and the commitments for 2010 and 2020 is going to be very interesting to observe.

There are a number of sensitive areas, particularly China. China, of course, is not a member of the WTO as yet. But will the United States, or will Canada, or will any of the developing countries, including Australia, be able to have free trade with China by 2010 under the Bogor declaration? That is going to be very, very tough to bring about. Can China have free trade by 2020, if that is its position under the Bogor commitment? We know, of

course, that there are particularly sensitive areas such as clothing and textiles and motor vehicles, and one can see the Australian decisions in that, in both cases saying essentially that we will review the progress of our other partners under APEC before progressing further in the commitments that have been made beyond 2005.

The United States early last year entered into a textiles and clothing agreement with China which has provisions in it for quantitative restraints by China on exports to the United States—at the behest of the US, of course—to actually continue or to exist until 2009, even if China becomes a member of the WTO. It is an agreement that has not received a great deal of attention, although the textiles and clothing industry in Australia is well aware of it, but outside those circles it has not received much attention. If the United States is to have free trade with China in 2010, as has been agreed under the Bogor commitment, then it is little bit odd to have running until 2009 the possibilities of those quantitative restrictions. So it is again just a symptom of how difficult it will be for a number of countries to meet those deadlines.

There is also, of course, the question of agriculture. APEC commitments are inclusive; agriculture is included. We then say: do we think that Japan will be able to have free trade in agriculture by 2010 or Korea by 2020? It may be 2010, depending on how Korea is classified, as developed or developing. In the investment area, although one might say that the recent crisis in East Asia does seem to have led to a bit of freeing up, whether that continues or goes further is another question. So there are a number of really tough nuts there that are looming and it will be interesting to see whether they can be cracked successfully.

There are also potential disputes around. We see it in the WTO on labour standards and environment, and one can easily see that they could spill over with respect to the APEC liberalisation process also, making it conditional upon labour standards and environmental considerations.

The role of the United States in the APEC commitments is also of interest and could be quite critical. There has not been a great deal of pressure on the United States to liberalise in an APEC context yet because the United States economy in many areas is very open. But if it is going to meet the Bogor and Osaka commitments there are going to be some hurdles that the United States has to jump in that regard.

That raises the whole question of reciprocity. It might be noted that the United States has not reduced virtually any tariff since the 1920s except on a negotiated reciprocal basis with other countries. The principal exception to that is the preferences for developing countries. But if you leave the preferences for developing countries aside, every liberalisation in the United States—going from the average tariff of 60 per cent, as it was in 1930, down to the current average tariff in the United States of significantly below five per cent—has been on the basis of negotiated reciprocity, and then extended on a general basis.

The negotiating, whether it be within a bilateral context, which it was predominantly before the Second World War, and then after the Second World War under the GATT process, has extended the negotiated decreases on a most favoured nation to all members of the GATT. In recent years, of course, they have had preferential arrangements under Canada-

US, first of all, and then for NAFTA, and again that was on a negotiated reciprocal basis without it being extended to other countries. But until then it was negotiated and then extended to other countries as well.

That has been done in the last two and a half decades under the so-called fast track authorities have been granted by the Congress to the administration and has essentially taken detailed tariff making out of Congress and passed it to the President and the administration. Prior to that, starting in 1934, it went under a similar sort of process, and again it delegated authority to the President to negotiate, and it has been under that sort of process ever since. As you would know, towards the end of last year the President attempted to get fast-track authority to negotiate more agreements and that authority was refused. So the United States, really for the first time since about 1934, when the administration has wanted such authority negotiated in this way, has not got it.

That puts the United States in a very difficult position. I think neither the Congress and certainly not the administration want line by line consideration of the tariff in the United States to come to the Congress because that leads to a log-rolling process that in the past has had very bad results. They do not want it to occur in that way. Without fast-track authority the United States is really hamstrung in doing anything. So we then ask: without that authority, are other countries going to take the US negotiators seriously, knowing they are not really going to deliver anything? But if you get fast track, can the United States liberalise only in the context of formal reciprocal agreements? But since the early 1920s it has only been able to liberalise tariffs in that context, not formal agreements.

CHAIR—Could I just stop you there. Are you saying in effect that the US only has the ability to work in the bilateral system rather than in the multilateral system?

Prof. Snape—No, I am saying that they have not been able to do things, either unilaterally or in agreements with other countries, in a loose framework with other countries; they have needed a formal commitment by the other countries. Between 1947 and 1983, they only worked in a multilateral context. From either 1983 or 1984, they had a bilateral with Israel, and then from 1988 they had a bilateral with Canada, which from 1993 was replaced or got encompassed in the wider agreement under NAFTA, the North American Free Trade Agreement.

So there has been an apparent inability to take a unilateral liberalisation, or in fact to liberalise within the sort of framework which is spoken about in APEC, whereas the Asian view in APEC is very much concerted unilateralism: that we work together but we do not make actual formal commitments of a legally binding nature in our individual action plans, but we encourage each other.

The United States is going to have a real problem working within that framework. There is a real barrier with Congress there. So you get this tension between the two sides of the Pacific or, more specifically, between the United States on the one hand and the Asian countries and Australia on the other, with the United States—and it is one of my headings later on—interpreting the open regionalism to allow for preferential commitments within the APEC framework, whereas on the other side of the Pacific we are very much more saying that we want a concerted unilateralism without that formal framework. That has been

allowed to ride along fairly well so far because we have not had to really confront the US of making any serious commitments. But as we get closer to the Bogor time that question is really going to have to be addressed fairly seriously, unless it gets embraced, of course, within a WTO context.

The United States says that one way this can be addressed is the way it was addressed in the information technology agreement liberalisation which came into place over the last year, in which an agreement was hatched within APEC and the countries of APEC agreed to go to zero tariffs in this area. Then that embryonic agreement, if you like, was brought to the WTO and adopted under the WTO processes as a formal commitment. That was fine for the US, because they could then go ahead with it under that formal agreement under the WTO umbrella.

There is a view one hears in the US that this is the way around this open regionalism problem: bring these particular sectoral agreements to APEC, get a sort of rough agreement or an agreement in principle amongst the APEC countries to do it—but not have it confined just to the APEC countries—then take it to the WTO, get it embraced by the wider WTO membership and then get it as a formal non-discriminatory agreement under the WTO. It has been done in one fairly easy sector, but how many more sectors, one can ask, are going to be fairly easy in that sense? Even in that sector, once they came down to the fine print we found what was information technology tended to be redefined somewhat and some sensitive areas were taken out of it. They said, ‘That is really telecommunications and not information technology’ and so on. So what appeared to be an easy sector for this became a bit harder when they got to the formalisation of it. So there are some problems there.

The other problem is a problem in a wider liberalisation context: if you pick off some easy sectors like this to get agreement, it means that you are never confronting and never bringing together in the same negotiations the really difficult things and the easy things. So you are not confronting, you are not able to get the same sorts of trade-offs that you might be able to do, and getting the easy ones through might mean that you lose the opportunity of really getting the difficult ones done by that sort of confrontation. It would have been lovely if the maritime interests in the United States in the negotiations were being confronted by the information technology people of the United States and having to trade that off, and you might have actually got some shift in the maritime position—or at least you would have had more hope—by that sort of confrontation. So there are two problems there: what are the easy sectors, and, if you pick them off, you miss the other opportunities.

I have already been speaking about my next heading, ‘Preferential agreements or not in the APEC’. The United States interpretation seems to be that APEC could be an area of preferences simply for the APEC countries. That is not the general attitude on this side of the Pacific, but rather saying that what is negotiated or what is facilitated within APEC should not be confined to APEC generally but should be extended more widely. It is very, very difficult in the US political system, with its fear of free riding and its requirement for formal commitments, to be going in the loose framework which is favoured on this side of the Pacific.

As far as the United States is concerned, how much attention is it going to give to APEC? Its attention does seem to be distracted—as interpreted from this part of the world,

anyway—by the free trade in the Americas proposal and the Mercosur, but a lot of attention seems to be given to that. I am not quite sure how that will evolve but it certainly seems to be distracting the US from APEC and is likely to continue to do so.

If the US administration does get the fast-track authority, will it attempt to negotiate more bilateral agreements? It could, say, negotiate bilateral agreements across the Pacific—that is, either bilaterally with the United States or as some sort of docking on to NAFTA on a bilateral basis. That sort of thing has been talked about with Chile but has not been able to be brought about yet. It would probably be a docking of Chile onto the NAFTA agreement rather than a renegotiating of the whole NAFTA agreement, which would require the whole agreement to come back to the legislatures of each of the countries. I do not think they want that to happen, so probably it would be a docking of Chile onto the NAFTA agreement.

If they adopt that approach with other countries and if in fact they were to extend that across the Pacific, for example, to Korea or to Taiwan, what effect would that have upon NAFTA? I think it would probably have a very big effect upon NAFTA. One can immediately see that if Korea had such a bilateral then other countries of the region would see that as a trade preference being given, as it would be, to Korea, and therefore as a discrimination against Taiwan, Singapore and Malaysia for similar products that were coming. And it would be not very long before they would be also seeking to have some sort of docking on arrangement as well. That, I think, would pull the plug on a great deal of APEC activity.

I am not a political scientist so I should not spend too long on Russia and the politicisation of APEC, but simply say that I think that was a very big step and it certainly seemed to distract from the original expressed APEC intention—it was expressed in APEC meeting after meeting—that it was economic and not political. It is very hard to see any economic reason for Russia being a member of APEC. I do not think that it has changed the nature of APEC. Maybe it has only made things explicit, or implicit anyway, but I think it has gone rather beyond that.

Senator SANDY MACDONALD—Why is there no economic reason for Russia to be a member of APEC?

Prof. Snape—I think the main—perhaps when I say ‘main’ I might be overstating it—economic focus of Russia would not be towards the Pacific but rather towards the other side. What they do in relation to the European Union, for example, is going to be far more important to them than APEC, and their economic commitments would be much more important in that context.

CHAIR—Just on that point, would it not be fair to say, though, that in respect of Russia the real development that is going to affect our part of the world is still yet to be seen? It is probably 10 to 15, maybe 20 years, down the track, with the huge mineral and oil reserves in that very inhospitable part of the world.

Prof. Snape—Yes.

CHAIR—So could this well be seen by the APEC economies as a means of positioning themselves to tap into that marketplace in the future?

Prof. Snape—Yes. I think if that develops in the way that you are suggesting, which one would hope it would, then the Asian markets are obvious markets. I suppose the question is to what extent was APEC necessary to in fact facilitate that development.

CHAIR—You see, there are large US and Japanese interests in that Russian area.

Prof. Snape—Yes.

CHAIR—And as I understand it—please correct me if I am wrong—I believe that it is still some substantial way down the path of being developed because the costs involved do not make it economically viable at this stage. Therefore, it would have been high in the motivation of Japan and the US in particular to ensure that Russia was brought into this role, rather than being excluded, with that long-term view.

Prof. Snape—Yes, that certainly has substance. It is really just what distraction it would give to the rest of the APEC focus. I mean, it is such a distraction with Russia being such a huge country with so much of its focus in the other direction. But I take the point about the eastern side of Russia, yes, that they would likely be selling very much into the Asian region.

Can Russia seriously contemplate the free trade in 2020, that is if it is treated as a developing country, or will this give other countries an excuse not to go ahead? It is a bit of sleeping with an elephant. I know there are elephants already in APEC, but that is a third one.

Senator QUIRKE—Elephants do not snore.

Prof. Snape—Yes, that is right. Making war or love is another one.

Senator QUIRKE—Making what?

Prof. Snape—Making war or love.

CHAIR—It is good to have to have a little bit of light relief.

Prof. Snape—Regarding the influence of APEC on the Australian policy debate, it was quite interesting in the inquiry on textiles, clothing and footwear, in which I was involved I must confess, to hear that the industry's submissions acknowledged the APEC commitments. It is true that they interpreted them by way of saying, 'Well, we accept those, but let us see what's going to happen and let us have a pause and make sure that those APEC commitments are being adhered to'—that was their caveat on it. Nevertheless, the industry associations and the principal participants in that inquiry did explicitly acknowledge the APEC commitments to free trade in 2010 as a framework in which the policy had to be addressed; as I say, albeit with that very important rider that they would want to see how the others were committing to it.

I think the industry, certainly in the previous inquiry a decade ago by the Industry Assistance Commission into the industry, there was no contemplation that there could conceivably be free trade in that industry by Australia. So I think that the APEC commitment certainly has affected industry attitudes in Australia, even in that very, very sensitive industry. I would say that the commitments there apparently influenced not only the industry positions but also influenced the recommendations of all the commissioners involved, including the external commissioner. So it would seem that it is having an influence on the debate and on the positions.

Much of the above I suppose was fairly pessimistic, but it is important, I think, to note that APEC has far exceeded the expectations that were around with respect to it at its foundation. Bogor and Osaka would not have been delivered without the involvement of the economic leaders. It was very important, I think, that they came into it to achieve that. The problem of having the economic leaders involved is that it raises the expectations of continued high profile success and if there is not a continuation of high profile success coming through the APEC process then it is very easy to imagine that the economic leaders may, in fact, start to lose some of their enthusiasm for it; they do not get the headlines any more, et cetera. Therefore, continued leadership would be necessary to in fact secure the continuation of that high momentum.

If that momentum drops down, one wonders whether the fairly important—but mundane and non-headline grabbing—trade facilitation, harmonisation of customs procedures and all those sorts of things can in fact be maintained if the high profile successes are also not being maintained.

CHAIR—Excellent. Thank you for your presentation. I have a number of issues that I wish to raise—normally I hand it to my colleagues to go first. Firstly, in respect of the involvement of the IMF on the Asian crisis, could that be seen to be an attempt to undermine the authority, if we can call it that, of APEC? Should APEC have been seen in a more pre-eminent role? Because when APEC did try to step in, the brakes were put on by the United States in particular to keep APEC from being seen as the predominant operator in trying to resolve that crisis. Whilst APEC did not have the wherewithal at its disposal to do that it did have the potential of being the broker. Has that in any way damaged the APEC image?

Prof. Snape—I think one would have to be within the countries to see that. My own feeling is that it was much more appropriate for the IMF, that it was the appropriate mechanism. One may quibble with them about various aspects of their programs, but I think that there was emergency assistance needed and that had to come in.

CHAIR—Yes, but in terms that they have come in and they have said, ‘You are going to have to liberalise your trade policies, you are going to have to lower your tariff barriers.’ Whereas previously that was a voluntary operation that would take place under the umbrella of APEC, that was taken away from APEC, so to speak.

Prof. Snape—In the short term it was taken away from APEC. I think if the IMF proposals, the IMF requirements, if you like, of conditionality on the programs are successful, then one would hope there would be a restoration of growth in the next two or

three years and the IMF would be able to step back and one would be back into the commitments of the action plans and so on.

If the programs are successful, one would expect a stepping back of the IMF and the floor would be clearer then for the APEC processes again. Whether, as you are suggesting, the IMF has set the whole thing so they do not come back to those APEC processes, is another matter, of course.

CHAIR—That leads me to the next area of non-tariff barriers, because whilst APEC has been fairly much focused on reduction in the tariff barriers, the area of trade facilitation, economic and technical cooperation is on the agenda as well, but that has not necessarily been given the same focus and degree of emphasis that it otherwise should have been. One may well see, as a result of the pressure being placed upon these economies to reduce tariff barriers, that their non-tariff barriers will come very much more into play.

It seems to me from what I have heard in this inquiry that whilst everyone admits that non-tariff barriers exist, they are not readily identified, or people are not overly enthusiastic about identifying them publicly, but everyone concedes that they are there. How much of an obstacle will the non-tariff barriers place on the real liberalisation of trade between the various economies?

Prof. Snape—I think that varies amongst the economies quite a lot, and the formality and informality of these barriers varies quite a lot amongst the economies. I think it is an area in which if it appears that more emphasis is being given to them or if they are surviving while the tariff barriers are not, there will be increased pressure on them both within an APEC and a WTO context. I think it will be very difficult. Again, assuming the optimistic scenario that the growth resumes in a few years time, I think there will be continued pressure on them from other countries through the APEC processes. Beyond that, I think we can expect, just as within the developed countries they are tending to be pushed down as they become more visible because the tariffs are going down, I would expect that pressure to continue.

CHAIR—It is part of that hard basket that people are not prepared to put on the table that you spoke about.

Prof. Snape—Yes.

CHAIR—How does one get those non-tariff barriers onto the table?

Prof. Snape—I think under the WTO one has got them on the table, and increasingly on the table in recent years, and I think it is possible. We often get to the question of what is a non-tariff barrier. Is the absence of an effective competition policy a non-tariff barrier, and is the lack of enforcement of that a non-tariff barrier? Those are questions which people dispute, not just in practice but in terms of the philosophy of it, if you like, as well. I think that in many cases those non-tariff barriers have been overstated.

One has read stories in the popular press about the inability of the United States to sell motor cars in Japan, saying that in the past it was due to non-tariff barriers. There have been

many stories about the cars being too big or the refrigerators not fitting through the doorways in Japan and so on. The entire advertising budget of a US motor vehicle manufacturer in Japan, of the order of a couple of hundred thousand dollars, was used to claim that non-tariff people would not buy his cars.

I think that there has been a lot of exaggeration of that in many cases. It is difficult to crack into any market. That is not to deny that in many cases there are the barriers of the sort that you are referring to, but I think they will come under increasing pressure, as they have in other contexts.

CHAIR—My next question is in respect of Australia's role. Australia played a significant role in the formation and the development of APEC, and it would seem to me that Australia's interests are probably pre-eminent with the continuing success of APEC, over even the Asian economies, because they can go off and form their own trading bloc—and they have now, as has the US. How does the Australian government keep up the impetus? How do we keep up the interest, because it is very much serving our purpose?

Prof. Snape—I think it is serving our purpose. I do not think we are alone in that. In the formation of it, I think the Japanese attitudes and the Korean attitudes were also very important. I think, as in the Cairns Group, it is a matter of enlisting like-minded people and like-minded countries. There is a leadership role for Australia there of getting with the most enthusiastic countries in the APEC process.

As you say, a number of Asian countries have got together in AFTA, although there have been very few preferential reductions in AFTA, actually. Most of the liberalisation that has been done in AFTA has been extended to other countries as well, so it has not in fact been forming a markedly preferential bloc.

Japan is unlikely, I think, to be accepted into AFTA, so Japan is sitting there as another country that can be discriminated against and unlikely to be in a preferential bloc. So Australia, together with New Zealand and Japan, have quite a commonality of interest there which has been used before and which I think we can foster. Of course, President Suharto became a very great enthusiast for the APEC process. I think that there is enthusiasm around if one can foster it, but it does need leadership.

CHAIR—Yes, and I was wanting to get on record the need for that leadership. I think there are those who do not understand the purpose or the role of APEC and therefore cannot see the need for government involvement or government department involvement.

Prof. Snape—Yes. I come back again to the involvement of the economic leaders. I think that to keep that momentum going it is crucial that they continue to be involved, and that, of course, involves high level leadership.

CHAIR—My last question—and I do not know how much time we can devote to this—is in respect of modelling. We heard yesterday from a witness about a model in respect of NAFTA. It was quite an overexaggerated model and, of course, the consequences of NAFTA coming about were far greater than could be predicted even in that model. We have also had drawn to our attention the fact that there is an Industry Commission model in

respect of APEC, and again that tended to be a little bit more generous than it otherwise should have been or could have been.

Maybe one thing that is lacking in this area is the availability of good models which can reasonably present a picture to people, because I think modelling is just so important. If people have a reasonable model, a reasonable understanding of what the outcomes of the APEC process will be, then it takes away a degree of the mystery that surrounds it and you do not find people thereby setting about digging their trenches and putting up the parapets to fight off whatever perceived problems may well be out there.

What are the chances of decent models being formed—obviously they would have to be revised—within APEC so that we can see the projected benefits? Because whilst there are winners and losers, if people cannot see where the benefits are and, where there are losers, how the losers are going to be translated into winners, then you find this problem of lack of acceptance.

Prof. Snape—Yes. I agree with the thrust of what you are putting forward there of the advantages of models but also their limitations. I am not a modeller in the computable general equilibrium modelling type of models and I was not personally involved in the Industry Commission model.

CHAIR—No, I was not trying to hang that around your neck.

Prof. Snape—No. I cannot comment in detail on that, but in general—

CHAIR—In the general sense, that is what I am looking for.

Prof. Snape—There are things which can be modelled and things which cannot be modelled. What you can model, of course, is basically what is quantifiable. One of the statements that I like to tease some of the modellers with was made by Hayek, a Nobel prize winner of economics, very much on the right politically, who said that the quantifiable drives out the important.

There are very big things that one can never model because, first, they are random events or the creation of attitudes. One could not have modelled, for example, the attitude that Suharto took to the Bogor meeting and the importance that he had placed upon all of that. If one was trying to model APEC liberalisation then one would have missed the enthusiasm which in turn led to a whole lot of changes of policies and so on.

One can try to model the effects of the changes of policies themselves. But one needs, particularly when one is looking at a multicountry model like this, a very high degree of aggregation. One cannot, of course, model 10,000 industries in each of the countries. Even the detailed modelling which is done for the Australian economy—the sort of modelling which the commission uses a great deal—only has in general about 130 sectors in the economy. If it is then focusing on one particular sector of the model, or one particular industry, it will go into that in detail, so it will be 110 sectors, 29 in generality, and one in great detail. So you are going to be dealing with very big aggregates.

Of course, anyone who knows the details of any particular industry will be able to say that you have missed some of the important details of that industry or you are not picking up the nuances, you are not getting some aspects of it. So it is going to be always very inevitably broad brush to give a generalized feeling of where one is going.

On the other hand, modelling does give you very precise results for your assumptions and it makes sure that the implications of some of your assumptions are shown through, whereas doing it by the seat of your pants you do not get all that sort of interaction operating. So it brings out the full interaction of all the assumptions that are in there, but there have to be heroic assumptions.

CHAIR—What I have in mind is that one of the witnesses said trade liberalisation will open up a wide range of employment prospects within Australia. On the one hand, thousands of jobs will be created, yet on the other hand you get the argument that you have gone through with the TCF, for example, where they are saying this is going to cause a loss of jobs—and the same in the motor vehicle industry. Now, I am not pleading the case for either of those; I am just wanting to find out.

Prof. Snape—I think it is a very good illustration of the problems that you do refer to those two industries, in which there is a great deal of controversy about the modelling, particularly with motor vehicles. Does it bring additional employment or not? It then becomes critical of what assumption you are making in what is called closing the model. There are two polar assumptions that one can make when one is dealing with employment—it is an employment wages or real wages interaction. Let us assume—and these are the two polar cases; one could take an intermediate assumption—that real wages stay constant, so that any increase in real income occurs through increased employment, and that will give you an employment increase but it is assuming that there is no real wage increase. The alternative pole is to assume that employment is kept constant and so that all the real income, or a large part of the real income, gets translated into increased real wages—and it causes also a big change in how much real income growth change there is as well.

The big difference between the draft report and the final report of the passenger motor vehicle inquiry was the switch of assumption. So in the final report you got in fact no employment change in total in the economy because the assumption was to keep the employment constant, because we say that most economic modelling and experience would suggest that tariffs do not have an effect on the aggregate level of employment, so we will keep the employment constant and see what happens to the wages.

To answer the question as to whether more jobs are being created in total, rather than being shuffled from one industry to another—just shuffling of employment rather than employment as a whole increasing—my reply always is: what is your theory of employment, or what is your theory of unemployment? That really then comes to this closure of the model, and that tends to be an assumption.

Senator QUIRKE—I guess the comments you were making about the lack of will of the United States, so to speak, in terms of dismantling its own tariff regimes stems from the fact that it is a democracy. I guess that one of the problems we are going to have meeting 2010 and 2020 is that there are democratic ways in a lot of other societies as well and it will

become harder for these sorts of changes to be countenanced where there are sectional interests that can apply a lot of pressure to democratic legislatures.

Prof. Snape—I think that in the United States it is certainly a democratic process that it generates but, in this case, together with a lack, compared with Australia, of party discipline. You get the votes very much not just lining up on whether it is Democrat or Republican but lining up as to who is in your electorate. So it is cross-deals and a lot more log-rolling, often across parties, than occurs, say, in the Australian democratic system.

They really found a very neat way around this after the Smoot-Hawley tariff debacle in 1930, which was a real peak of log-rolling in this area, where they went to what has become now the fast-track process of in fact saying, 'We passed the ability to negotiate a package of things across to the administration and the President and you bring it back to us as a whole in Congress and we vote it up or down as a whole, so we do not go through it line by line.' That was really a very neat way around it. The only problem is that it does require an agreement with another country to bring it about, so they cannot do it unilaterally.

Senator QUIRKE—We have had some evidence given to us from a number of different sources about the IMF and the inappropriateness of its responses to the Asian crisis in particular. A fair amount of evidence came to the committee yesterday that the IMF was concentrating as if the debt problems were principally government problems. In fact, as I understand it, at least in the Indonesian instance, that is 50 per cent correct—the debt is about 50:50 between the corporations and the government. I am not sure what the figures are in Thailand and the other countries. What is your view about the appropriateness of the IMF wanting to screw down local domestic economies as a precursor to bank rolling or giving sufficient money to these nations to avoid a debt moratorium?

Prof. Snape—I think the view that the crisis was not due to general profligacy of the government is correct. You might quibble about some of the things that they were spending their money on but the governments generally in the countries were not running substantial budget deficits, certainly not of the scope one has seen in other parts of the world. So there was a pretty high degree of fiscal responsibility in the general sense, and large parts of the debt in most of the countries were private.

That would then suggest that one should just let those who have private debts take the losses and leave it alone, and that they should not in fact be screwing down the government as a whole, and I think there is a fair degree of substance in that view. But one then asks: would the governments actually have let that private debt collapse or would they have taken it over?

You may say the same thing about Chile in the early 1980s. That also was private debt but the government took it over. They took it over so as not to damage the borrowing ability of Chilean businesses. So what appeared to be private debt became public debt. I think the same thing was likely to have happened with a great deal of this private debt in a number of countries. That then complicates the matter somewhat, because it then says that it becomes public debt and when it does that, yes, the government was effectively running budget deficits because it has taken over this debt. So I think there was a concern in the IMF for that.

There have been some quite good articles on this in the *Economist* over the last couple of months, going through this sort of dilemma; that, on the face of it, it does look a very different situation from many of the other countries and one could criticise the stringency, and perhaps it has been too stringent. But I think the IMF can make a fairly good case for what it did. That is not to say it is right, because this is not something in which one can be absolutely sure and say, 'Yes, that was right' or 'That was wrong'.

CHAIR—Professor, thank you very much, firstly, for your indulgence because we did delay you a bit. We do appreciate the evidence that you have given to us and the frankness with which you have given it. We will weigh it up in our deliberations when we draw our conclusions from this interesting inquiry.

Proceedings suspended from 1.33 p.m. to 3.55 p.m.

OXLEY, Mr Alan, Chairman, Australian APEC Study Centre, Level 6, 30 Collins Street, Melbourne, Victoria 3000

McKAY, Professor John, Director, Monash Asia Institute and Director, Australian APEC Study Centre, Level 6, 30 Collins Street, Melbourne, Victoria 3000

CHAIR—I welcome Mr Alan Oxley and Professor John McKay of the Australian APEC Study Centre to this hearing. I would like to take this opportunity to thank you and your staff for showing the committee members through the study centre and for demonstrating to us the new CD-ROM produced by the centre and finally giving us a copy of the same. The visit was both informative and enjoyable.

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 Australian APEC Study Centre dated 13 August 1997. Are there any alterations or additions you would like to make to the submission at this stage?

Mr Oxley—No.

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

Mr Oxley—Thank you, Mr Chairman. We are grateful for the opportunity to present and to take part in these proceedings. APEC is an organisation which in our opinion has a bigger strategic importance for Australia than much of our public debate seems to recognise, including even possibly in policy debate in the parliament and on the fringes of the government. APEC is the key institution which binds Australia to the Asian Pacific economy.

For many years we were accustomed to the idea that the 21st century would be the Pacific century. We seem to have lost track of that idea a little but, certainly in terms of the perception that we have had in recent years of the importance of Asia, notwithstanding the currency crisis, there is no doubt that the trans-Pacific economic patterns, trade and investment trends will in fact realise the Pacific century.

APEC is an organisation which includes the United States and the eastern Pacific rim. Much of our discussion in Australia about APEC seems to be premised on the presumption that we are only talking about engagement with Asia, yet in fact APEC does represent and cover the quite dynamic trans-Pacific trade and investment trends.

In many ways the relationship between Japan and the United States is the linchpin of APEC. I suspect in about 10 or 15 years time China-US trade and investment will be greater or equal in importance to the Japan-US linchpin. Notwithstanding the perceptions of people like Dr Mahathir, the United States is the major trading partner of all APEC countries, bar two. It is the major trading partner of even Malaysia and, if you look at the pattern of

growth in the region, it is the US economy on which they basically depend for their export growth.

If you look at Japan's import pattern, Japan still tends to basically import raw commodities and export manufactured goods. There is a certain imbalance in Japan's trading pattern. Indeed, much of the Japanese investment in the Asian region is to manufacture to supply the US market. So this pattern of behaviour really is the binding glue. There is virtually an APEC economy, and any idea that you could consider this without the United States really misunderstands the essential character of what it is about.

This is a point which is really relatively important to stress in these days. Because of the Asian currency crisis, it is going to be difficult for leaders for a couple of years to argue to the public as firmly as they used to, and have the public think it is credible, that Asia is the place where all the action is. Notwithstanding the fact that the currency crisis has only affected a few economies, the public perception will be that the Asian bubble has burst a bit.

The other key thing in the region and the other major trend which is going to be a dominating factor for the next 10 or 15 years is that we have seen a return to global leadership and global competitiveness of the United States economy. In many ways I think we are going to see a bit of a rejigging of the pattern. Again we come back to what the Asia Pacific century was supposed to be all about, which was that the Pacific century was both the United States as well as Asia, and that is going to come back.

I have given you this long-term picture because it transcends current discussion. I do think in our public debate we have overemphasised the Asian component of APEC somewhat and it is a basic thing which will endure. But I come back to my original proposition about our engagement in this region. If it were not for APEC, we would probably today be feeling a bit left out. With the expansion of ASEAN and the talk of the East Asian economic caucus, without APEC there is not a natural place for us institutionally in the region, and in Australia's interests that is really a geostrategic issue. It is achieved through economic integration, but the ultimate objective is really a strategic linkage into the region.

It is interesting to reflect that APEC serves this purpose not just for us but also for Korea and Taiwan, because they would similarly feel left out. They are not in ASEAN; they are only partially in the East Asian economic caucus and that has no real economic rationale for them either. The reason I say all this is that in a lot of our discussion we have tended to treat the success or otherwise of APEC entirely in terms of whether or not it achieves trade liberalisation. I urge you to have a review of the activity of APEC.

If you have not had your research team give you a picture, get them to give you a schedule of the ministerial meetings of APEC, other than the trade ministers. Get them to give you a scan of the work programs of the key working groups in APEC, which can be pulled off our web page or the APEC secretariat web page, and you will see quite a remarkable independent set of work in a whole series of areas which are not to do with trade liberalisation: the energy working group, the human resource development working group, the transport working group, science and technology group—there is now an environment group—and there is a finance ministers group. They all have work programs which are

actually independent of the Bogor commitments. If you did not have the Bogor commitments, this work would still be rolling on.

In many ways the dynamism which the APEC Bogor declaration gave the organisation has come to be replaced by the summit. The summit is emerging as the new institution. It is a very powerful experience for any new head of government, and I suspect that Mr Howard had a similar experience. By gossip it is said that after his first summit he came away impressed at such an institution. If you think about it, there is the fact that that summit meets each year, that it is the largest annual summit of heads of government and, given the fact it has so many major leaders from so many major countries present, there is no way that each year when that summit meets it will not be a forum in which they find it useful to address particular problems. So these are broader pictures and patterns.

The point I am really trying to make is that in our view there is a lot more to APEC than just the trade liberalisation program, and in fact APEC is a lot more than simply engagement in Asia. They are the broad points that we wanted to make.

I have got some other general comments about public information activities, which is really a very core part of our activities in our centre and I do not want to let those pass by, because of the general comments you get from many sources. As far as we are aware, apart from the government, I think we are the only body which has been set up specifically to try to promote understanding in the community about public information and we welcome the opportunity to talk about some of those programs if that arises. I do not know if Professor McKay would like to add anything.

Prof. McKay—Just a couple of things. Wearing partly my APEC Study Centre hat and partly my Monash University hat, Monash University is very pleased to be involved in this sort of activity. We believe that APEC is an important institution for all of the reasons that Alan has stated. It is also important, in what many people would regard as Australia's most international university and in some ways one of the most international universities in the world, that we regard APEC as a very important institution in educational cooperation terms and it is very much broader, as Alan has said, than just a trade liberalisation agenda. For these reasons, Monash University believes that the study of the APEC organisation—what it is doing and what it has achieved and its problems—is something that is very important and Monash has just reaffirmed its financial support for the APEC centre and its work.

We also believe it is hugely important that we are linked into a network of APEC centres throughout the region. Every member economy has an APEC centre, and we believe that our interaction with some of the leading educational and research institutions in the APEC region is very important for our future and for the future of Australia.

I would reaffirm what Alan has said about the agenda being broader than trade. It is very much broader than education. We in the centre are very much involved with issues such as infrastructure, issues of sustainable cities and a whole range of things that APEC is doing which are quite independent of the trade liberalisation agenda.

APEC has provided a forum for discussion. I think the leaders' forum, as Alan has said, is enormously important and will emerge as a major institution in its own right in the region.

Also, from a particularly Australian point of view, APEC has provided a way for the smaller and medium sized powers within the region to talk to each other in a way that I do not think they had done before. I have been attending these APEC meetings for a number of years and one of the things that always amazes me is that in one corner at coffee time the Americans and the Japanese will be talking about the agenda of the meeting and how they are going to organise it; in the other corner you will find the Australians, the Koreans, the Canadians, perhaps the New Zealanders, the Taiwanese and one or two others, talking about a rather different agenda.

One of the things that I am very much involved with is the Korean APEC centre, and one of the things that my Korean friends constantly say to me is that we have two major advantages: first of all, we are not Japan; secondly, we are not the United States. I suspect before long we are going to have a third advantage, which is that we are not China.

It seems to me that APEC gets over the problem partially; it goes further than any other organisation that I know of to overcome the problem of domination by one or two leading players. One of the things that the Monash Asia Institute is doing this year is organising a conference on middle powers and middle power diplomacy within the APEC context.

That sort of thing is a direct result of our interaction within the APEC process, and a feeling that there is a danger not just of Australia being left out but of Australia being part of a hub and spoke structure in the Asia Pacific economy in which you have one or two major powers, and increasingly the United States at the centre dealing bilaterally with all the other players. I think what is happening through the APEC process and another reason why it is so important is that the bits on the end of the spokes are starting to work together, and I think that is very valuable.

Senator QUIRKE—I am interested in the point you make, professor. Most of the people who have given evidence have made the suggestion that Australia is really just a US agent in the whole process. In fact, that is not the picture you are painting.

Prof. McKay—I think there is always a danger in that, in that somehow Australia will be painted as some kind of stalking horse of American foreign policy and of American trade policy. I will be interested to hear what Alan says about this, but my experience, particularly in dealing with the Koreans, the Taiwanese and some of the others in north-east Asia, is that they do not see it that way.

Their argument to us—and I think they increasingly feel that this is being borne out in our policies and actions—is that we have many similar interests and that, leaving aside areas of trade, in areas particularly of technology the medium powers have got a lot that they can do to work together and we are all faced with similar kinds of problems. My feeling is they do not see us as some kind of American surrogate.

Senator QUIRKE—It seems to be the impression we get from the Malaysians.

Mr Oxley—You mean the Malaysians said that to you in this process?

Senator QUIRKE—I was at the APPF meeting in Seoul two weeks ago and that was definitely the impression I got from that end of the table—that they saw us within that forum as being a stalking horse for Western interests. Certainly, a number of people have given evidence before this committee which suggests that we are really just a surrogate of the United States. The point that you make is interesting.

Mr Oxley—Putting aside the Malaysians for the moment, if any Australian thinks that is the way we behave, I say that that is just not the case. I refer to all my years of involvement in public life—I was in the foreign ministry and trade ministry for 12 years on and off; I spent a lot of time at the UN; a lot of time at the GATT; in recent years the trade policy area is the one with which I have been most au fait. We are not perceived as a stalking horse for the Americans.

In terms of trade policy on agricultural trade, we are one of the US's great foes. Malaysians are a bit out of sync really with the rest of the region. It is the one country which still uses much of the old language, shape and form of Third World ideology. Malaysians are almost a generation behind everybody else in the evolution from the post-colonial period.

Dr Mahathir's politics are more what you would expect of the first generation of post-colonial leaders. There is an argument in Malaysia's case that this is what he is about. He really pioneered the first real phase of post-colonial politics in Malaysia and is still at it.

The Indonesians no longer express this sort of sentiment; the Thais never have. The Thais have never had this colonial monkey on their back and you do not get it in the rest of the region. So at times they like to adopt all this anti-Western ideology. We are a Western culture so we are a fairly easy moving target, but it does not reflect reality.

Senator QUIRKE—With regard to the other aspect of what you are saying, Alan, about the Pacific century: some of the other evidence that we have had—and it is our perception, I guess, of APEC being a fairly loose organisation without binding targets—is that in many respects it is the antithesis of what the European Union is becoming. I was interested in your comments that you perceive the current problems in Asia will only be temporary and that by the time we get into the next century these problems will be overcome. Do you perceive APEC as having weaknesses in its structure as a result of that or do you perceive that APEC could be run any differently, that it could be run along a European Union line with binding targets that have been set within it?

Mr Oxley—It cannot be like the European Union because the European Union is really the natural result of a long history where for several centuries there has been an effort to unite a number of cultures which have quite strong, basic similarities.

It has both a serious and light side. You might say that the last time this was tried was under the Third Reich, but before that you had Napoleon and, if you go back to the 10th century, there is a common cultural base there which is quite strong. But you do not have the same history. Indeed, if you applied the common cultural basis in Asia, you would get some quite different pictures. You would actually have an Indian community market

covering South-East Asia and dividing with China, but they are nowhere near ready for that degree of surrender of sovereignty in a common economic interest.

Another contrast which is drawn with APEC in its trade liberalising program is between the tightly binding trade rule that you find in, say, a community or in the WTO and in trade agreements and the APEC model. There is a lot of self-serving analysis here. The practical truth is that APEC was not capable or the political mood was not one to have the group of countries concerned say, 'Let us have a trade agreement to tie down these trade objectives.' Therefore they had to have this looser form of general commitments to do it in a voluntary way.

You could not have had a trade agreement because at the time it was proposed the organisation was not ready for it, but there is a body of thought around the place which writes this up as if in fact it is a preferred route to have this sort of process of unilateral liberalisation. It is not a very good route because it has not yielded a significant result and it will not, in my opinion, but again we are judging APEC on its trade program—if you like, trade liberalisation program.

Taking a look at the broader organisation, it does have some problems and there is this tension in APEC between seeking to bind the institution and make it work and seeking to expand it, and our own people have tended to argue that you should consolidate before you expand.

Those who have wanted APEC to be a bit weaker—and that includes the Malaysians; they have not been very pro-APEC—have always been in favour of expanding it because they know it would make it more difficult to bind it. It is an open secret that Australia was not very keen on the last two expansions of APEC. Australia did not really favour Chile joining, because I think the feeling was that it added another element which tended to pull a bit away from that sort of economic community, which those cross-linkages reflect.

We were certainly most unhappy—our officials and government privately were very unhappy—about Russia joining. I think that is quite right because in fact the Russian economic involvement in the APEC region—it is still primarily an economic body—is very small. The ability of the Russians to contribute to a market development system is quite low; they are not a member of the GATT yet, they have not got a functioning market economy yet, although they are getting there.

Therefore, this concept of adding more people in before it can carry much traffic will strain it a little bit. There are some signs of strain now. The APEC central organisation is significantly under-resourced. You have got a very small secretariat of about 20, you have got a budget which is quite small—\$5 million to \$10 million a year—yet it is actually a very big organisation. If you added together all the activities, including the summit, those nine to 12 annual ministerial meetings and the supporting groups under that, you have got quite a big organisation.

Because there is such poor central control, you are getting some diminution in quality in the work of some of the working groups. For example, the human resource development working group has something like 90 projects running; it is all over the place. Privately,

officials find that there are things being done which should not be done, which are replicating what is being done elsewhere.

APEC had such a momentum to it that at all these initial meetings the officials were so keen to do things that they would agree to anything. Now, because there was not much money available in the centre, you have tended to find that in the working groups independent programs have been developed by whoever came along with the money.

Of those 90-odd programs, probably two-thirds of them are as a result of somebody at a meeting sitting at the table, typically a representative of Japan and perhaps the Philippines and Canada, saying, 'Hey, we've got an idea, we would like to do this. Here's some money, let's do it.' The rest of the system is not going to say no, therefore you have got no means of control.

In other organisations, you tend to find that the budget comes from the middle and is parcelled out to these various sub-areas and, while you get overlap, there is some control; people will not agree to money being spent in one area if something similar is being done somewhere else. In APEC you have not got that control, therefore you have got some overlap with work and a number of things in the running.

In my view, there is a very serious need to put an effort into institutionalising APEC and building up the central core of its secretariat and to make it more like other international bodies, where it is fairly normal to have a pretty decent central resource of both finance and people to get a bit of direction and help priorities.

Senator SANDY MACDONALD—Has that not been a strength from Australia's point of view, in the sense that we moved in and we did take a pre-eminent role in so many aspects of APEC, and that has worked to our advantage?

Mr Oxley—Yes, it has, but to a point. It is in our interests as well to have an organisation which is pretty durable. APEC is durable because there is so much momentum to it, but I would still regard it as half formed. It may stay half formed but at a point we are going to want it to be functioning and deliver quite taut results in some of these areas. If it has not got the machinery to do that, in the long run it may marginalise itself by not having good enough quality work in it. It seems to me that is an issue which has to be addressed in the next five or 10 years, if the organisation is to have a longer term future.

Senator SANDY MACDONALD—Is there a central place for the secretariat to operate?

Mr Oxley—There is a location in Singapore. To give an example, that secretariat has 20 people, all of whom are on loan; there are no permanent staff.

Senator SANDY MACDONALD—I want to go on to a couple of questions which I asked you privately which I want to put on record. But before I do, when you talked about Russia not being a member of the GATT, in terminology does that mean that Russia is not a member of the WTO at the moment?

Mr Oxley—Yes. I should have said WTO.

Senator SANDY MACDONALD—The GATT has become the WTO?

Mr Oxley—Yes. They are applying; they are going through the process.

Senator SANDY MACDONALD—At what stage of development are the other study centres, your corresponding study centres in other APEC countries?

Mr Oxley—The picture is mixed. There is an annual meeting of study centres and groups are trying slowly to start to develop some APEC-wide programs. For example, we have been asked to assemble a region-wide database of research on APEC, which we have now created and have put out to the other study centres for comment and we will build on that. Most of them tend to have been grafted on to existing research bodies in universities or government think tanks. I do not think any other has been as well established as us or initially was as generously endowed by the government in order to get it up and get it started.

Senator SANDY MACDONALD—Ours was an undertaking that we gave in 1995 at Seattle or somewhere and there was no performance criteria as to how our study centre operates; it is something that we have done and it is a non-political decision based on the fact that we gave that undertaking and that it is important to make people aware of the work of APEC.

Prof. McKay—Yes. The centres were set up as a result of the so-called leaders education initiative which was proposed by President Clinton at the Seattle meeting of heads of government of APEC. One of the agreements there was that, before the Bogor meeting that followed, every member economy of APEC would have a functioning centre, but it has not been that quick. In fact, a couple of member economies, Brunei and Malaysia, have only just built their own centres.

As Alan said, there is an enormous difference between the centres in terms of how well they are funded. The American centre receives zero dollars from the American government; we have been relatively well treated by the Australian government. Before the financial crisis, the Korean centre was probably the best funded.

But the Korean centre raises an issue about independence from government. The Australian centre was set up explicitly to provide an independent research and policy analysis capacity outside government and we were told from the very beginning that we should not act as some kind of cheer squad for APEC but we should look critically at the issues. That sort of independent view has been followed in a number of other member economies but in Korea, for example, the APEC centre was established within one of the government think tanks and so is very closely tied to government policy. So there is this enormous variation, both in terms of funding and also in terms of how independent they can be. Our view is that an independence of thought is essential to this process.

Senator SANDY MACDONALD—A number of the things we have talked about privately you have both covered very effectively and put on the public record for us, which is important, and specifically when you said, Alan, that APEC/PECC is a lot more important than the mere trade liberalisation undertakings of the Bogor declaration, because you make

the point that it is a yearly meeting of some very important world leaders, that it has a program with the working groups which is far wider than just mere unilateral undertakings to Bogor and it is as much about Australia's involvement with Asia; and you absolutely hit it on the head there and that was very helpful to us.

I did ask you privately, because I misunderstood, what sort of positive examples we might be able to give through our APEC involvement, providing Australia with greater access to markets, because obviously I would like to be able to go out there and talk about the successes of APEC and why we have been greatly helped by it. You made some interesting points privately and I would like you to put those on the public record, please.

Mr Oxley—Thank you. It is important that I do not leave an impression that I think the trade liberalisation program is unimportant. It is always difficult to make a fine point at the margins, because if people talk in black and white and you say something is grey, you will be accused of being either black or white.

In the whole trade debate I get accused variously of being either a free trader or a protectionist. It often does not do to have an independence of thought. On the trade liberalisation program for APEC, the important thing to realise is that it is a very long-term program.

The Bogor declaration, which was struck in 1994, set out a political commitment by the members of APEC to achieve removal of all barriers to investment and trade in 15 years for the industrialised countries or 25 years for the developing countries. That is such a long time out that to put together a program which would achieve that was actually going to be a very large undertaking. For example, by that I mean that when you get a large number of countries together, if you get them to commit to try to reduce trade barriers, building machinery by which the governments can enter durable commitments that they can stick to is quite difficult.

To give an example with the Uruguay round, that ran on and off for eight years but there were about four to five years of preparation and talk before the decision was reached about how to proceed. In that case, at least they had the advantage of following an established set of procedures. In APEC's case there is no precedent, no procedures, so it is inevitably going to be a large amount of talk, trying to work out how the commitment to reduce the barriers was to be achieved.

I think they made a mistake, all the leaders, by offering to produce results within two to three years, which is what was offered. We now have this process that is talked about with the individual action programs and all these things, and the truth is that none of those have produced a reduction in a barrier that would suit Australian exporters directly as a result of putting things on the table that people in APEC said they would remove.

However, there has been a quite tangible benefit because what the Bogor declaration did was actually write into the political language of all those governments the need to reduce trade barriers. It created an environment where there was much less argument about this when the time came to do something. For example, if you went to Indonesia and met a group of officials, somewhere in the conversation they would say, 'Of course, ultimately we

have to do this because of the Bogor commitment.' And it is the same in every other country in the region.

With regard to the debate now about the president's family in Indonesia, the fact that the direction of trade liberalisation appeared to be reversed by some of the decisions taken about the automobile companies in Korea associated with the president's family was in the public debate; they talked about the fact that this conflicted with APEC obligations. So at least it helped create an argument, a climate.

Even in Australia, the debate about the car tariffs and the textiles tariffs has been couched in terms of whether or not what has been done is consistent with the APEC obligations. So in that sense APEC has actually played a very constructive role. It may be that the trade liberalisation results to be delivered will come through either by independent programs that those countries take, and I can give you a couple of examples, or ultimately when the next trade round starts APEC will be a forum in which ways or ideas to advance trade liberalisation can be developed and then carried out into the WTO.

One example we had was the agreement to remove trade barriers in information technology goods. The Americans and the supporters of that program decided to get it endorsed by APEC before carrying it on to the WTO, and that certainly gave it a lot of horsepower.

Since the Bogor declaration, two or three of the countries in the region have actually cut trade barriers. The Philippines, for example, have been doing it because it is part of their domestic reform program, but I think it is quite certain that the commitment of all the countries in the region to the broad Bogor declaration certainly enabled the Philippines government to perhaps go a bit deeper in its cuts than it might have otherwise.

On the one hand, I could say that in the last two or three years the actual commitments on the table under the APEC trade liberalising program have produced nearly zilch, which is actually right, in hard terms. On the other hand, though, if I left an impression that the program was not contributing to trade liberalisation in the region, that would be in error, because in fact it really significantly built a larger climate of change.

CHAIR—Thank you. The issue of education is one that I have raised with a number of the witnesses because there seems to be a lack of understanding and a lack of knowledge of APEC and its processes and what it is meant to achieve. It seems to me that there is some understanding or reasonable understanding at the level of government, at the level of some people in politics, some areas of bureaucracy, and again in some areas of the business community, but by and large there seems to be a fairly general lack of knowledge and lack of understanding about APEC, its agendas and what it is meant to achieve, thereby creating an air of scepticism regarding what this organisation really meant to do.

When you ask the average person in the street about APEC, as someone said today, they thought it was the people who built the playground down the road, which I thought was a very nice way of expressing things. So how do we overcome this? I understand this is part and parcel of the function and the role of your centre. Could you give some information to the committee on that, please?

Mr Oxley—We have several programs in the centre; two of them are a public information program and also an education program.

In the public information program, our primary vehicle is a regular quarterly newsletter, for which we have built up quite a wide distribution list. In it, we have sought to provide regular information about developments in APEC in a way which at least would be of interest to that readership. That has got a distribution list of about 2,500, but in fact in terms of public information interests, that is still quite small. We really are only talking to the groups in the community, in government, in business and in the academic community who are interested in these things.

To try and reach the community more widely, in the centre a major project last year was to create some research tools and education resources which are, in the first instance, aimed at years 11 and 12. Last year we produced a CD-ROM teacher resource kit which is now being commercially marketed by RMIT Publishing. On it, we have sought to provide accessible material which tries to explain APEC in plain language to a plain language reader. It also provides what I think is the largest collection in one place of official documents, research material, research reports, news reports, speeches, documents, the lot, on APEC, and that will be usable by people other than simply secondary school children.

In order to try and make it appealing, we have actually written the material around four curriculum subjects: business studies, international relations, economics and geography. Our hope is that by preparing material which would appeal to teachers and which they can teach on issues in those subjects and use examples of things in APEC, we can get across to at least that school community what APEC is about and the broader issues behind it which matter to Australia; that is, economic integration, opening of markets and working and living with Asia, so the material has been produced for that.

But that is really just the beginning. Your point is quite significant. We think that the community at large, despite all the high level publicity, really do not quite know what APEC is. For about 10 years now the community has been told that we have to have something to do with Asia, and I think that lays a pretty solid foundation. I do not think that is rejected; I think it is largely accepted in the community.

The way in which that is achieved will be basically either through people doing business or visiting the region or through studying it, which should provide opportunities for us to try and prepare material which can be used to explain what APEC is. But the job is ahead of all of us, it is still a relatively new thing and I hope it is something that will remain on the list of things governments do.

I have been a public servant in the federal government for quite a long time, and maybe it is a function of being in Canberra—which is really basically a government town, as opposed to the states, where state governments live more with the milieu and are used to people who do not work in government—that governments tend to do things for themselves, in terms of structure and style—even government reports are really written for other people in government. So getting the stuff out in a way which carries the community with it is a task which needs to be done.

CHAIR—That is important, because when you come to where there will be opposition to the APEC agenda, it manifests itself in the like of the TCF and the motor vehicle areas and so on, where people's jobs are directly at risk and they see themselves losing their income. They hear the great undelivered promise that there will be additional jobs as a result of us going into this trade liberalisation, and of course they sit back and say, 'But I am losing my job.' My colleague has cited another example in the orange area which is a classic as well.

It seems to me that without any logical explanation to these people, one can understand how they dig the trench as deep as they can, put up the parapets and start to defend the last bastion of what they believe they have, and that is their job.

So it seems to me that there is a real educational process that is necessary if we are going to change the perception of people. Also, there is a need for some transitional arrangements because one must admit that there are winners and losers, but it is very hard to say to someone, 'You are the loser, bad luck.' There must be some role, some transitional arrangements for those losers to be accommodated. How do we deal with that situation, or do we not? Do we just say, 'Bad luck,' and then that causes governments the problems that they have.

Senator SANDY MACDONALD—You are dead right. You are making a point here that we are all in this together. We believe it is right, but we have got to persuade people; you are educating them and we are responsible for—

CHAIR—It is not much use our having the highest moral ground from which to launch ourselves if at the end of the day we have got people beating a path to our door, and for the sake of the record we will not use the language and the type of emotions that come out under those circumstances, but they are not pretty sights.

Mr Oxley—No. I actually think that if you look at where we have got to and where we have been, to a degree much of what we are dealing with now is still the hangover of the shock of the last recession. The mood of uncertainty in the community, I think, is not so much with the unemployed as with those who were in groups who lost their jobs in the last recession, which was a relatively new experience. There was a mood of insecurity in the community, and it has been easy to blame that on economic restructuring.

You have actually got two political parties now who refuse to wave the banner of economic rationalism, in whatever form you want to call it, even in a soft term, who do not really want to talk about having a competitive economy any more, because of concern about a backlash from the community. The paradigm in politics today is to show empathy for the dislocated.

The supreme irony of all this is that much of the debate about the tariff and the auto debate cuts, in my opinion, was something of a public policy deception. With regard to the actual cuts to be achieved in autos from where they were, the debate was, 'You are going to go down from 15 to nowhere, 15 to 5, 15 to 10.' When you consider that 10 years before that the debate was, 'You are going to go down from 75 to 15,' all the major job losses were in fact achieved in that previous period.

The number of job losses involved in the further cuts was negligible, not significant, yet the debate about the further cuts was as if we were debating the previous period. Why was that? Because the political leadership in the country on both sides, in my opinion, felt the need to respond to the hangover from the previous period.

There is a lot of nostalgia in the debate. You are saying to the community, 'We have stopped cutting tariffs,' which was a message sent through by both sides. It was almost a way of saying to the community, 'Don't worry, we are not going to do it any more,' yet it has basically been achieved.

The same thing applies in textiles, but a little less because the level to come was higher. In the rest of the community, manufacturing is five per cent. We are so close to having a zero tariff regime and the pain involved in getting there would be negligible, so that really it is the wrong time to say, 'We're not going to do any more of this.' This currency crisis is going to reveal us as having a very durable economy. The bases in the economy are very good. Unemployment is only going to be reduced with higher growth. We are opening up the labour market more, but even then that is not going to necessarily produce benefits. Labour costs are not so significant any more in lack of competitiveness in our economy. There is a message of hope to offer the community there. APEC has got swept up with this because APEC has become associated with cutting the trade barriers and open market competitiveness.

The thing I think is the great indicator of all this is the rise of exports of manufacturers; it is a startling story. If you look at where we are now, what we are manufacturing and where we are competitive, notwithstanding the currency crisis, it is a whole new thing. The most dynamic sector in our exports now is manufacturing. This is relatively new, it has come up on us in the last 10 or 15 years.

Some of our economists who blithely accepted that the tariff cuts were going to be responsible for job losses in manufacturing are now reviewing it because in some sectors the job losses were not as significant as they thought. It never happened as fast in the clothing and textiles area as they thought. They admit that their micro-economic analysis of the sectors was a bit rough.

Being neo-classicist economists, they always assumed that the costs you had to pay was job losses anyway, but I think there is now fair ground to suspect that the job losses were actually caused by technology rather than tariff cuts, and if we had not had the tariff cuts to the same extent we probably would still have had the same degree of job losses in manufacturing because it is a worldwide trend.

If you put all that together, it does make you wonder why we are where we are with the public debate. Given the fact it is basically all in the past and I think it is about insecurity rather than unemployment, we will do what we can within our resources to try and sell to the community what APEC is about and all the processes of it, but frankly there is also a bit of a job for national leadership right now.

CHAIR—Who else should be the partners with you? Is there a responsibility there for the business community? Is there a need to involve those beyond the business community?

For example, you mentioned earlier the NGOs and the response of the NGOs—the trade union movement, community organisations. It seems to me that the ownership of APEC to date has been primarily government ownership.

Mr Oxley—That is right.

CHAIR—And it has trickled down to some business leaders' ownership, but it seems to me that if something is going to be adopted and embraced it needs to be embraced by the whole community—and I know that saying 'the whole community' is unrealistic, but I am using that in the broadest terms. There need to be other partners there with you. **Mr Oxley**—That is right. Pauline Hanson notwithstanding, I think the community is pretty at ease with Asia now. Stephen FitzGerald wrote in his book that he thought there was still a need for Australians to get engaged with Asians, to learn languages and that people have got to get out there. But if you look at the business community—it is interesting talking to our business executives and comparing them with Americans and Europeans—our people now have become quite comfortable with the cultural differences that they have to address in running into Asia.

Australians are regular tourists to Asia, the number of kids learning Asian languages is rising quite remarkably. I think Asia is becoming relatively unremarkable to the Australian people, and I think that is a foundation that can be built on, because really APEC builds on top of that. If you keep telling people that things are crook, when they are actually better than they really are, they like to believe you, particularly when we have come out of a period of trauma and shock.

Prof. McKay—I was interested in your phrase 'winners and losers'. My own view is that there has been a danger within APEC that the message is oversold in some respects, in that some of the what I would call cruder economic rationalists almost see the process as a win/win process in which everybody gains. There may be some short-term pain in terms of job losses, but essentially it will all right itself and there will be more jobs and everybody will be better off. At least within the time frame that most people out there in the community deal with, that is clearly not the case. There are winners and there are losers.

One of the things I have been trying to do in the regular meetings of the APEC centres is to put forward the idea of a regional wide project on winners and losers, and a little bit more detail about how these processes operate, who did win and who did lose and how, and what were the interactions between tariffs and technology and all those more complex kinds of things that Alan talked about, so that we had some firm basis on which to talk to people about exactly how all this happened and some basis on which to design some sensible policies for the transitions that you mentioned: if people lose their job, what do we do about it? At the moment we do not have the firm evidence on all of that and there is a very important research job that we have to do there.

I think you are right about the possibility and the need to include the private sector. One of the things that I think has worked quite well in the APEC study centre—I have been associated over the years with a number of study centres of various kinds—compared with any of the other centres I have looked at, is the business advisory council we have within the APEC study centre. It is chaired by Don Mercer, the former head of the ANZ Bank, it

includes representatives from Qantas and Toyota and a number of major employers as well as a number of government departments that are working with APEC. I think that is working quite well, in the sense that those organisations are telling us these are the sorts of needs that we think there are in terms of our needs, in terms of the community's needs, and this has been quite useful for us in trying to design sensible programs.

As we keep saying, our resources within the APEC study centre are relatively limited and we cannot do everything, and one of our real needs is to try to build up our resources in some way.

CHAIR—You mentioned it is a business advisory council but there is no broader representation on it than that?

Prof. McKay—And government really, business and government.

Mr Oxley—If you are talking about NGOs, we do not have any.

CHAIR—One of the things said to us by ACFOA yesterday is that they attend meetings of NGOs at APEC meetings and they are almost one out with every other NGO that is there. Whereas they are supportive of the broad APEC agenda, they meet with their colleagues from other NGOs and there is a vehement opposition to APEC and to its program. One of the things that they put to us was that the agenda of APEC should be broadened to include a range of other issues, be they environmental, human rights or whatever—I do not particularly want to debate that at this moment, but they are saying that—and also a broadening of the people involved in the process because of what are perceived as being the social consequences of what is happening as a result of the decisions that are taken through the APEC process.

How do we respond to the sort of comment that comes out of the likes of the ACFOA? It really gets down to the question of the saleability of APEC and its program, whether it be trade liberalisation, trade facilitation or whatever else it might be, for if there is a grassroots ground swell against the program in these other nations, then that is one thing that will sabotage the whole program in the longer term.

Mr Oxley—Whether it will sabotage it or not is—

CHAIR—Well, 'sabotage' might be too hard a word, but it may cause political instability which will make governments step back from their commitments.

Mr Oxley—I guess there are a couple of steps you might take in addressing the question. First of all, our NGOs are not nearly as vociferous in opposition to APEC as you will find in, say, Canada and the Philippines. The last two APEC meeting summits had parallel anti-APEC summits running. In the Philippines there is a very active little group which is built around quite a strong core of international NGOs and they published a fat book called *Four Adjectives Without a Noun*.

Senator SANDY MACDONALD—That was Gareth's comment.

Mr Oxley—Yes. I do not know whether Gareth is aware that his comment has been turned into a flag bearer by the NGOs who are running anti-APEC—

Senator SANDY MACDONALD—I do not think he would be impressed.

Mr Oxley—No. But in a way their agenda reflects the sort of problem we have been talking about. We have found it here. Material has been produced by NGOs; Community Aid Abroad produced a piece on APEC. A group of NGOs last year tried to organise a conference to say, ‘We want to humanise APEC,’ and the conference agenda was environment, labour rights, gender issues, in a sense all the things that are not key issues in APEC. Perhaps an observation of the extent to which that represents a strong feeling in the community is that they could not get the conference up. We had offered to send someone to that conference to try to explain that APEC is far more than just a trade liberalisation agenda, because what their opponents are actually shooting at is an anti-free trade agenda. That is what has informed their approach, because the NGOs have picked up a string of these related issues.

There is more of it offshore. Our NGOs are inspired I think both by wanting to tilt at this anti-free trade windmill and by picking up material from other groups. That poses the question: what do you do about it? From the centre’s standpoint, our job is to try to publicise what is there. The reality is that APEC is an economic organisation and part of its strength lies in a relative single issue focus. The desire of the leaders of APEC was to put together a body which would concentrate on economic development issues and leave the other matters to be discussed elsewhere. Just because the body itself may not be a forum in which some of these issues are discussed does not mean they do not care about them. It is like the argument of whether you are going to put labour rights into the WTO, or environment. If labour rights and the environment are dealt with adequately elsewhere, it is not necessarily a *prima facie* case that there is something wrong with the WTO.

You might ask us whether we would do something in the centre. I do not think we would take it as our job to campaign to the government to take a different position on what APEC should be about. But it certainly comes back to the point that you have made and we have: the problem here is that the understanding in the community of what APEC is about is not well enough informed. There is this perception that it is dealing only with trade issues, when in fact it has actually got a much wider basis and agenda. In a way, it is part of the spillover of the old free trade protection debate we have got in the community. We get the material from the NGOs, they actually do not write that much on APEC. I think half the time when they appear it is when someone asks them for an opinion. The amount they generate is quite small, and I do not think the market in this country is quite as big as they think it is. That is not to say that their issues are not legitimate, but if the basic critique is that this is an economic organisation which should do more than just economic things, it is a legitimate critique, but I think from the centre’s standpoint we would not want ourselves to become flag bearers for the case, when we would see our primary interest as getting people to have a better understanding of what it is all about.

CHAIR—I have got two more issues I want to raise. One is the issue of non-tariff barriers. A fear that has been expressed to us is that as you lower the tariff barriers, the non-tariff barriers get put up. And one of the ways for business to get around the problems with

tariff and/or non-tariff barriers is to take the manufacturing process and go behind the barrier itself. How can we overcome the non-tariff barriers, firstly, identify them, secondly, overcome them and, thirdly, stop our manufacturing enterprises going behind the barriers?

Mr Oxley—It is a general phenomenon that largely when you reduce a tariff the non-tariffs will come up. The reality of the phenomenon is a bit outdated, particularly since the Uruguay round. Here, APEC is only as good as where the issues are really dealt with where they matter, and where it matters, frankly, is in the trade agreements, particularly the GATT and WTO. In the Uruguay round, the biggest attack on non-tariff barriers, which were quite loose and the disciplines on them are weak; therefore, if you pull the tariff down the opportunity for a country to replace them was quite high. They were predominant in clothing and textiles and in agriculture, and two of the more important achievements in the Uruguay round were rules which forced countries to switch out of the non-tariff barriers and convert to tariffs. So in agriculture in the Uruguay round, one of the reasons that tariffs did not actually come down is that almost all—there are some left but almost all—non-tariff barriers which were either legal or tacitly tolerated have actually been removed and switched into tariffs, so really the targets in the next round are to attack the very high tariffs. But having got all the cattle into the yard, now you can start to close in a bit.

The question of what you do about business going behind a barrier applies as much to tariff as to non-tariff barriers. Some Australian manufacturing has gone to Malaysia because it is easy to supply from inside. Some of them are not having such a great time. BHP Steel is having trouble because the government-owned steel manufacturers, who are their competitors, are getting preferred access for their imports. There is no easy solution. I do not think you can tell business where they should manufacture. For us, the challenge was to discourage people from using high labour element manufacturing, because we were never in the long run going to be competitive. With regard to the incidence of business going offshore instead of manufacturing here because of that, there will be some cases, but I do not think it is a really general phenomenon now.

CHAIR—The last issue I want to raise briefly is that we have seen the expansion of the membership, but what about the moratorium that has been put in place and the fact that India is effectively excluded and you have got a real burgeoning economy on the doorstep with India?

Mr Oxley—I will ask Professor McKay to comment.

Prof. McKay—I was in New Delhi the day the decision was announced to admit Russia rather than India, and on that very day I was due to give a public lecture at the Indian International Centre on India and APEC. It was rather an interesting occasion.

CHAIR—I am glad I asked the question!

Prof. McKay—As Alan has said, if you look objectively at the credentials of Russia to enter APEC as against the credentials of India to enter APEC, there is absolutely no doubt that India has a much, much stronger case. The reality, of course—and we keep saying that APEC is not just an economic organisation—is that the rationale for letting in Russia is not

economic at all; it is purely political—it is geopolitical, it is strategic, it is all kinds of things that are not economic.

It seems to me that we are trading off several things here. India, regardless of whether or not it is in APEC, is interacting more and more with APEC. Sixty per cent of its trade, off the top of my head, at the moment is with APEC. I do not think that is going to change. India has a quite clear 'look east' policy. My impression from being in India at that time is that the Indians do not understand terribly much about APEC and how it works, and that was part of my role to try to talk to them a bit about it. They had some vision of this great utopia out there that was going to deliver them from all their problems. They did not know what it was but they knew it was something big and they knew that somebody was excluding them and they did not like it.

We are going to have a lot of pressure to allow India in. There are some members within APEC who are now actively campaigning on behalf of the Indians, I think that is going to continue. India is already a member of a number of the working groups of APEC—for example, the energy working group. It is likely that India will interact more and more at that level. In a de facto sense, India is going to integrate with the APEC region, whether or not it is formally a member of APEC. Whether the Australian government should play an active role in encouraging the entry of India into APEC, regardless of the moratorium, we are trading off several things here. I think we are trading off an economy which is going to become more important against the question of whether APEC is going to become unwieldy and too large.

The Australian reaction to Russia and India coming in is that they are big and they are going to make it more and more unwieldy. I think on balance I would favour allowing India in. I think APEC is already big, it is already to some extent unwieldy. I think if India is not there, we are going to miss out on interacting with a power which is going to be increasingly important.

CHAIR—Thank you very much. It is now 5 o'clock and I think it is an appropriate time for us to adjourn. I thank you, Mr Oxley and Professor McKay, for the evidence that you have given us this afternoon and for the invitation to visit the centre; we thoroughly enjoyed that. We now stand adjourned until 9.30 tomorrow morning.

Committee adjourned at 5.00 p.m.